

Audit of the Neighborhood Stabilization Program

**Report by the
Office of County Comptroller**

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January 16, 2014

Teresa Jacobs, County Mayor
And
Board of County Commissioners

We have conducted an audit of the Neighborhood Stabilization Program administered by the Housing and Community Development Division within the Community, Environmental, and Development Services Department. The audit was limited to an examination of internal controls over operation of the Neighborhood Stabilization Program and compliance with applicable laws, rules, and regulations for the acquisition, rehabilitation, and sale of homes to low and mid-income families. The period audited was March 1, 2009 through December 31, 2012.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

We appreciate the cooperation of the personnel of the Department of Community, Environmental, and Development Services during the course of the audit.

Martha O. Haynie, CPA
County Comptroller

c: Ajit Lalchandani, County Administrator
Chris Testerman, Assistant County Administrator, Infrastructure Services
Jon V. Weiss, P.E., Director, Community, Environmental, and Development Services Department
Mitchell Glasser, Manager, Division of Housing and Community Development
Dean Stites, Manager, Fiscal and Operational Support, Community, Environmental, and Development Services Department

EXECUTIVE SUMMARY

Executive Summary

The audit scope was limited to a review of internal controls over the funding of the Neighborhood Stabilization Program (NSP). In addition, the scope included reviewing compliance with applicable laws, rules, and regulations for the purchase, rehabilitation, and sale of homes under the Program. The period audited was March 1, 2009 to December 31, 2012. The objectives of the audit were to determine whether NSP operations were in compliance with applicable laws, rules, and regulations and whether the controls over the deposit and use of Grant funding were adequate to ensure applicable County and HUD rules were followed.

Based on the testing performed, the Orange County Neighborhood Stabilization Program is in compliance with applicable laws, rules, and regulations. In our opinion, the controls over the deposit and use of Grant funding were adequate to ensure applicable County and HUD rules were followed. Specifically, we noted the following:

The Program staff had no formal tracking mechanism for the homes being rehabilitated, and our review of the specific files associated with these homes found insufficient documentation to explain delays in the sale. At the time of our review, we noted 43 NSP homes that the County had owned for a period of five to thirty-nine months (151 to 1,187 days) that had not yet been rehabilitated. We determined the County paid approximately \$121,249.00 in monthly carrying costs on the 43 homes. As of September 30, 2013, the Housing and Community Development (HCD) Manager reported that only 20 of the 43 homes were still undergoing rehabilitation.

We noted in our sample of the sale of 15 NSP homes, 10 of the title company checks for NSP housing sales were held between four to 21 business days from the closing date to deposit. Check amounts ranged from \$74,000 to almost \$115,000.

HCD did not have formal procedures or a tracking mechanism to monitor homeowners that received NSP funding for down payment assistance to ensure the recipient continued to meet the requirements of the Program. This condition exists for numerous other HCD programs with similar, although varied, length of ownership requirements for homeowners after the money is awarded to enable the assistance to be fully earned. Grant rules generally require the funds to be returned to HCD (either in full or prorated, based on the length of time since the award) in the event the homeowner sells or moves from the residence within a set period of time. Tracking down payment assistance provided helps ensure all homeowners comply with the ownership requirements or appropriate actions are taken by the County.

Management concurred with all of the Recommendations for Improvement and steps to implement the recommendations are underway or planned. Responses to each of the Recommendations for Improvement are included herein.

ACTION PLAN

AUDIT OF THE NEIGHBORHOOD STABILIZATION PROGRAM ACTION PLAN

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
1.	We recommend the Housing and Community Development Division maintains a centralized database of all homes acquired with NSP funding that includes the dates of key milestones. The information in this database should be periodically reviewed by Department management for accuracy and to determine if additional steps should be undertaken to more timely complete the process.	✓			✓	
2.	We recommend HCD deposits all program income checks received for the sale of Neighborhood Stabilization Program homes in a timely manner, as prescribed by County Administrative Regulations.	✓			✓	
3.	We recommend HCD implements procedures to monitor down payment assistance payments provided to home buyers for compliance with loan requirements.	✓				✓

INTRODUCTION

Background

The Neighborhood Stabilization Program (NSP) was created by the Housing and Economic Recovery Act of 2008 to respond to rising residential foreclosures and property abandonment. The main purpose of the NSP is to stabilize neighborhoods negatively impacted by foreclosures. Orange County's stated goal is to use NSP funds to acquire, renovate, and sell foreclosed homes at affordable prices to eligible families. Program income from the sale of these homes is reinvested in the program.

Orange County was allocated \$27.9 million of NSP funding from the Federal Government in November of 2008 (NSP 1). The County's NSP plan was approved by the Board of County Commissioners on November 18, 2008. This funding was treated as a special allocation under the Community Development Block Grant (CDBG) program, administered by the U.S. Department of Housing and Urban Development (HUD). In September of 2010, HUD announced additional NSP funding (NSP 3) and Orange County was awarded another \$11.5 million.

The Orange County Housing and Community Development Division (HCD) assembled a team to administer the program separating duties into Property Acquisition, Housing Rehabilitation, and Marketing and Qualifying. The County Attorney's Office, and the Real Estate and Purchasing Divisions assist with the operation of the program.

The Federal Grant required the County to select "target areas" which were deemed to be the areas of greatest need due to the number of foreclosed homes and low to moderate income families. For NSP 1, the County selected five target areas. Two of the hardest hit target areas were expanded to utilize the additional funding of NSP 3. The homes selected for the program were required to be bank-owned and could not exceed 2,550 square feet in size. In addition, the acquired price had to be less than \$160,000 and not over one percent of the appraised value. The homes acquired by the County were to be rehabilitated by local contractors with energy efficient improvements. Finally, the homes were not permitted to be sold for the lesser of the purchase price plus the cost of the repairs and appliances or the buyer's

appraisal. They also could only be sold to individuals meeting certain income qualifications. The buyers were also provided with up to \$20,000 down payment assistance from the County.

Orange County was required to maintain accurate records on these activities and was subject to the short period of time in which to expend the funds: 48 months for NSP 1 and 36 months for NSP 3. Other activities performed under the grants were: 1) the rehabilitation of a foreclosed apartment complex (which was then required to provide low-rent housing to very low income families) and; 2) to demolishing blighted homes in the target areas.

**Scope, Objectives,
and Methodology**

The audit scope was limited to a review of internal controls over of the Neighborhood Stabilization Program Funding. In addition, the scope included reviewing compliance with applicable laws, rules, and regulations for the purchase, rehabilitation, and sale of homes under the Program.

Our review did not include a review of the Down Payment Assistance Program associated with the Grant Funding or the Grant Funding allocated to the Habitat for Humanity and the rehabilitation of Rental Seville Place Apartments. We also did not review the accuracy of the quarterly performance reports furnished to HUD.

The period audited was March 1, 2009 to December 31, 2012. The objectives of the audit were to determine whether NSP operations were in compliance with applicable laws, rules, and regulations and whether the controls over the deposit and use of Grant Funding were adequate to ensure applicable County and HUD rules were followed.

To determine whether NSP operations were in compliance with applicable laws, rules, and regulations, we performed the following:

- We selected a sample of homes sold during the audit period and verified each home was located in an NSP target area, bank owned, less than 2,550 square feet,

and was acquired for less than \$160,000 and at least one percent less than its appraised value.

- We verified the acquisition file for each of the sampled homes included a survey, appraisal, and closing documents. We confirmed that adequate support existed in the file for the purchase price paid for the home.
- We reviewed the rehabilitation file for each home for the project specifications, bidding documentation for the selection of the contractor and evidence of project oversight and completion. We also verified payments to vendors were adequately documented.
- The sales file for each home was reviewed to ascertain the home was not sold for more than what was allowed under program rules.
- We reviewed the documentation in the Real Estate Division for determining a sales list price for each home and compared the price suggested by the Division to the actual list price. We verified the home was advertised for sale on the Multiple Listing Service. We also determined the home buyer on the sales contract was the same person who received the down payment assistance.
- We selected a sample of homes demolished with NSP funds in the target areas and determined whether approval was received from the Division of Historical Resources under the Florida Department of State. We verified adequate documentation to support the need for the demolition was received from the Orange County Code Enforcement Division. We also viewed the Property Appraiser's website to confirm the address was a vacant lot and the Official Records website to confirm a lien was recorded on the property in the property owner's name for the cost of the demolition.

To determine whether controls over the deposit and use of Grant Funding were adequate to ensure applicable County and HUD rules were followed, we performed the following:

- We selected two rehabilitated, but not yet sold homes and conducted a walk-through to determine whether the work actually performed was listed in the Project Specifications.
- We prepared a schedule of all homes currently in inventory noting the length of time the County owned these homes and the carrying costs such as lawn mowing, taxes, homeowner association fees, and utilities associated with keeping these homes. For the homes that had been in inventory for longest period of time, we inquired with HCD management the reasons for delaying the rehabilitation work and sale of these homes.

Overall Evaluation

Based on the testing performed, the Orange County Neighborhood Stabilization Program is in compliance with applicable laws, rules, and regulations. In our opinion, the controls over the deposit and use of Grant Funding were adequate to ensure applicable County and HUD rules were followed. Opportunities for improvement were noted and are described herein.

RECOMMENDATIONS FOR IMPROVEMENT

1. NSP Homes Should Be Rehabilitated and Sold in the Shortest Amount of Time

At the time of our review, we noted 43 NSP homes that the County had owned for a period of five to thirty-nine months (151 to 1,187 days) that had not yet been rehabilitated. During the period in which the County has owned these homes carrying costs such as property taxes, homeowner association fees, lawn service, and utilities ranged from \$28.75 to \$234.56 per month. We determined the County paid approximately \$121,249 in monthly carrying costs on the 43 homes (see Appendix).

Resolution 2009-M-04, Authorizing the Housing and Community Development Division to Acquire and Convey Title on Behalf of Orange County to Real Properties within the Neighborhood Stabilization Program, states “properties purchased for the NSP will only be held by Orange County for a short period of time for the purpose of rehabilitation of such properties prior to resale to eligible low to moderate income homebuyers”. Further, contractors are generally given 60-90 days to complete a home rehabilitation.

We noted Housing Rehabilitation had no formal tracking mechanism for the homes being rehabilitated, and our review of the specific files associated with these homes found that rehabilitation on some of the homes appeared to have been started but stopped as a result of a problem with the contractor. However, no additional follow-up was performed. Other files appeared to have inconsistencies between the actual dates and the dates recorded for scheduled milestones (walk-through, final acceptance of work performed, notice to proceed, etc.).

Many of these extended hold periods could have resulted because HCD undertook the program with little advance notice or preparation due to the rapid Federal implementation. Further, as with many Federal programs, the NSP included spending deadlines that placed a greater incentive on acquiring rather than selling the homes. While we recognize the unique aspects of this program, care should be taken to monitor all homes in every stage of the

NSP process to ensure the County is spending the grant funds in the most efficient manner as possible.

We discussed this issue with HCD management during the audit, and we were informed that they are developing a system to better track the status of each house purchased. Further, we were informed that HCD has emphasized the rehabilitation and selling of these homes and that as of September 30, 2013, only 20 of the 43 homes were still undergoing rehabilitation, while 23 completed homes had been sold. Further, it appears that due to the escalating prices in the real estate market, higher selling prices are now possible on some of these homes.

We Recommend the Housing and Community Development Division maintains a centralized database of all homes acquired with NSP funding that includes the dates of key milestones. The information in this database should be periodically reviewed by Department management for accuracy and to determine if additional steps should be undertaken to more timely complete the process.

Management's Response:

Concur. We currently maintain a centralized database that tracks our acquisition, rehabilitation, and disposition activities. Our management team will periodically review the database.

2. Checks From the Sale of Neighborhood Stabilization Program Homes Should Be Deposited Timely

We noted in our sample of the sale of 15 NSP homes, 10 of the title company checks for NSP housing sales were held between four to 21 business days from the closing date to deposit. Check amounts ranged from \$74,000 to almost \$115,000. It should be noted that in October 2012, the fiscal duties for the NSP operations were transferred to the Division Office. Three of the 10 deposit delays occurred after this date.

Section 6.03.03, II B. Revenue Collection, Orange County Administrative Regulations, requires all revenue exceeding \$200 to be deposited before the end of the business day. Although we were informed the checks were kept in a locked safe, the longer a check is held, the greater the risk that it could be lost or stolen. In addition, as the checks averaged approximately \$100,000 each, the County lost the ability to earn interest on these monies during that period.

We Recommend HCD deposits all program income checks received for the sale of Neighborhood Stabilization Program homes in a timely manner, as prescribed by County Administrative Regulations.

Management's Response:

Concur. The Fiscal and Operational Support Division has modified the procedures to ensure that all checks received for the sale of Neighborhood Stabilization Program homes are deposited on a daily basis.

3. Procedures to Monitor Down Payment Assistance Grants Should Be Improved

One of the programs under the NSP included grant funding received by HCD to provide potential homeowners with down payment assistance (DPA) on the purchase of a home sold by HCD under the NSP program. DPA program rules provide up to \$20,000 of assistance to low income homebuyers with approved bank financing to purchase a home in an NSP target area. The assistance is in the form of a zero interest loan that will be forgiven after a fifteen year term, as long as the home is not sold or rented during that time.

The program has been in existence since the 2009-2010 fiscal year and through April of 2013 has provided over \$2 million in assistance to eligible families. Upon inquiry, we learned that HCD did not have formal procedures or a tracking mechanism to monitor homeowners that received this funding to ensure the recipient continued to meet the

requirements of the program. Further, we learned that HCD has numerous other programs with similar, although varied, length of ownership requirements for homeowners after the money is awarded to enable the assistance to be fully earned. Grant rules generally require the funds to be returned to HCD (either in full or prorated, based on the length of time since the award) in the event the homeowner sells or moves from the residence within a set period of time.

A tracking method that records the amount of DPA provided to each homeowner, the home ownership requirements of the program for earning the DPA, and the amount outstanding for each homeowner (based on the rules of the specific program) would provide a good control over the recipients' compliance with the program.

Although the other programs with DPA (approximately \$50 million in DPA has been provided since 2001) were outside of the scope of this audit, we addressed these concerns with HCD. As a result, we were informed that HCD has begun to implement a tracking system and is developing procedures to ensure these DPA payments are monitored and appropriate notices are provided in the event of suspected default.

We Recommend HCD implement procedures to monitor down payment assistance payments provided to home buyers for compliance with the loan requirements.

Management's Response:

Concur. We currently monitor a representative sampling of the down payment assistance notes and mortgages that are outstanding for compliance with the loan requirements. We will review our procedures to determine any improvements that will ensure compliance with the loan documents.

Appendix –NSP Homes Owned More Than 5 Months

NSP Homes Owned More Than Five Months				
No.	NSP Number	Acquisition Closing Date	Number of Months Owned By the County (as of April 2013)	Computed Carrying Cost
1*	NSP00052	01/15/10	39	\$ 4,217.85
2*	NSP00055	01/15/10	39	3,338.13
3	NSP00083	02/12/10	38	4,855.92
4	NSP00090	03/26/10	36	3,748.80
5*	NSP00100	03/11/10	37	3,021.48
6*	NSP00101	03/19/10	37	4,326.96
7	NSP00108	03/26/10	36	4,342.01
8	NSP00109	03/05/10	37	4,713.77
9	NSP00118	03/25/10	36	3,480.98
10*	NSP00127	04/22/10	35	3,101.67
11	NSP00138	04/02/10	36	3,360.68
12*	NSP00140	04/14/10	36	4,118.58
13*	NSP00141	05/05/10	35	6,540.91
14*	NSP00150	04/30/10	35	3,379.89
15	NSP00157	05/21/10	34	4,505.18
16*	NSP00158	07/30/10	32	2,564.69
17*	NSP00180	06/24/10	33	3,341.03
18*	NSP00185	07/08/10	33	6,729.97
19*	NSP00196	07/28/10	32	5,082.96
20*	NSP00199	09/13/10	31	2,672.73
21*	NSP00215	11/23/10	28	3,884.64
22*	NSP00223	12/02/10	28	2,169.57
23	NSP00226	11/19/10	28	2,370.29
24	NSP00227	01/21/11	26	4,051.58
25	NSP00242	04/26/12	11	2,252.84
26*	NSP00243	06/29/12	9	2,244.08
27	NSP00244	05/20/11	22	1,815.62
28	NSP00249	07/14/11	21	1,249.69
29	NSP00255	08/12/11	20	3,786.16
30*	NSP00256	08/26/11	19	1,317.00
31*	NSP00257	08/31/11	19	1,227.18
32	NSP00261	10/11/11	18	1,627.05
33*	NSP00262	09/26/11	18	2,107.88
34	NSP00268	11/21/11	16	1,895.34
35	NSP00271	11/18/11	16	1,293.75
36*	NSP00277	12/05/11	16	1,422.04
37*	NSP00279	12/28/11	15	1,385.81
38*	NSP00280	02/09/12	14	1,540.04
39	NSP00292	05/30/12	10	349.91
40	NSP00297	07/14/12	9	759.72
41	NSP00306	09/24/12	6	228.55
42*	NSP00307	10/19/12	5	169.18
43	NSP00308	11/16/12	5	657.34
Total				\$121,249.44

*- indicates the property was sold, waiting for contract signature, or at the bid opening phase as of September 20, 2013, per management.