

FLORIDA HOUSING FINANCE CORPORATION

Audit Performed Pursuant to
Chapter 2012-127, Laws of Florida



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

**BOARD OF DIRECTORS AND EXECUTIVE DIRECTOR OF THE
FLORIDA HOUSING FINANCE CORPORATION**

Pursuant to Section 420.504, Florida Statutes, the Florida Housing Finance Corporation is created within the Department of Economic Opportunity (DEO) as a public corporation and public body corporate and politic. The Corporation consists of a board of directors composed of a senior-level agency employee designated by the Executive Director of DEO and eight members appointed by the Governor and subject to confirmation by the Senate to represent Florida's citizens and certain business sectors related to housing. Pursuant to Section 420.506, Florida Statutes, the appointment and removal of an executive director of the Corporation shall be made by the Executive Director of DEO, with the advice and consent of the Corporation's Board of Directors.

During the period of our audit, the following Corporation Executive Director and Board members served:

Executive Director:

Stephen P. Auger

Board Members:

Len Tylka, Chairman	Residential Home Building Industry Representative
Cliff Hardy, Vice Chairman	Low Income Advocate with Experience in Housing Development Representative
Marilyn Carl	Banking or Mortgage Banking Industry Representative
Lynn Hanfman	Citizen Representative
Mary Demetree	Home Building Labor Representative
Natacha Munilla	Commercial Building Industry Representative
Jose "Joe" Sanchez	Former Local Government Elected Official Representative
Barney Smith	Citizen Representative
Ken Reecy	DEO Executive Director Designee

The audit was supervised by Karen Van Amburg, CPA. Please address inquiries regarding this report to Sherrill F. Norman, CPA, Deputy Auditor General, by e-mail at sherrillnorman@audit.state.fl.us or by telephone at (850) 487-4999.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FLORIDA HOUSING FINANCE CORPORATION

SUMMARY

As required by Chapter 2012-127, Laws of Florida, and in accordance with a jointly developed work plan submitted to the President of the Senate and the Speaker of the House of Representatives on June 29, 2012, the Auditor General and the Office of Program Policy Analysis and Government Accountability (OPPAGA) have conducted a joint audit and review of the programs and operations of the Florida Housing Finance Corporation (Corporation). For the purpose of evaluating the findings of the joint audit and review of the Corporation, the findings of our audit, as presented in this report, should be considered along with the results of OPPAGA's review published in OPPAGA report No. 12-10.

The Auditor General's operational audit of the Florida Housing Finance Corporation focused on the Corporation's internal management, financial, and operational controls and processes, as well as, selected Corporation programmatic decision-making processes. Our audit disclosed areas in which enhancements in Corporation controls and operational processes were needed to better promote and encourage compliance, economic and efficient operations, and the safeguarding of assets.

Finding No. 1: Although required by State law, the Corporation did not submit to the Governor and the presiding officers of each house of the Legislature annual compliance audits for all of its programs.

Finding No. 2: Improvements are needed in the Corporation's internal audit activity to better ensure compliance with applicable State laws and internal auditing standards and promote accountability, integrity, and efficiency in Corporation operations.

Finding No. 3: The Corporation's reporting of Unrestricted Net Assets should be enhanced to provide greater transparency related to the Corporation's planned use of unrestricted resources.

Finding No. 4: To better ensure that timely and appropriate decisions will be made in response to changing market and economic conditions, the Corporation should establish procedures for monitoring Corporation investments that are managed by external investment management companies.

Finding No. 5: The Corporation did not comply with the requirements of the State's Public Deposits Program. As a result, the Corporation's deposits may not have been protected by the Program in the event of a depository's default.

Finding No. 6: The U.S. Department of the Treasury disclosed numerous observations of Corporation noncompliance in its June 2012 *Hardest Hit Fund Program Compliance Review* report.

Finding No. 7: The Corporation's oversight of its advisor agencies was not sufficient to ensure that the agencies obtained the required documentation for the Hardest Hit Funds Program eligibility determinations or timely and properly notified applicants of their Program ineligibility.

Finding No. 8: The Corporation's cost allocation methodology was not adequate to ensure that costs were allocated to Federal awards programs in an appropriate and equitable manner.

Finding No. 9: The Corporation should improve its procedures to ensure that Board member conflict of interest statements are properly retained and incorporated in the applicable Board meeting minutes.

Finding No. 10: The Corporation's purchasing guidelines need enhancing to better protect the interests of the Corporation and the State and to ensure compliance with applicable State law.

Finding No. 11: The Corporation contracted with service organizations to perform credit underwriting, construction and permanent loan servicing, and compliance monitoring services. However, the Corporation did not have adequate procedures in place to ensure the effectiveness of service organization controls relevant to the work performed for the Corporation.

Finding No. 12: The Corporation had not designated positions of special trust or required background screenings prior to employment or as a condition of continued employment. As a result, many employees, including most of the Corporation's senior management, had not been subjected to background screenings.

Finding No. 13: The Corporation did not always maintain documentation in its personnel records to evidence timely verification of prospective employees' education and work experience.

Finding No. 14: The Corporation's travel policy did not conform to the requirements of State law. Therefore, many of the travel costs incurred by the Corporation's employees, contractors, and Board members exceeded the amounts allowed by State law. In addition, traveler reimbursement requests were not always supported by the documentation required by the Corporation's travel policy.

Finding No. 15: The Corporation did not always ensure that expenses served an authorized public purpose and were clearly necessary to the performance of the Corporation's statutory duties. In addition, bonuses were paid to Corporation employees absent adequate documentation of the justification.

Finding No. 16: The Corporation's procedures for tangible personal property did not provide for the assignment of property custodians, address separation of duties during the conduct of physical inventories, require that portable and attractive items costing less than \$5,000 be added to the property records and included in the annual physical inventory process, or ensure that a physical verification of all property items was conducted at least once every year.

BACKGROUND

The Florida Housing Finance Corporation Act (Act)¹ created the Florida Housing Finance Corporation (Corporation), effective January 1, 1998, to provide and promote the public welfare by administering the governmental function of financing or refinancing housing and related facilities in Florida. Previously, from 1980 through 1997, the former Florida Housing Finance Agency, organizationally placed within the former Department of Community Affairs, performed similar duties.

The Corporation is a public corporation and a public body corporate and politic.² The Corporation is not a department of the executive branch of State government within the scope and meaning of the State Constitution,³ but is functionally related to the Department of Economic Opportunity (DEO) in which it is placed.⁴ The Corporation is a separate budget entity and its operations, including those relating to personnel, purchasing, transactions involving real or personal property, and budgetary matters, are not subject to control, supervision, or direction by DEO in any manner.

According to the Act, the Corporation has the powers necessary or convenient to carry out and effectuate the purposes and provisions of the Act. The powers enumerated in the Act include, but are not limited to, the ability to:⁵

- Undertake and carry out studies, analyses, and ways of meeting housing needs within the State.
- Participate in Federal housing assistance and Federal community development, insurance, and guarantee programs and to agree and comply with any conditions attached to Federal financial assistance.
- Set standards for residential housing financed by the Corporation and to provide for inspections to determine compliance with those standards.
- Develop and administer the State Apartment Incentive Loan Program, Florida Homeownership Assistance Program, Florida Affordable Housing Guarantee Program, Affordable Housing Catalyst Program, and Predevelopment Loan Program.

¹ Chapter 97-167, Laws of Florida, and codified in Sections 420.501 through 420.55, Florida Statutes.

² Section 420.504(1), Florida Statutes.

³ Section 6, Article IV of the Constitution of the State of Florida.

⁴ Section 420.504(1), Florida Statutes.

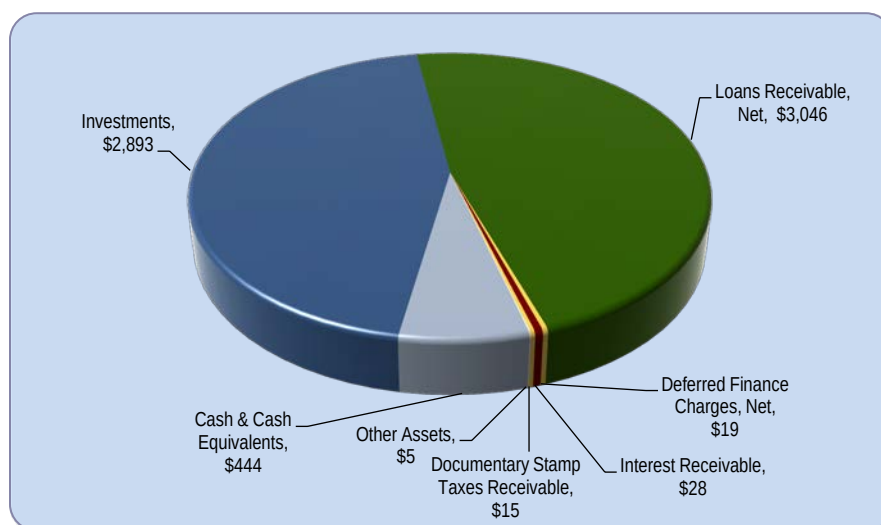
⁵ Section 420.507, Florida Statutes.

- Designate private allocation, between single-family and multifamily projects, for tax-exempt bonds received by the Corporation pursuant to State law.⁶
- Conduct and fund, solely from funds derived from amounts other than those deposited into the State Housing Trust Fund, demonstration programs and projects which further the statutory purposes of the Corporation.

According to Corporation records, as of May 2012, the Corporation employed 125 people to carry out the Corporation's responsibilities. During the year ended December 31, 2011, the Corporation paid salaries and benefits totaling approximately \$10.5 million. The Corporation's Organizational Chart as of June 2012, is included as **EXHIBIT A** of this report.

Pursuant to State law,⁷ the Corporation shall submit to the Governor and the presiding officers of each house of the Legislature, a copy of an annual financial audit of its accounts and records and an annual compliance audit of its programs conducted by an independent certified public accountant and performed in accordance with generally accepted auditing standards and government auditing standards. The financial audit obtained by the Corporation for the year ended December 31, 2011, reported Corporation assets totaling approximately \$6.450 billion and liabilities totaling approximately \$4.435 billion. For the year ended December 31, 2011, Chart 1 shows Corporation asset amounts by type and Chart 2 shows liability amounts by type.

Chart 1
Corporation Assets (in Millions) as of December 31, 2011

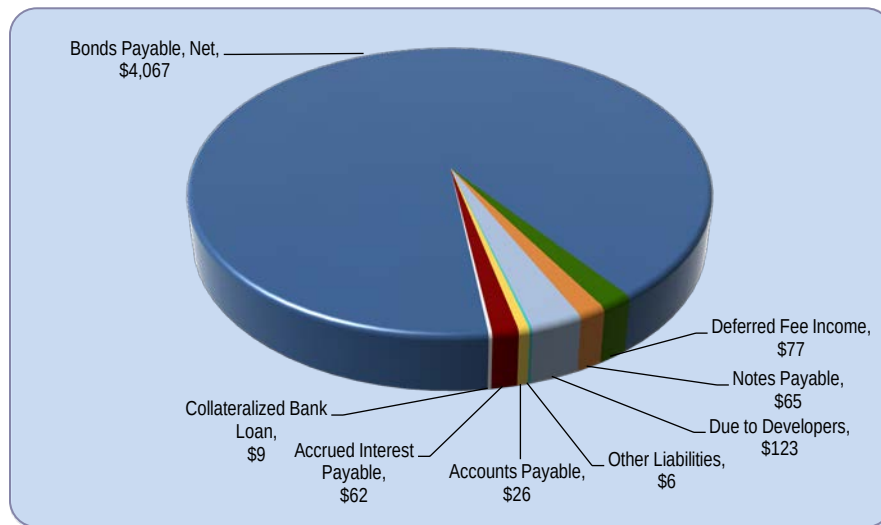


Source: Corporation Balance Sheet as of December 31, 2011.

⁶ Chapter 159, Part VI, Florida Statutes.

⁷ Section 420.511(4), Florida Statutes.

Chart 2
Corporation Liabilities (in Millions) as of December 31, 2011



Source: Corporation Balance Sheet as of December 31, 2011.

The Corporation receives funds from a variety of sources, including interest and investment income and Federal awards, and uses these moneys for a variety of purposes, including operating costs, bond interest payments, and Federal and State housing programs. During the year ended December 31, 2011, the Corporation reported revenues and expenses totaling approximately \$818.6 million and \$734.3 million, respectively. Table 1 shows Corporation revenue by source and Table 2 shows Corporation expenses by use for the years ended December 31, 2008, 2009, 2010, and 2011.

Table 1
Corporation Revenue (in Millions)
for the 2008, 2009, 2010, and 2011 Years

Source	2008	2009	2010	2011
Interest on Loans	\$131.0	\$103.0	\$ 99.6	\$ 98.3
Investment Income	176.2	180.7	165.3	162.9
Federal Program Administrative Fees	3.3	3.1	2.1	10.4
Recovery of Claims	-	17.3	25.8	0.9
Other Income	25.7	26.4	31.1	23.8
State and Federal Programs	30.7	14.4	422.4	346.8
State Documentary Stamp Taxes	171.4	153.8	161.9	175.5
Totals	<u>\$538.3</u>	<u>\$498.7</u>	<u>\$908.2</u>	<u>\$818.6</u>

Source: Corporation audited financial statements.

Table 2
Corporation Expenses (in Millions)
for the 2008, 2009, 2010, and 2011 Years

Use	2008	2009	2010	2011
Interest Expense	\$204.6	\$183.9	\$173.8	\$161.3
Payments to Other Governments	126.5	141.9	1.4	27.7
Provision for Uncollectible Loans	35.7	24.2	40.6	40.3
Claims Expense	19.2	21.9	9.0	-
General and Administrative Expenses	47.0	48.5	41.5	47.4
Housing Assistance Payments	3.5	0.8	-	-
Federal and State Program Expenses	-	-	330.3	282.2
Transfers to State Agencies ^a	130.7	327.9	95.8	175.4
Totals	\$567.2	\$749.1	\$692.4	\$734.3

^a The majority of the expenses identified as Transfers to State Agencies represent funds transferred to the State General Revenue Fund as directed by the Legislature.

Source: Corporation audited financial statements.

FINDINGS AND RECOMMENDATIONS

As discussed in the **BACKGROUND** section of this report, the Florida Housing Finance Corporation Act⁸ established the Corporation as a public corporation and a public body corporate and politic that is to have the powers necessary or convenient to carry out and effectuate the purposes and provisions of the Act. The Act also provides that the Corporation is a constituted public instrumentality, and that the Corporation's exercise of the power conferred by the Act is considered to be the performance of an essential public function. The Act enumerates certain sections of State law outside the Act that are applicable to the Corporation and provides that, notwithstanding the provisions of certain other State laws (specifically, Chapter 282 and Part I of Chapter 287 and Section 216.262, Florida Statutes), the Corporation may establish its own rules or guidelines. However, there are also laws not referenced in the Act that specifically define the Corporation as a State agency. Accordingly, absent a specific exemption, the Corporation should comply with the provisions set forth in law for State agencies.

As part of our audit, we evaluated the Corporation's financial and operational controls and processes and tested selected asset, liability, expense, and revenue transactions and records. We also tested selected Corporation program decision-making processes. As discussed in the following findings, our audit procedures disclosed that improvements were needed in certain Corporation controls and processes.

Finding No. 1: Annual Compliance Audit

As mentioned in the **BACKGROUND** section of this report, State law⁹ requires the Corporation to submit to the Governor and the presiding officers of each house of the Legislature, a copy of an annual financial audit of its accounts and records and an annual compliance audit of its programs conducted by an independent certified public accountant and performed in accordance with generally accepted auditing standards and government auditing standards. For its 2010 and 2011 years, as in previous years, the Corporation engaged an independent certified public accountant to perform a Single Audit¹⁰ which encompassed an audit of the fair presentation of the Corporation's

⁸ Sections 420.501 through 420.55, Florida Statutes.

⁹ Section 420.511(4), Florida Statutes.

¹⁰ A Single Audit is also referred to as a U.S. Office of Management and Budget (OMB) Circular No. A-133 audit.

financial statements and an audit of the Corporation's compliance with the legal requirements governing its major Federal awards programs.

As part of our audit, we read the Corporation's audited financial statements, including the Corporation's *Schedule of Expenditures of Federal Awards*, and the auditor's reports issued thereon for the years ended December 31, 2010, and December 31, 2011. We noted that the audit reports did not include an opinion on compliance for other Corporation programs that did not meet the definition of a major Federal program. For example, the reports did not address the extent of the Corporation's compliance with laws, rules, and regulations governing the operations of the Federal Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HHF Program) or particular State programs, including those shown on **EXHIBIT A** of this report.

Absent the inclusion of all Corporation programs, including the HHF Program, in an annual compliance audit conducted by an independent certified public accountant, the Corporation's compliance with the statutory requirement that such an audit be annually submitted to the Governor and the presiding officers of each house of the Legislature is not apparent.

Recommendation: We recommend that the Corporation ensure future compliance with the statutory requirement related to an annual compliance audit of the Corporation's programs. In addition, we recommend that the Legislature consider revising Section 420.511(4), Florida Statutes, to identify those Corporation programs that should be subject to an annual compliance audit.

In the Corporation's response to this finding, the Corporation references audit reports submitted pursuant to OMB Circular No. A-133 and Government Auditing Standards and indicates that the scope of the work performed met the statutory requirement for an annual compliance audit of the Corporation's programs. As noted in our finding, we have read these reports and noted that an opinion on the Corporation's compliance with laws, rules, and contracts governing major Federal programs (for the year ended December 31, 2011, the Housing Finance Agencies Risk Sharing Program and the American Recovery and Reinvestment Act – Tax Credit Assistance Program) was provided. However, as also noted in the finding, an opinion on compliance was not provided for other Federal and State programs. The submitted reports meet the reporting requirements of OMB Circular No. A-133 and Government Auditing Standards; however, it was unclear, absent the Corporation's provision for audits of compliance for all programs, whether the Corporation had fully met the requirements of Section 420.511(4), Florida Statutes.

Finding No. 2: Internal Audit Activity

Effective July 1, 2011, the section of State law¹¹ governing the operations of agency inspectors general was amended to include within its scope the Corporation's inspector general. This law establishes the duties and responsibilities of each agency's Office of Inspector General (OIG), and requires the OIG to ensure that an appropriate balance is maintained between audit, investigative, and other accountability activities. State law¹² also requires the OIG to conduct audits in accordance with the current *International Standards for the Professional Practice of Internal Auditing* (*IIA Standards*) or, where appropriate, *Government Auditing Standards*.¹³ According to the Corporation's *Internal Audit Procedures Manual*, for the period of our audit, the Corporation's OIG had elected to follow the *IIA Standards*.

¹¹ Chapter 2011-189, Laws of Florida, and Section 20.055, Florida Statutes.

¹² Section 20.055(5)(a), Florida Statutes.

¹³ The *IIA Standards*, issued by the Institute of Internal Auditors, and *Government Auditing Standards*, issued by the Comptroller General of the United States, generally provide comparable guidance for the conduct of assurance engagements. The *IIA Standards* also provide supplemental guidance for the conduct of consulting engagements.

The Corporation first established the internal audit activity's scope and authority in an internal audit activity charter dated January 2003. Although not statutorily required to have an Inspector General prior to July 1, 2011, the Corporation appointed an Inspector General in September 2006. In July 2010, the Board approved a revised internal audit activity charter and, at that time, the internal audit activity included the Inspector General and two audit positions. By April 2012, the Corporation's OIG staff had been expanded to include the Inspector General, four audit positions, and one investigative position.

As part of our audit, we reviewed the OIG's organizational placement, assigned responsibilities, activities, project reports, staff credentials, and staff training for the period July 2010 through June 2012. Our review disclosed:

- The OIG had performed a variety of activities, such as reviewing the Corporation's performance measures reporting, conducting investigations, and acting as liaison with outside auditors. The OIG had also conducted reviews of various Corporation activities, including a review assessing the Corporation's readiness to implement the HHF Program in 2010. However, we noted that the OIG's internal audit activity had not conducted any recent audits, and further review disclosed that no audits had been performed by the OIG during the period January 2007 through June 2012. As a consequence, the OIG was unable to demonstrate that an appropriate balance had been maintained between its audit, investigative, and other accountability activities.
- The OIG's first documented risk assessment and work plan, applicable for the 2012, 2013, and 2014 years, was not presented to management or the Board until September 2012. *IIA Standards* require the establishment of risk-based work plans to determine the priorities of the internal audit activity, consistent with the organization's goals. The plan is required to be based on a risk assessment, undertaken at least annually, and be communicated to senior management and the Board for review and approval. While the OIG had previously provided listings of planned work activities to Corporation management in 2010 and 2011, the listings were not presented to the Board.
- In addition to the *IIA Standards*' annual work plan requirement, State law¹⁴ requires the Corporation Inspector General to prepare an annual report summarizing the activities of the OIG during the immediately preceding fiscal year. The annual report is to be prepared no later than 90 days after the end of the Corporation's fiscal year and furnished to the head of the Corporation. The internal audit activity charter that was approved by the Board in July 2010 contains a similar annual report requirement. We noted that, although the annual report requirement had been in place since the Corporation's 2010 fiscal year, the Inspector General did not prepare and furnish such a report to the Board until September 2012.
- Although the OIG work plan allocated staff time to activities based on estimated staff hours, the OIG's procedures did not require internal audit staff to record the hours they actually worked on specific activities. The tracking and monitoring of staff hours provides useful information for controlling and monitoring project and work plan progress and for planning future activities.

State law¹⁵ provides that OIGs have responsibility for activities that promote accountability, integrity, and efficiency. Absent timely and properly prepared work plans that are based on the results of comprehensive risk assessments; an objective means for tracking the progress of projects; the satisfaction of the reporting requirements of the charter and law; and an appropriate balance in audit, investigative, and other accountability activities, the Corporation may not fully realize the productivity and value that can be provided by the OIG.

Recommendation: To provide a reliable method for planning projects and measuring productivity, we recommend that the OIG implement a process to track staff time by project and activity. In addition, the OIG should work with the Board and Corporation management to ensure that an appropriate balance is maintained between audits and other OIG activities. We also recommend that the OIG timely submit risk-based work plans and annual reports to Corporation management and the Board.

¹⁴ Section 20.055(7)(b), Florida Statutes.

¹⁵ Section 20.055(2), Florida Statutes.

Finding No. 3: Transparency of Operating Fund Unrestricted Net Assets

Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, defines net assets as the difference between assets and liabilities. These accounting standards require net assets to be categorized in the financial statements as either: invested in capital assets, net of related debt; restricted;¹⁶ or unrestricted. GASB Statement No. 34 states that unrestricted net assets often are designated to indicate that management does not consider those assets to be available for general operations. However, these types of constraints are internal and management can remove or modify them.

In the notes to its 2010 and 2011 fiscal year financial statements, the Corporation reported unrestricted net assets in the Operating Fund of \$118,185,112 and \$109,954,057, respectively. For these two years, the Corporation also reported in notes to the financial statements that management or the Board had designated all the unrestricted net assets for the following purposes:

- Demonstration loans;
- Loans to developments guaranteed by the Guarantee Fund;
- Loans to the Guarantee Program;¹⁷
- Direct support for the Guarantee Program, including coverage of the projected debt service reserve deficiency, if any;
- Coverage of single-family bond issuance costs;¹⁸
- Working capital and future operating and capital expenditures, including the funding of compliance monitoring fees for housing credit properties for which partial or no fees were collected at the time of allocation; and
- Costs associated with holding foreclosed property.

Although the Corporation identified in its 2010 and 2011 fiscal year financial statements the total amount of unrestricted net assets and listed the purposes for which the unrestricted net assets had been designated, the Corporation did not list the specific amount designated for each purpose. In addition, our review of the Board meeting minutes for 2010 and 2011 disclosed that Board approvals for specific designated amounts were not documented in the minutes. This approach differed from that used in preceding years. We found that for the 2007, 2008, and 2009 years the Corporation disclosed specific amounts for the designations of unrestricted net assets in its financial statements and that the minutes of the Board meetings documented Board approval for the amounts of the various designations.

More specificity in the reporting of the Corporation's unrestricted net asset designations would allow financial statement users to make more informed judgments relative to the significance and importance of the designations.

¹⁶ Restricted net assets represent net assets with constraints placed on their use. Such constraints are either externally imposed by creditors (e.g., through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

¹⁷ Section 420.5092, Florida Statutes, established the Florida Affordable Housing Guarantee Program for the purposes of stimulating creative private sector lending activities to increase the supply and lower the cost of financing or refinancing eligible housing, creating security mechanisms to allow lenders to sell affordable housing loans in the secondary market, and encouraging affordable housing lending activities that would not have taken place or that serve persons who would not have been served but for the creation of the Program.

¹⁸ For the Corporation's Single-Family Mortgage Revenue Bond Program, a trustee, on behalf of the Corporation, purchases qualified mortgage loans from the participating lenders or obligations secured by qualified mortgage loans from qualified lending institutions.

Documentation of Board approval of the nature and amount of the designations would better demonstrate Board authorization of the designations.

Recommendation: We recommend that the Corporation disclose in the notes to its annual financial statements the amount of unrestricted net assets designated for each described purpose. In addition, the Corporation should ensure that the Board meeting minutes document the Board's authorization of the designations.

Finding No. 4: Monitoring of Externally Managed Investments

The Corporation utilizes the services of external investment management companies to invest its excess cash. At December 31, 2011, the Corporation had \$361,170,472 invested in accounts managed by external investment managers.

The Corporation's investment guidelines require that investments held by the Corporation be restricted to certain investment types, each with specific limits on maturity, duration, and credit quality. The Corporation incorporated the investment guidelines into its contracts with external investment managers by requiring that any investments purchased on behalf of the Corporation comply with the investment guidelines. The contracts also required that the external investment managers submit to the Corporation periodic investment performance reports that contain, among other things, evidence of each portfolio's compliance with the investment guidelines. According to Corporation management, the Corporation relied on these reports to identify troubled investments, for example, those downgraded below the investment guidelines' limits.

As part of our audit, we requested copies of any policies and procedures that the Corporation had established related to monitoring compliance with the Corporation's investment guidelines, as well as, any procedures for alerting Corporation management, and determining the appropriate responses, when investments were downgraded below the investment guidelines' limits. Compliance monitoring procedures should address who is to perform the monitoring, monitoring timeframes, and the actions to be taken for any noncompliance noted during monitoring.

Corporation management indicated that, while there were no written policies or procedures, it was the Corporation's practice when noncompliance was detected to discuss options with the investment managers and consult with the Corporation's financial advisor. In addition, Corporation management indicated that they periodically met with managers from the external investment management companies to review the Corporation's portfolio, including the portfolio's compliance with Corporation investment guidelines.

Our examination of information related to the Corporation's approximately 780 externally managed investments disclosed that 6 investments had been downgraded below the limits established in the investment guidelines. At December 31, 2011, these 6 investments had a base value of \$2.74 million, which represented a 45 percent decrease in value compared to the investments' \$5.01 million base cost. In response to our audit inquiry, Corporation staff provided documentation to evidence that appropriate Corporation management had been made aware of the investment downgrades and had worked with the external investment managers and the Corporation's financial advisor to reach a decision to hold, rather than sell, the investments.

While we found some evidence that the Corporation had monitored its investments, as described in the preceding paragraph, absent written procedures requiring timely, independent monitoring of the Corporation's investments to verify compliance with the investment guidelines, there is an increased risk that investments that do not conform to the investment guidelines may escape timely detection and appropriate action. In addition, absent procedures

requiring that appropriate Corporation management be timely alerted as to noncompliant investments, the Corporation has reduced assurance of timely and appropriate responses to changing market and economic conditions.

Recommendation: We recommend that the Corporation adopt written procedures for monitoring investment compliance with Corporation investment guidelines. Such procedures should require that, when investments experience a downgrade below the limits established in the investment guidelines, applicable Corporation management be alerted so that appropriate responses can be determined.

Finding No. 5: Public Deposits Program Compliance

The Public Deposits Program established by State law¹⁹ provides for the protection of public deposits, but only when specific requirements are met by the public depositors.²⁰ Unless specifically exempted, State law²¹ requires that all public deposits be made in qualified public depositories (QPDs)²² and the Florida Housing Finance Corporation Act required the Corporation to establish with a QPD the Florida Housing Finance Corporation Fund.²³ In accordance with the Act, the Corporation established, in 1997 and 1999, three accounts with a QPD for the Fund's deposits.

According to State law,²⁴ public depositors are to execute a form prescribed by the State's Chief Financial Officer for the identification of each public deposit account at the time the account is opened. The Chief Financial Officer established the *Public Deposit Identification and Acknowledgement Form (Form)* for this purpose. A properly executed *Form* identifies each public deposit account and documents the QPD's acknowledgment that the account is a public deposit and that collateralization of the account must be provided. The law provides that the *Form* be maintained as a valuable record as the *Form* is mandatory for filing a claim with the Chief Financial Officer upon a QPD's default or insolvency.

The Corporation was unable to provide upon our request the *Forms* executed for the three Florida Housing Finance Corporation Fund accounts. At times, these accounts had significant deposit balances, for example, in June 2011 one account's balance was \$27.6 million. In September 2012, subsequent to our audit inquiry, the Corporation properly executed the required *Forms*.

State law²⁵ also requires that all public depositors submit by November 30, an annual report to the Chief Financial Officer identifying the name, address, and Federal employer identification number of the public depositor and verifying the confirmation of public deposit information as of September 30. The Chief Financial Officer established the *Public Depositor Annual Report to the Chief Financial Officer (Public Depositor Annual Report)* for this purpose. If a public

¹⁹ Chapter 280, Florida Statutes.

²⁰ A public depositor is defined by Section 280.02(24), Florida Statutes, as the official custodian of funds for a governmental unit who is responsible for handling public deposits.

²¹ Section 280.03(1)(b), Florida Statutes.

²² A qualified public depository is defined by Section 280.02(26), Florida Statutes, as a bank, savings bank, or savings association that is organized and exists under the laws of the United States, the laws of Florida or any other state or territory of the United States; has its principal place of business in Florida or has a branch office in Florida and is authorized to receive deposits in Florida; has deposit insurance under the provisions of the Federal Deposit Insurance Act; has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits; meets all the requirements of Chapter 280, Florida Statutes; and has been designated by the State's Chief Financial Officer as a qualified public depository.

²³ Section 420.508(5), Florida Statutes.

²⁴ Section 280.17(2), Florida Statutes, requires that, effective July 1, 1998, forms identifying accounts as public deposits be executed upon the opening of the account. For accounts existing before July 1, 1998, the law provided that the forms be completed before September 30, 1998.

²⁵ Section 280.17(6), Florida Statutes.

depositor does not comply with this annual reporting requirement for an account, the protection from loss provided by the Public Deposits Program is not effective as to that public deposit account.²⁶

Our audit procedures disclosed that, contrary to State law, the Corporation had not filed any *Public Depositor Annual Reports*. In response to our audit inquiry, Corporation management indicated that they had been unaware of the reporting requirement.

Recommendation: To ensure that the Corporation's deposits are adequately safeguarded from loss, we recommend that the Corporation comply with the Public Deposits Program requirements.

Finding No. 6: Hardest Hit Fund Program Review

The U.S. Department of the Treasury (Treasury) established the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HHF) in February 2010, to provide funding through state housing finance agencies for foreclosure prevention in states that were hard hit by home price declines and high unemployment.²⁷ The Corporation, serving as the State of Florida's housing finance agency, entered into a participation agreement with the Treasury in June 2010 to administer the HHF Program for the State. Per the agreement and subsequent amendments, the Treasury allocated over \$1 billion to the State for the HHF Program, including \$36.9 million for the Corporation's start-up and administrative expenses.

The participation agreement signed by the Corporation and the Treasury requires the Corporation to provide annual audited financial statements to the Treasury no later than 180 days after the end of its fiscal year. The agreement also acknowledges that the Treasury and certain other entities designated by the Treasury or applicable laws have the right to conduct audits of the Corporation and to examine all books, records, and data related to the services provided. In the agreement, the Corporation "... covenants that it will promptly take corrective and remedial actions associated with reporting and reviews conducted by the Treasury or its designee and provide to Treasury evidence of the effective implementation of corrective and remedial actions as Treasury shall require."

During the period April 30, 2012, through May 4, 2012, the Treasury conducted an on-site compliance review of the Corporation's HHF Program. The Treasury's *Hardest Hit Fund Program Compliance Review (Review)* report, dated June 14, 2012, identified 14 observations of noncompliance made during the review. The Treasury's observations of noncompliance addressed the following areas: monitoring processes and internal controls, eligibility, program expenses and income, and administrative expenses. On July 13, 2012, the Corporation's Executive Director provided a response to the *Review* report that described Corporation efforts to ensure Program compliance.

Recommendation: We recommend that the Corporation continue its efforts to address the observations of HHF Program noncompliance noted in the Treasury *Review* report.

²⁶ Section 280.17(8), Florida Statutes.

²⁷ Funding for the HHF Program was allocated under the Emergency Economic Stabilization Act of 2008.

Finding No. 7: Hardest Hit Fund Program Recipient Eligibility

The State's HHF Program is composed of two programs: the Unemployment Mortgage Assistance Program²⁸ and the Mortgage Loan Reinstatement Payment Program.²⁹ The programs' guidelines, including recipient eligibility requirements, were approved by the Treasury in the agreement with the Corporation. Individuals may apply for HHF Program assistance using an online system. To process HHF Program applications, determine an applicant's eligibility, and provide ongoing assistance to eligible individuals, the Corporation contracted with approximately 100 advisor agencies. Table 3 shows selected HHF Program data as of July 1, 2012.

Table 3
Corporation HHF Program Data
as of July 1, 2012

Number of Eligibility Reviews Completed	22,522
Number of applicants deemed ineligible	13,274
Total Number of Applicants Approved by the Corporation for Funding	6,319
Total Number of Approved Applicants who have Completed and Exited the Program	2,929
Number of homeowners who received a one-time payment of Program funds to bring their mortgage current	273
Number of homeowners who regained adequate employment to pay their mortgage	349
Number of homeowners who entered into a separate loan modification program that makes their payments affordable	38
Number of homeowners who sold their house and paid off the loan	8
Number of homeowners who canceled participation in the Program	280
Number of homeowners who exhausted allowable Program assistance	1,981
Total Amount of Program Funding Committed	\$107,846,000

Source: Corporation *Florida Hardest Hit Fund Quarterly and Current Month Data* report.

Deficiencies in the HHF Program eligibility determination process result in decreased Program effectiveness. The Treasury's *Review* report disclosed instances in which there was insufficient documentation to support the calculation of income eligibility, one instance in which the reason for denial was not defined in the denial letter, and other instances of Program noncompliance. The report also indicated that the Corporation did not have documented processes or adequate controls in place to monitor advisor agencies to ensure that Program requirements were being met.

As part of our audit, we tested eligibility documentation for 40 individuals who applied for HHF Program assistance during the period October 2010 through June 2012. The Corporation's contracted advisor agencies had determined 11 of the 40 individuals to be eligible and 18 to be ineligible. Ten of the remaining 11 individuals had terminated the application process before it was completed and the other individual's application was still in progress at the

²⁸ The Unemployment Mortgage Assistance Program (UMAP) provides up to 12 months of payments, with a cap of \$24,000, to the mortgage lender to assist unemployed or underemployed borrowers with their first mortgage until they can resume full payments on their own. In addition, up to \$18,000 can be paid up-front to reinstate a delinquent first mortgage before UMAP payments commence. Total assistance available is up to \$42,000.

²⁹ The Mortgage Loan Reinstatement Payment (MLRP) Program provides a one-time payment, up to \$25,000, to bring a delinquent mortgage current for a homeowner who has returned to work or recovered from underemployment.

conclusion of our audit field work. Our audit tests also disclosed, as evidenced by the following deficiencies, that improved monitoring of the advisor agencies' eligibility determination process was needed:

- One individual, who received \$4,592 in HHF Program assistance, was not the sole owner of the property for which the funding was granted and there was no documentation that the other owner of the property consented to receiving the funds. Since the acceptance of Program funds resulted in a second mortgage on the property, without consent of both owners, the legal enforceability of the second mortgage is less clear. In response to our audit inquiry, Corporation management indicated that the individual who received the funding was eligible per the Program eligibility guidelines, but acknowledged the issue with legal enforceability.
- For one individual who was determined eligible and received \$6,000 in HHF Program assistance, the advisor agency staff did not obtain bank statements for 2 consecutive months, as required by the Corporation's *HHF Program Procedures Manual*. The individual submitted the application in July 2011, but provided bank statements for November 2010 and March 2011.
- For two individuals who were determined by the advisor agency to be ineligible, the Corporation was unable to provide a copy of a letter to demonstrate that the individuals were notified of their Program ineligibility. The Corporation's *HHF Program Procedures Manual* requires advisor agencies to send those individuals determined to be ineligible a letter informing them of the determination and the process for appeal.

Absent effective monitoring, advisor procedure weaknesses and instances of noncompliance with contractual requirements may escape timely detection.

Recommendation: We recommend that the Corporation ensure that Program advisor agencies obtain and maintain sufficient documentation to evidence that eligibility determinations were made in accordance with Program guidelines and that individuals who were determined ineligible were properly notified in accordance with the Corporation's *HHF Program Procedures Manual*.

Finding No. 8: Cost Allocation

The U.S. Office of Management and Budget (OMB), Circular No. A-87, Appendix A, Subsection C., *Basic Guidelines* (OMB Circular A-87), establishes principles and standards for determining allowable costs for Federal awards. For example, OMB Circular A-87 requires that, to be allowable under Federal awards, costs must be necessary and reasonable, adequately documented, and authorized or not prohibited under State law.

According to Corporation records, during the 2011 fiscal year, the Corporation expended \$158 million of the Federal awards program funds it received from the U.S. Department of Housing and Urban Development (USHUD) and the Treasury. Included in the amount expended was \$14 million for costs related to the Corporation's administration of the Federal awards programs. Those administrative costs included allocated costs, totaling \$3 million, which were costs incurred for a common or joint purpose benefitting more than one Corporation program.

To equitably distribute the administrative costs to each of the Federal awards programs, including the HHF Program, the Corporation established an allocation methodology. However, we reviewed the Corporation's allocation of administrative costs and noted that the methodology in some instances did not ensure compliance with OMB Circular A-87. Specifically:

- During the period January 2011 through June 2012, the Corporation included unallowable costs totaling \$2,516 in its cost allocation. The unallowable costs included expenses, as similarly described in finding No. 15, for items such as gift cards, flowers, and food and decorations for employee parties. OMB Circular A-87 specifically prohibits the use of Federal funds for costs related to entertainment and items for the personal use of employees.
- The Corporation included excess travel costs in the allocation. As noted in finding No. 14, contrary to State law, the Corporation's travel policy permitted travel cost reimbursement rates in excess of the rates authorized by State law.
- As also noted in the Treasury's *Review* report, the Corporation did not allocate employees' salaries and benefits based on actual activity, but on an estimate of anticipated activity. In response to the Treasury *Review* report, Corporation management indicated that a process had been implemented requiring employees who work on more than one program to report actual time spent on each program.

As a result of these cost allocation methodology issues, some costs allocated to Federal awards programs may not be allowable.

Recommendation: We recommend that the Corporation revise its cost allocation methodology to include only those costs that are allowable according to OMB Circular A-87. In addition, the Corporation should ensure that the allocation methodology results in an appropriate and equitable distribution of costs to its Federal awards programs.

Finding No. 9: Board Member Conflicts of Interest

State law³⁰ provides that the Corporation's Board of Directors be composed of the Executive Director of the Department of Economic Opportunity and eight members appointed by the Governor and subject to confirmation by the Senate. State law³¹ requires that Board members disclose to the Corporation, in writing, possible direct or indirect interests in entities that contract with, request loans from, or offer to sell loans to the Corporation.

In addition, general provisions of State law³² prohibit appointed public officers from participating in any matter that would inure to the officer's special private gain or loss without first disclosing the nature of his or her interest in the matter. Pursuant to State law, such disclosure, indicating the nature of the conflict, is to be made in a written memorandum filed with the person responsible for recording the minutes of the meeting,³³ prior to the meeting in which consideration of the matter will take place, and shall be incorporated into the minutes. In the event that disclosure was not made prior to the meeting, or that any conflict is unknown prior to the meeting, the disclosure is to be made orally at the meeting when it becomes known that a conflict exists. A written memorandum disclosing the nature of the conflict is to then be filed within 15 days after the oral disclosure and incorporated into the minutes of the meeting at which the oral disclosure was made.

As part of our audit, we reviewed Corporation policies and procedures and noted that the Corporation had established a conflict of interest policy within its *Personnel Policies and Procedures Handbook* that addressed the disclosure of conflicts of interest. The policy required Board members to disclose conflicts by completing, signing, and dating an *FHFC Written Notice of Conflict of Interest Concern (Conflict of Interest)* form, but did not specify a time period within which to file the form.

³⁰ Section 420.504(3), Florida Statutes.

³¹ Section 420.512, Florida Statutes.

³² Section 112.3143(4), Florida Statutes.

³³ A Corporation employee who served as Board liaison was responsible for keeping the Board meeting minutes during the period covered by our audit.

We also reviewed the minutes of Corporation Board meetings held during the period January 2010 through July 2012, and noted 27 instances in which a Board member had recused himself or herself from voting on a matter due to a conflict of interest. However, in 18 of the instances, the Corporation was unable to provide documentation that the members had completed the *Conflict of Interest* forms within a reasonable time period after the Board meeting during which the conflict was orally disclosed. Specifically:

- In 5 instances, the Corporation was unable to provide a *Conflict of Interest* form.
- In 9 instances, the Corporation provided *Conflict of Interest* forms that had been signed and dated subsequent to our audit inquiry, with dates ranging from 17 months to 26 months after the relevant Board meeting.
- In 4 instances, the Corporation provided *Conflict of Interest* forms that were dated prior to our audit inquiry, but more than 2 years after the meeting in which the Board member recused himself or herself.

Corporation management indicated that *Conflict of Interest* forms related to these 18 instances had been timely completed, but had been misplaced.

The timely filing of the written disclosures better ensures the public's ability to evaluate the independence and impartiality of Board members.

Recommendation: We recommend that the Corporation revise its *Personnel Policies and Procedures Handbook* to specify a time period within which a written conflict of interest disclosure must be provided. In addition, the Corporation should ensure that written conflict of interest disclosures are timely filed and incorporated into the applicable Board meeting minutes.

Finding No. 10: Purchasing Guidelines and Contracts

Fair and open competition is a basic tenet of public procurement as such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. Additionally, properly designed contract documents are necessary to protect the interests of the parties and should include, but not be limited to, quantifiable, measurable, and verifiable units of contract deliverables; contract effective dates; and the total maximum amounts payable under the contract.

State law³⁴ provides that the Corporation may establish guidelines for the purchase and procurement of materials and services for use by the Corporation. The Corporation's purchasing guidelines are established in rule,³⁵ and require, with certain exceptions, that competitive procurement procedures be followed when the purchase price of commodities or contractual services exceeds, or is estimated to exceed, \$25,000, in any 12-month period.

Our audit procedures included examining the Corporation's purchasing guidelines, contract documents, and contract payments related to 15 of the 173 contracts identified by the Corporation for the period January 2007 through June 2012. During that period, the Corporation made payments totaling \$9,388,666 for these 15 contracts.

Our audit procedures disclosed that the Corporation's single source procurement policy could be improved and that the Corporation's purchasing guidelines did not identify certain provisions that should be included in contracts in order to protect the interests of the Corporation and the State. Specifically:

³⁴ Section 420.507(27), Florida Statutes.

³⁵ Corporation Rules, Chapter 67-49, Florida Administrative Code.

- The Corporation's single source procurement policy requires only that the Executive Director make a written determination that the desired commodities or services are most readily available from a single source or that the best interests of the Corporation or the public are served by obtaining such commodities or services from a single source. This policy could be improved by requiring documentation of the efforts made to identify potential providers and by requiring Board approval of all single source contracts with estimated costs in excess of \$25,000.
- In September 2011, the Corporation renewed a single source contract with a former Corporation employee for HHF Program management. The renewal increased the annual contract price from \$50,000 to \$90,000. The contract documentation did not contain justification for the Corporation's decision to substantially increase the contract price. In addition, the contract terms did not adequately describe the contract deliverables. For example, the contract terms did not specify the number of consulting hours required to be provided or the required number of Corporation clients to be served.
- For 2 contracts, the contract terms did not specify the effective dates of the contract. The terms for one of the contracts, for hearing officer services, stated that the contract would end one year from the date the last party signed the contract. The terms of the other contract, for public relations and media buying services, stated that the contract would end 3 years from the date the last party signed the contract. However, the signatures were not dated on the Corporation's copy of either contract.
- Although 9 of the 15 contracts contained fee schedules, the contract terms did not specify either a maximum number of services to be provided or a maximum amount payable under the contract. In response to our audit inquiries, Corporation management indicated that the contracts were intentionally written with open terms as the total number of services that would be provided by the contractors was unknown and setting a maximum would require the contracts to be continuously amended. However, good contracting practices require that consideration be stated as a definite amount, including a specific rate with a maximum total cost. These 9 contracts were for a variety of services including payroll services, advisor services, credit underwriting, compliance monitoring, hearing officer services, technical assistance, public relations and media buying services, and capital needs assessment services. During the period January 2007 through June 2012, the Corporation made contract payments totaling \$3,040,953 related to the 9 contracts.

Our audit procedures also included an evaluation of Corporation compliance with the State law³⁶ requiring State agencies to provide to the Department of Financial Services (DFS) information regarding certain contracts executed on or after July 1, 2010. We discovered that, for the period July 2010 through October 2012, the Corporation had not provided information to DFS for any of the applicable contracts. In response to our audit inquiries, Corporation management indicated that, due to the Corporation's enabling legislation which allows the Corporation to establish procurement guidelines, the provisions of State law requiring that contract information be reported to DFS were not applicable to the Corporation. Notwithstanding this explanation, State law³⁷ specifically names the Corporation in the listing of State agencies that are required to report contract information to DFS.

We further examined the Corporation's purchasing guidelines and contract records to determine whether the Corporation effectively tracked its contracts and could readily identify the contract information required to be reported to DFS. We noted that, although the Corporation maintained a listing of its contracts, it did not have a means for tracking the total amount of payments made under each Corporation contract and, as the Corporation's accounting system did not include a contract number field, payments for each contract could not be readily identified. Absent a means for tracking contract payments by contract, the Corporation lacks an essential tool for budgeting, monitoring contractual obligations, and reporting contract information in a transparent manner.

³⁶ Section 216.0111, Florida Statutes, requires each State agency to provide to DFS information regarding the agency's contracted activities, including, but not limited to, the nature of the commodities or services purchased, the term of the contract, the final obligation made by the agency, and, if applicable, justification for not using competitive procurement.

³⁷ Section 216.011(1)(qq), Florida Statutes, defines State agencies for the purposes of Section 216.0111, Florida Statutes, and specifically includes the Corporation.

Recommendation: We recommend that the Corporation:

- Amend its single source procurement policy to require Board approval of single source contracts with estimated costs in excess of \$25,000.
 - Ensure that contracts include a clear description of deliverables.
 - Ensure that contract files contain explanations for significant changes in contract amounts.
 - To protect the interests of the Corporation and the State, ensure that its contract documents specify the contract effective dates and the contract's total maximum amount payable.
 - Ensure compliance with the statutory contract reporting requirements.
 - Establish a means for tracking contract payments for each contract.
-

In response to this finding, the Corporation indicated that it did not agree with our recommendation that contracts should specify the contract maximum amount payable and described difficulties associated with specifying maximum contract amounts for long-term contracts for services related to affordable housing development transactions. We agree that there may be instances in which it may not always be practical to specify a maximum contract amount; however, for the majority of the contracts referenced in the finding, such as those related to payroll services, technical assistance, public relations and media buying services, and capital needs assessment services, the Corporation could reasonably specify a maximum contract amount and thereby provide a basis for controlling, monitoring, and reporting Corporation contracts.

Finding No. 11: Service Organization Controls

In May 2011, the Corporation issued a Request for Proposal (RFP) for Credit Underwriting, Construction and Permanent Loan Servicing, and Compliance Monitoring Services. In July 2011, the Board authorized the Corporation to enter into contract negotiations with the three service organizations which had been providing the same services in the preceding period. The resulting contracts required each of the three service organizations to provide, in accordance with the Statement on Standards for Attestation Engagements No. 16 (SSAE 16), *Reporting on Controls at a Service Organization*, reports addressing the controls at the organization that were relevant to the organization's services performed for the Corporation. The contract terms required the service organizations to provide the SSAE 16 Service Organization Controls (SOC) 1 Type II³⁸ reports no later than the last day of the first quarter of each calendar year. One of the contracts was signed by the service organization in November 2011 and the other two contracts were signed by the service organizations in December 2011. The Corporation's contracts with these service organizations for preceding periods did not require contractor provision of independent assessments of relevant internal controls.

As part of our audit, we requested copies of the most recent SSAE 16 SOC 1 Type II reports received from the three service organizations. Our examination of the reports disclosed that two of the three service organizations submitted reports that did not comply with the contractual reporting requirements, and Corporation management had not followed up with the service organizations to obtain an appropriate report. Specifically:

³⁸ An SSAE 16 SOC 1 Type II report describes the results of a service auditor's examination of the design of a service provider's controls, provides confirmation that the controls have been placed in operation, and includes an evaluation of the operating effectiveness of the controls.

- One service organization timely provided an SSAE 16 SOC 1 Type II report in March 2012; however, the report only covered administrative and information technology controls and did not address controls related to the organization's credit underwriting, loan servicing, or compliance monitoring services performed for the Corporation.
- One service organization did not provide an SSAE 16 SOC 1 Type II report. The service organization instead provided various independent auditor's reports, none of which specifically addressed the organization's controls relevant to the services performed for the Corporation.

As part of our audit, we also evaluated the activities of the Corporation's quality assurance function, which utilized Corporation staff to perform periodic compliance reviews of the three service organizations. While these reviews were designed to verify whether the service organizations complied with contract provisions when performing required services, such as loan servicing, for Corporation clients, the reviews did not provide the same assurances regarding the effectiveness of the service organizations' internal controls that can be obtained from an SSAE 16 SOC 1 Type II report.

Recommendation: We recommend that the Corporation work with its service organizations to ensure that the service organizations obtain and timely submit to the Corporation the contractually required SSAE 16 SOC 1 Type II reports. The Corporation should consider the information provided by these reports when monitoring and evaluating the performance of its service organizations.

Finding No. 12: Employee Background Screenings

The sensitive and nonpublic information solicited and maintained by the Corporation necessitates that employees with access to the information have the appropriate backgrounds and be qualified to ensure the integrity and security of the information. We reviewed personnel records for 20 Corporation employees in positions with access to sensitive or nonpublic information and, therefore, may be classified as positions of special trust or responsibility. These positions included, but were not limited to, the Corporation's senior management staff and employees in information technology (IT), program administration, and accounting positions. We noted that 19 of the 20 employees had not been subjected to a background screening and that the only employee with a background screening on file had been subjected to the screening in 1997 when he was an employee of the Corporation's predecessor State agency.

We also noted that, while the Corporation's hiring policies and procedures required an online search of financial and civil court records maintained by the Leon County Clerk of Court, the policies and procedures did not require State, national, or local criminal background screenings for any Corporation employees. In response to our audit inquiries, Corporation management indicated that they had not designated positions requiring background screenings; however, during the conduct of a recent procedural review of the Corporation's Human Resources department, the need to perform background screenings had been identified. Corporation management further indicated that they were in the process of developing a policy to be adopted in the near future.

Recommendation: We recommend that the Corporation identify those positions that should be subjected to a background screening. For the positions identified, the Corporation should ensure the timely conduct of background screenings and that any matters disclosed by the screenings be appropriately considered and acted upon.

Finding No. 13: Verification of Employee Education and Work Experience

As of May 2012, the Corporation employed 125 individuals. Many of these individuals were employed in positions which, according to the applicable position descriptions, required specific education credentials and work experience.

As part of our audit, we reviewed the Corporation's hiring procedures, as well as personnel records for 20 Corporation employees to determine whether, at the time of employment, the Corporation verified that the individuals possessed the required education and work experience. Our review included, but was not limited to, the personnel files for the Corporation's senior management staff and employees in IT, program administration, and accounting positions. We noted that:

- For 9 employees, there was no documentation, such as copies of college transcripts and diplomas, demonstrating that the Corporation had verified the employees' education credentials at the time of employment. Subsequent to our audit inquiry, Corporation management obtained documentation of the education credentials for each of the 9 employees and placed the documentation in the employees' personnel files. We noted that the Corporation's hiring procedures did not address obtaining or retaining documentation of employees' education credentials.
- For 6 employees, there was no documentation demonstrating that the Corporation had contacted the employees' previous employers to verify the employees' relevant work experience. Although the Corporation's hiring procedures required the use of a form to document employee work experience, a completed form was not included in these employees' personnel files. Subsequent to our audit inquiry, Corporation management prepared documentation demonstrating the conduct of employment verifications for 3 of the 6 employees.

Absent verification of prospective employees' education and experience, there is reduced assurance that the individuals selected for employment possess the qualifications necessary to perform their assigned duties.

Recommendation: We recommend that the Corporation enhance its procedures to ensure that the education and work experience of prospective employees are verified prior to employment and that appropriate documentation is be retained in employee personnel files.

Finding No. 14: Travel Expenses

Section 112.061, Florida Statutes, establishes standard travel provisions, including reimbursement rates, procedures, and limitations applicable to all public officers, employees, and other persons whose travel is authorized and paid by a public agency. This section of law provides that its provisions prevail over any conflicting general law, unless an exemption, specifically referencing Section 112.061, Florida Statutes, is included in the conflicting law. Although, according to the Florida Housing Finance Corporation Act,³⁹ the Board is entitled to establish travel procedures and guidelines for Corporation employees, the Act does not specifically exempt the Corporation from the standard travel provisions of Section 112.061, Florida Statutes. In evaluating the Corporation's travel expenses and related policies and procedures, we applied the requirements of Section 112.061, Florida Statutes.

For the period January 2010 through June 2012, the Corporation paid travel expenses totaling \$385,175 for employees, contractors, and Board members. According to Corporation records, the purposes for the travel included attending Board meetings, conferences, workshops, and staff training and conducting monitoring, staff development, marketing, and public outreach. The Corporation had established a travel policy for authorizing and reimbursing the travel expenses incurred by Corporation employees and other authorized persons; however, the reimbursement rates,

³⁹ Section 420.506(1), Florida Statutes.

procedures, and limitations established by the policy did not conform to the standards set forth in Section 112.061, Florida Statutes. For example:

- The Corporation reimbursed travelers for the use of personal vehicles based on the Federal mileage reimbursement rate established by the U.S. General Services Administration, rather than the mileage rate set forth in State law. Since the Corporation was created in 1998, except for a 6-month period in 2006,⁴⁰ the Federal mileage reimbursement rate has been higher than the State mileage rate. For example, effective January 1, 2012, the Federal mileage reimbursement rate was 51 cents per mile and the State mileage rate was 44.5 cents per mile.
- The Corporation reimbursed travelers for meals based on the Federal rates, which were generally higher than the rates set forth in State law. Table 4 shows, for 2012, a comparison of the meal reimbursement rates in the Corporation's travel policy to those established by State law.⁴¹

Table 4
Comparison of Meal Allowance Rates
For the 2012 Calendar Year

Meal	Corporation Policy		State Law	
	Requirement ^a	Rate Range ^b	Requirement ^c	Rate
Breakfast	When travel begins before 8:00 A.M.	\$ 7-\$12	When travel begins before 6:00 A.M. and extends beyond 8:00 A.M.	\$ 6
Lunch	When travel begins before noon and extends beyond 2:00 P.M.	\$11-\$18	When travel begins before noon and extends beyond 2:00 P.M.	\$11
Dinner	When travel extends beyond 6:00 P.M.	\$23-\$36	When travel begins before 6:00 P.M. and extends beyond 8:00 P.M. or when travel occurs during nighttime hours due to special assignment.	\$19

^a Meals for same day travel and overnight travel are reimbursed by the Corporation at the same rates.

^b Rates vary based on geographical location, as designated in the Federal guidance.

^c To be reimbursable, the associated travel must involve an overnight absence or continuous travel of 24 hours or more away from official headquarters.

We also reviewed documentation for 40 travel reimbursement payments totaling \$43,911, and noted other instances, in addition to the use of excess mileage and meal reimbursement rates, in which the Corporation reimbursed travelers for expenses that lacked the required supporting documentation or were not otherwise in accordance with State law. Specifically:

- For 3 payments, the Corporation reimbursed travelers for a total of \$4,093 for travel expenses related to conference attendance, but the reimbursement requests did not include copies of the conference agendas, as required by Corporation policy. The Corporation obtained copies of the agendas subsequent to our audit inquiry.

⁴⁰ For the period July 1, 2006, through December 31, 2006, the Federal mileage reimbursement rate and the State mileage rate were both 44.5 cents per mile.

⁴¹ Section 112.061(5) and (6), Florida Statutes.

- For 5 payments, the amount reimbursed by the Corporation included meal allowances totaling \$203, although the conference agendas indicated that meals were included in the conference fee. We noted that, while State law⁴² prohibits reimbursement for meals included in a convention or conference registration fee, the Corporation's travel policy did not specifically prohibit such reimbursement. In response to our audit inquiry, Corporation management indicated that reimbursement was allowable under the Corporation's policy if the traveler skipped the conference meal to conduct business, although for 4 of the 5 payments, the travel reimbursement documentation did not contain a notation or other documentation indicating that the traveler had foregone the conference meal for business reasons.

By following its travel reimbursement policy, the Corporation paid travel expenses in amounts exceeding those authorized by State law.

Recommendation: We recommend that the Corporation amend its travel policy to conform with the requirements of State law. In addition, we recommend that, prior to reimbursing travel related to conference attendance, the Corporation ensure that the traveler has provided the conference agenda.

In response to this finding, the Corporation did not agree that the State travel policies derived from Section 112.061, Florida Statutes, govern the Corporation's travel and indicated that Section 420.506(1), Florida Statutes, authorizes the Board to establish travel procedures and guidelines for employees of the Corporation. We agree that Section 420.506(1), Florida Statutes, authorizes the Board to establish travel procedures and guidelines for Corporation employees; however, the Corporation appears to meet the definition of public agency, as that term is defined for purposes of Section 112.061, Florida Statutes, and Section 420.506(1), Florida Statutes, does not contain a specific exemption referring to Section 112.061, Florida Statutes, as required by Section 112.061(1)(b)1., Florida Statutes. In recognition of the Corporation's unique responsibilities, we recommend that the Legislature clarify its intent with respect to the extent of the applicability of Section 112.061, Florida Statutes, to the operations of the Corporation.

Finding No. 15: Operating Expenses

State law⁴³ provides that the Corporation may implement rules regarding the employment of employees and may also pay pensions and establish pension plans, pension trusts, and benefit and incentive plans for any and all of its current or former employees and agents. As part of our audit, we analyzed Corporation employee salaries totaling \$42,673,874 that were paid during the period January 2007 through June 2012.

To demonstrate sound human resource management, the Corporation should have appropriate policies and procedures in place to ensure that personnel actions are properly authorized; employee incentives, including employee bonuses, are awarded based on consistent, objective criteria; amounts of pay and deductions are accurately calculated; and all personnel actions are sufficiently documented. Our review of Corporation policies and procedures disclosed that the Corporation's procedures were generally effective to ensure the proper authorization, calculation, and documentation of personnel actions related to salaries. However, we also noted that the Corporation had not established an employee bonus policy that provided the criteria to be used for determining employee eligibility for bonuses, set forth guidelines for calculating bonus amounts, or specified the documentation required in support of the payments. As shown in Table 5, during the 2007 through 2011, the Corporation paid bonuses totaling \$398,400 to 70 Corporation employees.

⁴² Section 112.061(6)(c), Florida Statutes.

⁴³ Sections 420.506(1) and 420.507(32), Florida Statutes.

Table 5
Corporation Employee Bonuses

Fiscal Year	Total Amount of Bonuses Awarded	Number of Employees Receiving a Bonus
2007	\$ 99,500	31
2008	\$146,500	44
2009	\$ 63,400	19
2010	\$ 69,500	18
2011	\$ 19,500	4
Totals	<u>\$398,400</u> ^a	<u>70</u> ^b

^a The bonuses paid in a single year ranged from \$500 to \$25,000.

^b Some employees received a bonus in more than one year and 13 employees received bonuses totaling \$10,000 or more.

Source: Corporation payroll records.

As a result of the lack of policy, we noted that none of the documentation supporting the bonuses demonstrated that the bonus amounts awarded were based on consistent, objective criteria. In September 2012 and subsequent to our audit inquiry, Corporation management established a policy for *Discretionary Lump-Sum Bonuses* that contains requirements for granting bonus payments to employees.

We also evaluated Corporation policies and procedures related to the payment of Corporation operating expenses and tested 35 general operating expense transactions totaling \$372,444, that were made during the period January 2010 through June 2012. We noted that the Corporation generally required authorization by an appropriate senior manager prior to the payment of expenses; however, our audit procedures also disclosed that, without an apparent public purpose, the Corporation annually budgeted “Employee Relations” expenses for gift cards, flowers, and supplies and food for employee parties. Amounts expended for those items during the period January 2010 through June 2012 totaled \$4,792.

To ensure the appropriateness of Corporation operating expenses, Corporation management has responsibility for establishing and implementing controls. Such controls should include procedures to prohibit payment for items that are not clearly necessary to the Corporation’s performance of its statutory duties and, therefore, do not serve an apparent public purpose.

Recommendation: We recommend that the Corporation ensure that documentation for any future employee bonuses be supported by appropriate justification. We also recommend that the Corporation ensure that its expenses always serve an authorized public purpose and are clearly necessary to the performance of the Corporation’s statutory duties.

Finding No. 16: Tangible Personal Property

As of December 2011, the Corporation reported net capital assets of \$33,251. This amount represented the depreciated value of tangible personal property, such as, furniture, computers, and other equipment, with original acquisition costs totaling \$1,138,957.

As part of our audit, we reviewed the Corporation's *Capital Assets Procedures* (*Procedures*) and property records. We noted that, while the *Procedures* contained provisions for recording property items costing \$5,000 or more, conducting annual physical inventories, and disposing of property items, improvements were needed to strengthen accountability for and the safeguarding of the Corporation's tangible personal property. Specifically:

- Although the *Procedures* required that the physical location (room or office number) of the property be included in the property records, the *Procedures* did not require that each property item be assigned to a property custodian who would be accountable for the use and safeguarding of the property. Nor did the *Procedures* address the appropriate separation of duties during the conduct of the annual physical inventory.
- The *Procedures* did not require that portable and attractive items costing less than \$5,000 be recorded in the property records, properly safeguarded, or accounted for during the annual physical inventory process. By their nature, portable and attractive items, such as computer and electronic equipment, are susceptible to loss and theft and, therefore, should be appropriately controlled. Appropriate control of computer and electronic equipment is especially important as such equipment may contain sensitive or confidential Corporation data. Although a separate listing of computer equipment costing less than \$5,000 was maintained by the Corporation's IT staff, we noted that items were not timely recorded on this listing or appropriately safeguarded prior to being distributed for employee use. For example, during our audit field work in August 2012, we observed that the Corporation had boxes of new computer equipment, with a total cost of approximately \$33,404, stored in an unlocked training room. The computer equipment, which included 8 laptop computers, 21 desktop computers, 56 monitors, and 8 docking stations, was purchased during the period October 2011 through June 2012. Entry to the suite where the training room was located required an electronic access card, but the training room was open at the time of our observation. Corporation IT staff indicated that the computer equipment was awaiting configuration.
- Although the *Procedures* required that a physical inventory be conducted annually, the *Procedures* did not require that all the Corporation's tangible personal property be subject to an inventory each year. The Corporation had divided its tangible personal property items into two groups, and each group of items was subject to a physical inventory every other year. To discourage theft and ensure that any missing property items are timely detected and investigated, all property items should be physically verified at least once each year.

Enhanced tangible personal property procedures would promote Corporation management's ability to control and safeguard Corporation property and data and would also decrease the risk that items may be lost or stolen without timely detection and investigation.

Recommendation: We recommend that the Corporation amend its *Capital Assets Procedures* to include the assignment of property custodians, address separation of duties during the conduct of physical inventories, require that portable and attractive items costing less than \$5,000 be added to the property records and included in the annual physical inventory process, and ensure that a physical verification of all property items is conducted at least once every year.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

Chapter 2012-127, Laws of Florida, required the Auditor General and the Office of Program Policy Analysis and Government Accountability (OPPAGA) to conduct a joint audit and review of the programs and operations of the Florida Housing Finance Corporation and, no later than July 1, 2012, to jointly develop a work plan for such audit and review. In accordance with Chapter 2012-127, Laws of Florida, the required work plan, which delineated the primary

responsibility for each required topic of the audit and review, was submitted to the President of the Senate and the Speaker of the House of Representatives on June 29, 2012.

Pursuant to Chapter 2012-127, Laws of Florida, the audit and review was to encompass, at a minimum, a review of the corporation's assets, liabilities, income, and operating expenses; the internal management, financial and operational controls employed, and programmatic decision making processes used; the governance, direction, and oversight provided by the Florida Housing Finance Corporation Board of Directors; and the performance outcomes of the programs administered by the Florida Housing Finance Corporation. The audit and review was also to include formulation of recommendations to the Legislature for changes to the structure, governance, and operational processes of the Florida Housing Finance Corporation. As presented in the work plan, the Auditor General's primary responsibility was for audit of the Corporation's assets, liabilities, income, and operating expenses and the internal management and financial and operational controls employed, while OPPAGA was primarily responsible for reviewing the programmatic decision making processes used; the governance, direction, and oversight provided by the Florida Housing Finance Corporation Board of Directors; and the performance outcomes of the programs administered by the Florida Housing Finance Corporation. This report, along with report No. 12-10 issued by OPPAGA, presents the results of the joint audit and review.

Pursuant to Section 420.511(4), Florida Statutes, the Corporation obtained an annual financial audit of its accounts and records conducted by an independent certified public accountant and performed in accordance with generally accepted auditing standards and government auditing standards. We reviewed the reported results of those audits for the years ended December 31, 2011, 2010, 2009, 2008, and 2007, and performed additional auditing procedures to evaluate selected Corporation financial transactions and the controls established to achieve Corporation management's objectives in the categories of compliance, economic and efficient operations, reliability of financial records and reports, and safeguarding of assets.

We conducted this operational audit from July 2012 through October 2012 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.

This operational audit focused on Corporation assets, liabilities, income, and operating expenses and internal management, financial, and operational controls. The overall objectives of the audit were:

- To evaluate Corporation management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine Corporation internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this

audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period January 2007 through June 2012, and selected actions through October 2012. In conducting our audit we:

- Obtained an understanding of the regulatory compliance environment in which the Corporation operates.
- Evaluated the extent to which Corporation procedures relevant to assets, liabilities, income (revenues), and operating expenses reasonably ensured compliance with selected key provisions of law, rule, regulation, and contracts.
- Reviewed documentation related to Board member appointments, Board bylaws, and meeting minutes, as well as conflict of interest forms to determine whether the Board was involved at an appropriate level in directing and controlling the financial operations of the Corporation.
- Evaluated the extent to which the Corporation had developed, communicated, and placed in operation policies and procedures relevant to financial operations and determined whether Corporation management effectively monitored implementation of the policies and procedures.
- Determined the extent to which the Corporation had established and implemented an effective enterprise risk management program.
- Evaluated the effectiveness of the Corporation's internal audit function and the extent of Corporation compliance with Section 20.055, Florida Statutes, and applicable internal audit standards by reviewing the internal audit activity charter, the function's organizational placement and reporting lines, documentation of activities performed, and internal audit staff qualifications and training.
- Determined whether the Corporation had established and implemented fraud awareness programs and whether there was evidence of due diligent detection and investigation of any alleged fraud.
- Determined whether the Corporation had established an effective conflict of interest policy to address self-interests and related-party concerns.
- Evaluated the Corporation's processes for measuring the effectiveness of the performance and the controls of service organizations employed by the Corporation.

- Obtained an understanding of the Corporation's significant information technology (IT) systems, evaluated whether selected general and application IT controls were in place, and tested the effectiveness of the controls as they related to the scope of the audit.
- Determined Corporation compliance with selected key provisions of laws, rules, regulations, and contracts, by testing selected asset, liability, income (revenue), and operating expense transactions.
- Evaluated the effectiveness of Corporation processes designed to ensure that single family homeownership assets were adequately accounted for, reported, and safeguarded.
- Evaluated the effectiveness of Corporation processes designed to ensure that multifamily revenue bond assets were adequately accounted for, reported, and safeguarded and tested draws of bond proceeds totaling \$143,724,430 made during the 2007 through 2011 years.
- Evaluated the effectiveness of Corporation processes designed to ensure that State and Federal loans receivable assets were adequately accounted for, reported, and safeguarded and tested draws of State Apartment Incentive Loan Program proceeds totaling \$80,125,000 made during the 2007 through 2011 years.
- Evaluated Corporation policy related to the safeguarding of cash and cash equivalents and tested \$317,216,924 of the Corporation's cash and cash equivalents totaling \$419,176,695 at December 31, 2011, to determine whether the cash and cash equivalents were held in financial institutions and money market instruments in accordance with Corporation policy.
- Evaluated the Corporation's investment policy and determined the extent to which Corporation investments valued at \$2,892,905,669 as of December 31, 2011, complied with the investment policy and applicable laws.
- Evaluated the Corporation's process for procuring external investment manager services and for monitoring the performance and compliance of the Corporation's two external investment managers who managed Corporation investments valued at \$361,170,472 as of December 31, 2011.
- Evaluated the effectiveness of the strategies employed in the Corporation's loan making and underwriting procedures including those employed during the uniform application cycle.
- Evaluated the effectiveness of Corporation collection procedures, including procedures for collecting delinquent accounts receivable and loans.
- Evaluated the Corporation's bond issuance and debt service payment processes, including the reasonableness of bond issuance costs, and for six single family and four multifamily bonds totaling \$1,618,050,000 from the population of new bond issues during the 2007 through 2011 years totaling \$2,946,433,478, tested Corporation compliance with established processes.
- Examined documentation related to \$1,160,328 of the Corporation's \$38,354,192 deferred fees⁴⁴ for the 2007 through 2011 years to determine whether applicable fees were deferred at the beginning of the project and amortized or otherwise reduced as the projects aged.
- Evaluated the Corporation's quality assurance program to determine whether the Corporation had implemented an effective process for monitoring trustee and borrower compliance with bond covenants.
- Evaluated the extent to which Corporation procedures promoted the safe, proper, and legally conforming operation of guarantee programs.
- Evaluated the extent to which the Corporation ensured that receipts were properly safeguarded and accurately recorded by obtaining an understanding of the Corporation's controls over the revenue process, and by tracing selected revenue transactions from receipt to recording in Corporation financial records.
- Evaluated the reasonableness of Corporation operating costs in comparison to those incurred by similar entities with similar functions.

⁴⁴ Certain administrative and monitoring fees collected under the various programs are deferred and amortized over the life of the loan or set-aside period.

- Examined expense transaction documentation for the period January 2010 through June 2012 for selected transactions to determine whether Corporation operating expenses were properly authorized, accurately paid, adequately documented, and made in accordance with applicable laws, rules, contractual agreements, and other guidelines. Specifically:
 - From the population of approximately 8,300 salary transactions totaling \$19,097,139, tested 40 salary payments totaling \$107,145.
 - From the population of 16,933 general and administrative operating expenses totaling \$36,733,841, tested 35 general expense transactions totaling \$372,444 and 5 other administrative expense transactions totaling \$1,784,786.
 - From the population of 827 travel expenses totaling \$385,175, tested 40 travel expense transactions totaling \$43,911.
- Evaluated the economy of Corporation purchasing and procurement policies, procedures, and practices by comparing written policies and procedures to contracting practices employed by other public entities and by examining documentation for 15 contracts with payments totaling \$9,388,666 made during the period January 2007 through June 2012.
- Evaluated the effectiveness of Corporation policies and procedures for ensuring that tangible personal property with a net value of \$33,251 at December 31, 2011, was properly recorded and adequately safeguarded.
- Determined whether Corporation procedures required due diligence be employed in processes to approve projects, issue loans, and purchase securities and investments.
- Evaluated the Corporation's process for determining and documenting the eligibility of projects, providers, and clients for the First Time Homebuyer Program, Mortgage Credit Certificates Program, Down Payment Assistance Program, Homeownership Pool Program, State Apartment Incentive Loan Program, Housing Credit Program, Multifamily Mortgage Revenue Bonds Program, HOME Investment Partnership Program, and Hardest Hit Fund Program.
- Evaluated the Corporation's process for monitoring participant compliance with program requirements for the State Housing Initiative Partnership Program, Multifamily Mortgage Revenue Bond Program, and Hardest Hit Fund Program.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Communicated on an interim basis with applicable Corporation officials to ensure the timely resolution of issues involving controls and noncompliance.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe those matters requiring corrective actions.

AUTHORITY

Chapter 2012-127, Laws of Florida, required that, the Auditor General and the Office of Program Policy Analysis and Government Accountability jointly conduct an audit and review of the programs and operations of the Florida Housing Finance Corporation and submit a written report to the President of the Senate and the Speaker of the House of Representatives no later than December 1, 2012. The audit procedures performed by the Auditor General are described in the **OBJECTIVES, SCOPE, AND METHODOLOGY** section of this report.

Pursuant to the provisions of Section 11.45, Florida Statutes, and Chapter 2012-127, Laws of Florida, I have directed that this report be prepared to present the results of our audit.

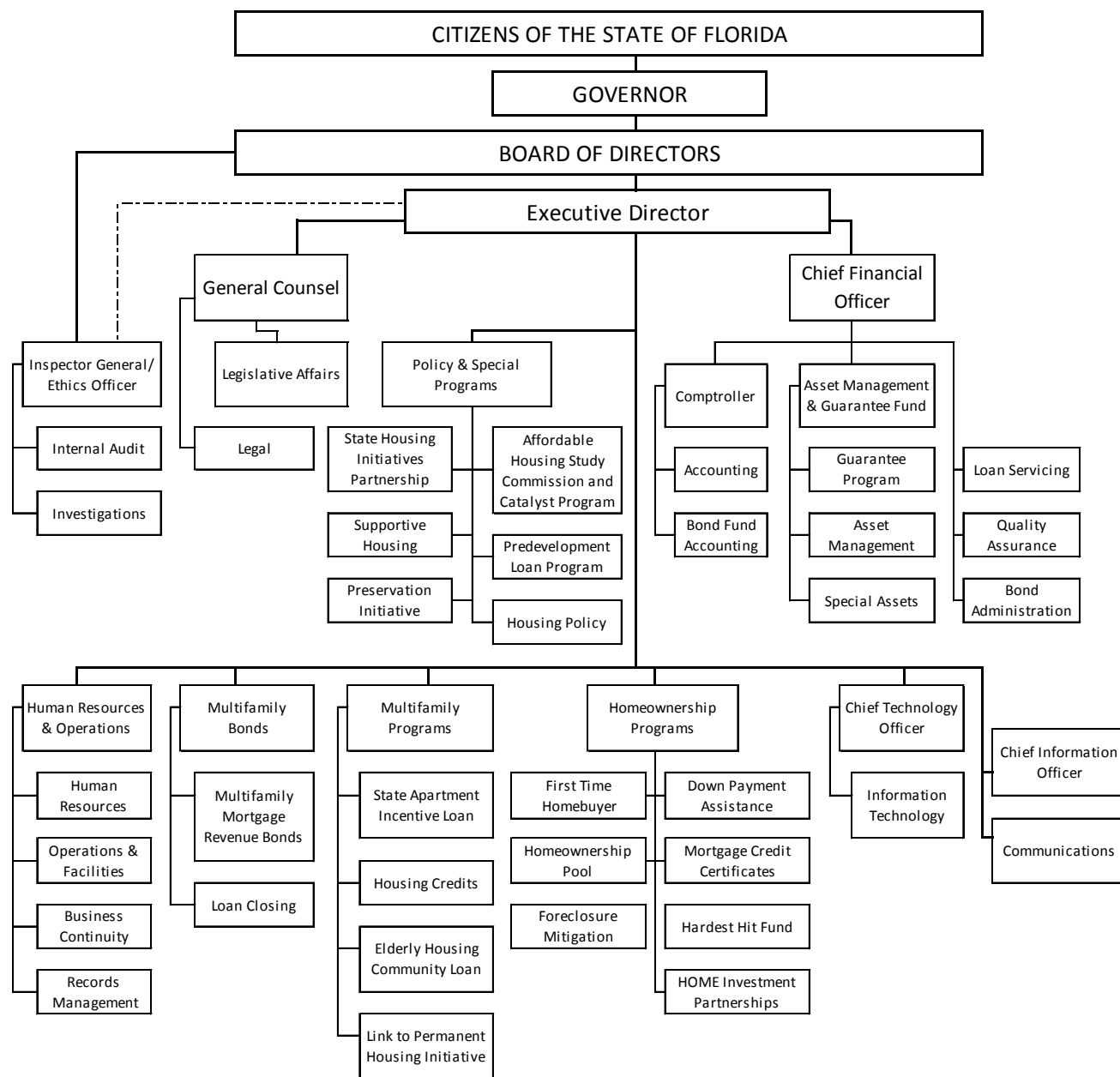


David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

In a letter dated November 21, 2012, the Executive Director of the Corporation provided a response to our audit findings and recommendations. The Executive Director's response is included as **EXHIBIT B**.

EXHIBIT A
CORPORATION ORGANIZATIONAL CHART
AS OF JUNE 2012



Source: Florida Housing Finance Corporation.

EXHIBIT B
MANAGEMENT'S RESPONSE



227 North Bronough Street, Suite 5000 • Tallahassee, Florida 32301
850.488.4197 • Fax: 850.488.9809 • www.floridahousing.org

November 21, 2012

Mr. David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

In accordance with Section 11.45(4)(d), Florida Statutes, enclosed is our response to the Auditor General's October 26, 2012, preliminary and tentative audit findings and recommendations based on your operational audit of Florida Housing Finance Corporation.

We appreciate the time and energy put forth by your staff, and your efforts to improve the operations of Florida Housing Finance Corporation.

If you have any questions, please contact Stephanie Sgouros, Inspector General, at (850) 488-4197.

Sincerely,

A handwritten signature in blue ink, appearing to read "S. Auger", is placed above the printed name.

Stephen P. Auger
Executive Director

SPA/saf

Enclosure

cc: Len Tylka, Chairman
Cliff Hardy, Vice Chairman
Hunting Deutsch, Executive Director, Department of Economic Opportunity
Stephanie Sgouros, Inspector General

Rick Scott, Governor

Board of Directors: Leonard Tylka, Chairman • Ken Reecy, Florida Department of Economic Opportunity
Marilyn L. Carl • Mary L. Demetree • Lynn Hanfman • Clifford Hardy • Natacha Munilla • Jose "Joe" Sanchez • Bernard "Barney" Smith
Executive Director: Stephen P. Auger

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Florida Housing Finance Corporation
Response to Findings and Recommendations
Auditor General Operational Audit

No. 1: Annual Compliance Audit

Recommendation:

We recommend that the Corporation ensure future compliance with the statutory requirement related to an annual compliance audit of the Corporation's programs. In addition, we recommend that the Legislature consider revising Section 420.511(4), Florida Statutes, to identify those Corporation programs that should be subject to an annual compliance audit.

Response:

Florida Housing currently has annual audits performed by independent certified public accountants in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS). Florida Statutes require that compliance of programs be tested in accordance with these auditing standards. In addition, because Florida Housing administers federal financial assistance programs, annual audits are performed by independent certified public accountants in accordance with OMB Circular A-133, which outlines specific audit procedures to test internal controls and compliance for certain federal programs deemed to be major programs. GAS requires specific consideration of Florida Housing's internal control over financial reporting and the compliance with laws, regulations, contracts and grant agreements and other matters. A separate report on this compliance, which includes state programs and federal programs that are not subject to the OMB Circular A-133 audit, is part of Florida Housing's submission to legislative leadership each year. Based on these considerations, we believe the annual audits performed and included in the annual submission comply with current statutory requirements and provide sufficient information to assess Florida Housing's internal control and compliance of its programs. To require a separate compliance or performance audit for each program administered by Florida Housing (although not required by GAAS or GAS) would increase annual audit fees.

Should the Legislature decide to revise Section 420.511(4), Florida Housing will provide them with any information needed for the revisions.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

No. 2: Internal Audit Activity

Recommendation:

To provide a reliable method for planning projects and measuring productivity, we recommend that the OIG implement a process to track staff time by project and activity. In addition, the OIG should work with the Board and Corporation management to ensure that an appropriate balance is maintained between audits and other OIG activities. We also recommend that the OIG timely submit risk-based work plans and annual reports to Corporation management and the Board.

Response:

Florida Housing agrees with this recommendation and expects to implement a system to track OIG staff project time in 2013. The OIG will work with the Board and management to ensure an appropriate balance is maintained between audits and other OIG activities and that all future plans and reports are timely submitted as required by Statute.

No. 3: Transparency of Operating Fund Unrestricted Net Assets

Recommendation:

We recommend that the Corporation disclose in the notes to its annual financial statements the amount of unrestricted net assets designated for each described purpose. In addition, the Corporation should ensure that the Board meeting minutes document the Board's authorization of the designations.

Response:

Florida Housing will provide the additional information in its footnote on unrestricted net assets. As has been the practice for over 10 years, the acceptance of the annual financial statements will continue to occur at the June Board meeting each year.

No. 4: Monitoring of Externally Managed Investments

Recommendation:

We recommend that the Corporation adopt written procedures for monitoring investment compliance with Corporation investment guidelines. Such procedures should require that, when investments experience a downgrade below the limits established in the investment guidelines, applicable Corporation management be alerted so that appropriate responses can be determined.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Response:

Florida Housing's process for handling downgraded investments has been formalized and incorporated into its written investment guidelines.

No. 5: Public Deposits Program Compliance

Recommendation:

To ensure that the Corporation's deposits are adequately safeguarded from loss, we recommend that the Corporation comply with the Public Deposits Program requirements.

Response:

Florida Housing accepts this recommendation and is now in compliance with the program's requirements.

No. 6: Hardest Hit Fund Program Review

Recommendation:

We recommend that the Corporation continue its efforts to address the observations of HHF Program noncompliance noted in the Treasury *Review* report.

Response:

Florida Housing agrees with this recommendation and will continue efforts to address the observations of the Treasury Review report.

No. 7: Hardest Hit Program Recipient Eligibility

Recommendation:

We recommend that the Corporation ensure that Program advisor agencies obtain and maintain sufficient documentation to evidence that eligibility determinations were made in accordance with Program guidelines and that individuals who were determined ineligible were properly notified in accordance with the Corporation's HHF Program Procedures Manual.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Response:

Florida Housing agrees with this recommendation. As this recommendation is similar to the issues identified in the Treasury Review report, Florida Housing will continue its efforts to address them as set forth in our response to that report.

No. 8: Cost Allocation

Recommendation:

We recommend that the Corporation revise its cost allocation methodology to include only those costs that are allowable according to OMB Circular A-87. In addition, the Corporation should ensure that the allocation methodology results in an appropriate and equitable distribution of costs to its Federal awards programs

Response:

Florida Housing will continue to ensure that only allowable costs are charged to Federal programs. As discussed with the Office of the Auditor General, Florida Housing's practice is to perform a final review of each year's costs after completion of the annual audit. Any adjustments to the previous year's allocation are identified at that time, and are applied to the current year's draws. Florida Housing has also implemented a process to document actual employee activity in each federal program, and now makes adjustments to salaries based on this documentation.

No. 9: Board Member Conflicts of Interest

Recommendation:

We recommend that the Corporation revise its *Personnel Policies and Procedures Handbook* to specify a time period within which a written conflict of interest disclosure must be provided. In addition, the Corporation should ensure that written conflict of interest disclosures are timely filed and incorporated into the applicable Board meeting minutes.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Response:

Florida Housing agrees with this Recommendation. Florida Housing will revise and include more detailed procedures in its *Personnel Policies and Procedures Handbook* for conflict of interest disclosures that detail a time frame for providing such disclosures and for ensuring that they are incorporated into the applicable Board meeting minutes.

No. 10: Purchasing Guidelines and Contracts

Recommendation:

We recommend that the Corporation:

- Amend its single source procurement policy to require Board approval of single source contracts with estimated costs in excess of \$25,000.
- Ensure that contracts include a clear description of deliverables.
- Ensure that contract files contain explanations for significant changes in contract amounts.
- To protect the interests of the Corporation and the State, ensure that its contract documents specify the contract effective dates and the contract's total maximum amount payable.
- Ensure compliance with the statutory contract reporting requirements.
- Establish a means for tracking contract payments for each contract.

Response:

Florida Housing agrees with the first, second, third and fifth bullets of this recommendation and will amend its contracting rules and procedures accordingly.

Regarding the fourth bullet, Florida Housing enters into long term contracts for services related to affordable housing development transactions. These include credit underwriting, compliance monitoring, and loan servicing. These services take place over the time the development is in Florida Housing's portfolio; this time frame can be as long as 50 years. Each type of service is priced in the contract, and once a transaction is assigned under a contract, that contract specifies the services (as needed) to be carried out for the transaction through its entire life cycle in the portfolio. However, the services and number of transactions that will be assigned under the contract are unknown when the contract is signed. The amount spent under a contract will be determined by the number and type of development transactions awarded through the Corporation's various funding cycles. Future funding available through these cycles is often unknown or can only be guessed at (based on federal and state appropriations, as well as changes in the financial market). The servicing needs of each transaction also change over time based on the broader financial market, the property owner's financial

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

needs/decisions and potential compliance issues that might arise. The vast majority of services provided under these contracts are paid for directly by the developments and are not a liability of the Corporation. The State is not liable for the payment of any services under these contracts.

Assigning a maximum amount to these contracts will not limit the types or number of services provided under the contract; it will, however, create inefficiencies by adding an avoidable administrative process to amend contracts when the arbitrary maximum amounts are reached. In addition, opening a contract to amendment at a much later date provides an opportunity for the counterparty to discuss fee increases, which would result in greater overall costs for Florida Housing and the development.

Regarding the last bullet, Florida Housing tracks payments by vendor and expenses are controlled through its operating budget process. Since many contracts are not subject to maximum amounts, the Florida Housing believes its payment tracking processes for these contracts is sufficient.

No. 11: Service Organization Controls

Recommendation:

We recommend that the Corporation work with its service organizations to ensure that the service organizations obtain and timely submit to the Corporation the contractually required SSAE 16 SOC 1 Type II reports. The Corporation should consider the information provided by these reports when monitoring and evaluating the performance of its service organizations.

Response:

Florida Housing receives SSAE 16 SOC 1 Type II reports or similar reports from a variety of service organizations. Among the services provided by these service organizations are: trust services, loan servicing, credit underwriting services, compliance monitoring, and construction loan servicing. As mentioned in the finding, prior to the contracts signed at the end of 2011 for certain of these service organizations, there was no contractual requirement to submit SSAE 16 SOC 1 Type II reports to Florida Housing. No work was performed under the terms of the contracts signed in late 2011 until well into 2012. Based on the timing of actual work commencement under the 2011 contracts, the first required reports from these service organizations will be due in 2013 for the 2012 year. Voluntarily, two of the three service organizations identified in the finding began supplying SSAE 16 SOC 1 Type II reports or similar reports in 2009. Florida Housing will continue to monitor the receipt of all of the SSAE 16 SOC 1 Type II reports, now required on an annual basis, and examine the results accordingly. Florida Housing will incorporate into the Quality Assurance Review scope of work for each service

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

organization confirmation that the SSAE 16 SOC 1 Type II report was received timely from the service organization and note any exceptions identified in the report requiring follow up with the service organization. Similar to previous years, Florida Housing will also evaluate user control considerations that should be in place and operating at Florida Housing in order to be able to rely on the SSAE SOC 1 Type II reports.

No. 12: Employee Background Screenings

Recommendation:

We recommend that the Corporation identify those positions that should be subjected to a background screening. For the positions identified, the Corporation should ensure the timely conduct of background screenings and that any matters disclosed by the screenings be appropriately considered and acted upon.

Response:

Florida Housing agrees with this recommendation, and its policy on employee background checks is undergoing final review for expected implementation in December 2012.

No. 13: Verification of Employee Education and Work Experience

Recommendation:

We recommend that the Corporation enhance its procedures to ensure that the education and work experience of prospective employees are verified prior to employment and that appropriate documentation is retained in employee personnel files.

Response:

Florida Housing agrees with this recommendation and has instituted a checklist completed by Human Resources staff that documents completion of each required step in the hiring process. This includes obtaining documentation of education and work experience prior to employment and maintaining the information in the personnel file.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

No. 14: Travel Expenses

Recommendation:

We recommend that the Corporation amend its travel policy to conform with the requirements of State law. In addition, we recommend that, prior to reimbursing travel related to conference attendance, the Corporation ensure that the traveler has provided the conference agenda.

Response:

Florida Housing does not agree that the state travel policies derived from Section 112.061, Florida Statutes, govern Florida Housing's travel. Florida Housing is expressly made subject to a number of specific statutory provisions, among them Section 112.313, Florida Statutes. The Legislature saw fit to make only one section of Chapter 112 applicable to Florida Housing. Where, as here, there is an inclusion of a specific section of one statute along with the absence of any other, the general maxim of statutory construction, *inclusio unius est exclusio alterius* has led to the finding that other provisions of Chapter 112 do not apply to Florida Housing. See, Commission on Ethics Opinion 08-19 (concluding that Section 112.3215 is inapplicable to Florida Housing).

Section 420.506(1), Florida Statutes, provides: The board is authorized, notwithstanding the provisions of s. 216.262 [Authorized Positions], to develop and implement rules regarding the employment of employees of the corporation and service providers, including legal counsel. *The board of directors of the corporation is entitled to establish travel procedures and guidelines for employees of the corporation.* As Section 112.061 is comprehensive and detailed, it is difficult to imagine what "travel procedures and guidelines" the Board would be authorized to make. Statutes must be read to have meaning; if Section 112.061 applies to Florida Housing travel, then this provision in Section 420.506(1) is meaningless. Florida Housing was established as an entrepreneurial business entity to allow for flexibility to meet the challenges of operating as a financial institution. Toward that end, Florida Housing was relieved of a number of strictures imposed on state agencies. The federal travel guidelines were selected because they are widely used and accepted, published by an independent authority, are updated regularly, allow for cost differences between localities and do not create a tax or reporting burden. No state funds have been appropriated for Florida Housing operations since 2004; state program funding has been intermittent for four years. State funds are not used for travel reimbursement or per diem.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Further, Section 420.515, Florida Statutes, addresses conflicts with other statutes, providing: Insofar as the provisions of this part are inconsistent with the provisions of any other law, general, special, or local, the provisions of this part shall be controlling. Florida Housing understands that the Legislature meant "**any** other law" that is inconsistent, and not "any other law except for . . ." Florida Housing understands that as this provision is inconsistent with Section 112.061(1)(b), it may require the Courts or the Legislature to address the inconsistency. The Legislature has revisited Part V of Chapter 420 almost every year since Florida Housing was established, and has not deemed it necessary to disturb this provision.

As part of the travel review process, Florida Housing will continue to verify that conference agendas are attached to reimbursement requests and to follow up with travelers as needed.

No. 15: Operating Expenses

Recommendation:

We recommend that the Corporation ensure that documentation for any future employee bonuses be supported by appropriate justification. We also recommend that the Corporation ensure that its expenses always serve an authorized public purpose and are clearly necessary to the performance of the Corporation's statutory duties.

Response:

Florida Housing has historically required justification for bonuses, but this support was not always written and attached to the payment documentation. On September 28, 2012, the Corporation reduced its bonus policy to writing. The bonus policy requires appropriate documentation accompany the request for and payment of bonuses.

No definition of "authorized public purpose" is provided, so we look to the "purpose of the corporation," as described in Section 420.504 (1), Florida Statutes: "Florida Housing Finance Corporation constitutes an entrepreneurial public corporation organized to provide and promote the public welfare by administering the governmental function of financing or refinancing housing and related facilities in Florida." As does any entrepreneurial enterprise, Florida Housing operates on the belief that a small investment in employee morale is a worthwhile gesture, aimed at increased productivity, and is in furtherance of Florida Housing's mission, to provide affordable housing. Florida Housing will continue to ensure that all expenses are reasonable and necessary to support and further our public purpose.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

No. 16: Tangible Personal Property

Recommendation:

We recommend that the Corporation amend its *Capital Assets Procedures* to include the assignment of property custodians, address separation of duties during the conduct of physical inventories, require that portable and attractive items costing less than \$5,000 be added to the property records and included in the annual physical inventory process, and ensure that a physical verification of all property items is conducted at least once every year.

Response:

Florida Housing has begun the process of amending its Capital Assets Procedures to include the recommendations made by the Office of the Auditor General. The amended procedures will be implemented for the next annual physical inventory.