

**FLORIDA HOUSING
FINANCE CORPORATION**

Audit Performed Pursuant to
Chapter 2013-83, Laws of Florida



Sherrill F. Norman, CPA
Auditor General

Board of Directors and Executive Director of the Florida Housing Finance Corporation

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

During the period of our audit, Stephen P. Auger served as Executive Director of the Corporation and the following individuals served as Board members:

Board Members

Citizen Representative	Bernard "Barney" Smith, Chairman
Commercial Building Industry Representative	Natacha Munilla, Vice Chair
Residential Home Building Industry Representative	Len Tykla
Banking or Mortgage Banking Industry Representative	Brian Katz
Citizen Representative	Ray Dubuque
Low Income Advocate with Experience in Housing Development Representative	John David Hawthorne Jr.
Former Local Government Elected Official Representative	Renier Diaz de la Portilla, from March 2, 2015 Vacant through March 1, 2015
Home Building Labor Representative	Howard Wheeler, from March 28, 2014 Vacant through March 27, 2014
Department Executive Director Designee	Vacant from November 4, 2015, through December 31, 2015 Bill Killingsworth, through November 3, 2015

The team leader was Joshua T. Barrett, CPA, and the audit was supervised by Allen G. Weiner, CPA.

Please address inquiries regarding this report to Christi Alexander, CPA, Audit Manager, by e-mail at christialexander@aud.state.fl.us or by telephone at (850) 412-2786.

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FLORIDA HOUSING FINANCE CORPORATION

SUMMARY

As required by Chapter 2013-83, Laws of Florida, the Auditor General conducted an operational audit of the Florida Housing Finance Corporation (Corporation). Our audit focused on the Corporation's Quality Assurance Review Program, the Hardest Hit Fund, the State Housing Initiatives Partnership Program, and selected administrative activities and also included a follow-up on the findings noted in our report No. 2013-047. Our audit disclosed the following:

Quality Assurance Review Program

Finding 1: The Corporation contracted with service organizations to perform, among other things, credit underwriting, loan servicing, and compliance monitoring services. As similarly noted in our report No. 2013-047, the Corporation had not documented the service organization controls relied upon by the Corporation or always ensured that related service auditor's reports clearly and specifically addressed the design and operating effectiveness of all applicable controls. In addition, the Corporation did not always verify that the service organizations monitored and evaluated the adequacy and effectiveness of controls established by subservice organizations.

Finding 2: Corporation processes for conducting quality assurance reviews need enhancement to ensure that risk assessments are documented and include criteria to assess the risks associated with specific functions performed by the Corporation and its service organizations.

Hardest Hit Funds

Finding 3: Corporation controls for reassessing applicant eligibility for certain Hardest Hit Fund programs need enhancement.

Finding 4: The Corporation should work with the Legislature to ensure that the Corporation is authorized to conduct level 2 background screenings on all personnel designated as holding a position of special trust. In addition, the Corporation did not ensure that non-Corporation personnel with CounselorDirect¹ user access privileges were subject to appropriate background screenings.

Finding 5: The Corporation had not conducted periodic reviews of user access privileges to CounselorDirect or always ensured that access privileges granted to non-Corporation personnel were timely deactivated after the privileges were no longer required.

State Housing Initiatives Partnership (SHIP) Program

Finding 6: Improvements in Corporation controls over the electronic transfer of SHIP Program funds to subrecipients were needed.

¹ CounselorDirect is a self-guided, Web-based tool that enables consumers to apply for State and Federal mortgage assistance programs and is used by underwriters to process consumer applications. CounselorDirect maintains confidential applicant records such as social security numbers and Corporation and non-Corporation personnel utilized CounselorDirect to administer Hardest Hit Fund programs.

Selected Administrative Activities

Finding 7: Corporation expenses associated with a lender appreciation dinner and receptions for the Corporation's Board of Directors (Board) did not appear to be clearly necessary to the performance of the Corporation's statutory duties, commensurate with the recognition programs authorized by State law, or limited to the amounts provided by State law.

Finding 8: Corporation policies and procedures for employee bonuses did not specify a methodology for calculating bonus amounts or determining the total amount of funds available for bonuses. Additionally, Corporation records did not evidence Board approval prior to awarding bonuses, totaling \$12,500, to the Corporation's Inspector General in 2014 and 2015.

Finding 9: Corporation policies and procedures need enhancement to ensure that Board members disclose, in writing, all direct or indirect conflicts of interest and recuse themselves from participating in any action where a conflict of interest related to a Board agenda item is encountered.

Finding 10: The Corporation had not established a mechanism for tracking the payments made under each Corporation contract. A similar finding was included in our report No. 2013-047.

Finding 11: Corporation controls continue to need improvement to ensure that all property items of a portable and attractive nature are properly recorded and accounted for in Corporation records.

Finding 12: The Corporation had not established policies and procedures for the collection and use of social security numbers or evaluated its collection and use of social security numbers to ensure compliance with State law.

Finding 13: Corporation controls for reviewing the appropriateness of network, OnBase, and ShareFile user access privileges need enhancement. Additionally, the Corporation did not always timely deactivate employee access privileges to the network, OnBase, or ShareFile upon an employee's separation from Corporation employment.

Finding 14: Certain security controls related to audit logging and monitoring of OnBase and Corporation network activity need improvement to better ensure that inappropriate or unauthorized system activity, should it occur, is timely detected and resolved.

BACKGROUND

The Florida Housing Finance Corporation Act (Act)² established 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 the State. State law³ establishes the Corporation as a public corporation and a public body corporate and politic and specifies that the Corporation is not a department of the executive branch of State government within the scope and meaning of the State Constitution,⁴ but is functionally related to the Department of Economic Opportunity (Department) in which it is placed. The Corporation is a separate budget entity and its

² Chapter 97-167, Laws of Florida, and codified in Sections 420.501 through 420.55, Florida Statutes.

³ Section 420.504(1), Florida Statutes.

⁴ Article IV, Section 6 of the State Constitution.

operations, including those related to personnel, purchasing, transactions involving real or personal property, and budgetary matters, are not subject to control, supervision, or direction by the Department in any manner.

State law⁵ provides the Corporation with all the powers necessary or convenient to carry out and effectuate the purposes and provisions of the Act. These powers include, but are not limited to, the ability to:

- Undertake and carry out studies and analyses of housing needs within the State and ways of meeting those needs.
- 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.
- 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.

State law⁶ specifies that the Corporation is constituted as a 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 Corporation is required to adhere to certain enumerated provisions of State law outside the Act. However, the Act provides that, notwithstanding the provisions of certain State laws,⁷ the Corporation may establish its own rules or guidelines.

State law⁸ provides that the Executive Director is to employ legal and technical experts and such other agents and employees, permanent and temporary, as the Corporation may require. According to Corporation records, as of December 2015, the Corporation employed 127 individuals to carry out the Corporation's responsibilities. During the year ended December 31, 2015, the Corporation paid salaries and benefits totaling approximately \$11.3 million.

FINDINGS AND RECOMMENDATIONS

QUALITY ASSURANCE REVIEW PROGRAM

Pursuant to State law,⁹ the Corporation is authorized to make and execute agreements, contracts, and other instruments necessary or convenient in the exercise of the Corporation's powers or functions. To help execute its responsibilities, the Corporation utilizes service organizations to perform, among other

⁵ Section 420.507, Florida Statutes.

⁶ Section 420.504(2), Florida Statutes.

⁷ Chapter 282, Part I, Chapter 287, and Section 216.262, Florida Statutes.

⁸ Chapter 420.506(1), Florida Statutes.

⁹ Sections 420.507(20), Florida Statutes.

things, credit underwriting, loan servicing, compliance monitoring, trustee services, and payroll services. To provide oversight of the service organizations, the Corporation established the Quality Assurance Review Program (QARP) to evaluate the service organizations' performance and compliance with applicable laws, rules, contract terms, and other guidelines. In addition, the QARP reviews the administration of certain Corporation programs, such as demonstration loans and the State Housing Initiatives Partnership Program.

Finding 1: Service Organization Controls

As the Corporation contracts with service organizations to help execute its statutory responsibilities, it is incumbent upon the Corporation to take steps to reasonably ensure that service organization controls relevant to the services performed on behalf of the Corporation are suitably designed and operating effectively. Accordingly, Corporation contracts required service organizations to provide to the Corporation reports prepared in accordance with Statement on Standards for Attestation Engagements No. 16 (SSAE 16), *Reporting on Controls at a Service Organization*, that described the results of a service auditor's examination of the design and effectiveness of the service organization's relevant internal controls. The SSAE 16 reports were to be provided to the Corporation no later than the last day of the first quarter of each calendar year and QARP staff were responsible for reviewing the SSAE 16 reports utilizing a standard checklist.

During the period January 2014 through December 2015, QARP staff obtained and reviewed 30 SSAE 16 reports prepared for 11 service organizations utilized by the Corporation. As part of our audit, we examined 12 of the SSAE 16 reports (related to 6 service organizations) and the applicable QARP checklists. As similarly noted in our report No. 2013-047 (finding No. 11), our examination disclosed that Corporation controls for reviewing SSAE 16 reports were not sufficient to ensure that all service organization controls relied upon by the Corporation were clearly and specifically addressed in the reports. Specifically, our audit procedures found that QARP staff were not required to document the relevant service organization controls relied upon by the Corporation. Instead, QARP staff were only required to indicate on the checklists whether any issues were noted with the controls identified in the SSAE 16 reports. Consequently, we noted that:

- Two SSAE 16 reports related to one service organization did not clearly and specifically address controls related to the credit underwriting, loan servicing, and compliance monitoring services performed for the Corporation.
- Two SSAE 16 reports related to one service organization noted that the service organization utilized a subservice organization to perform services such as data center hosting, data storage, and data backup. The reports indicated that the service auditor did not perform any audit procedures related to, and provided no opinion regarding, the design or operating effectiveness of the subservice organization's controls. In response to our audit inquiry, Corporation management indicated that the service organization was responsible for monitoring the subservice organization and noted that the SSAE 16 reports included statements indicating that the service organization acknowledged that responsibilities for the subservice organization's services were reflected in both its service agreements as well as the subservice organization's SSAE 16 reports. However, our audit procedures disclosed that the Corporation had not verified that the service organization had monitored and evaluated the adequacy and effectiveness of the subservice organization's controls, nor do such statements in SSAE 16 reports provide sufficient

assurance that the controls of the subservice organization relied upon were adequate and operating effectively.

The establishment of procedures to document all service organization controls relied upon by the Corporation would better facilitate the Corporation's assessment of whether service organization SSAE 16 reports clearly and specifically address the design and operating effectiveness of all relevant controls. Additionally, when service organizations utilize subservice organizations to perform services for the Corporation, assurance that the design and operating effectiveness of the subservice organization's controls have been appropriately evaluated is necessary.

Recommendation: We recommend that Corporation management enhance procedures for documenting the service organization controls relied upon by the Corporation and work with its service organizations to ensure that SSAE 16 reports clearly and specifically address the design and operating effectiveness of all relevant controls. We also recommend that Corporation management enhance procedures to verify that service organizations monitor and evaluate the adequacy and effectiveness of subservice organization controls or otherwise ensure that subservice organization SSAE 16 reports provide the necessary assurances.

Finding 2: Quality Assurance Review Activities

Corporation rules¹⁰ require applicants for Multifamily Mortgage Revenue Bonds (MMRB), Housing Credits (HC), and the State Apartment Incentive Loan Program (SAIL) to go through the credit underwriting process, including a comprehensive analysis of their application, before a recommendation regarding the application is made to the Corporation's Board of Directors. Corporation rules¹¹ further require the Corporation to monitor SAIL and the MMRB and HC programs for compliance and reporting requirements. To carry out these responsibilities, the Corporation contracted with three service organizations to perform credit underwriting, compliance monitoring, and loan servicing functions. During the period January 2014 through December 2015, the three service organizations reviewed applications, issued 169 credit underwriting reports, and performed 1,788 compliance monitoring reviews.

As previously noted, the Corporation relied on the QARP to monitor service organization performance and the administration of certain Corporation programs. According to Corporation management, the QARP conducted annual risk assessments which served as the basis for QARP annual work plans. During the period January 2014 through December 2015, QARP staff completed 16 quality assurance reviews of various service organization and Corporation activities, including, but not limited to, compliance monitoring conducted by a service organization. As part of our audit, we evaluated established QARP guidelines and processes and noted that:

- The QARP had not documented the risk assessment used to develop the 2014 or 2015 work plans, nor did the risk assessment criteria Corporation management indicated had been used address the specific functions performed by the Corporation and the service organizations utilized by the Corporation.
- QARP staff did not review the three service organizations' credit underwriting¹² or loan servicing functions during the period January 2014 through December 2015, and, as noted in Finding 1,

¹⁰ Corporation Rules 67-21.014, 67-21.026, and 67-48.0072, Florida Administrative Code.

¹¹ Corporation Rule 67-53.008, Florida Administrative Code.

¹² Credit underwriting was last subject to QARP review in 2005.

Corporation controls for reviewing service organization SSAE 16 reports were not sufficient to ensure that all controls relied upon by the Corporation were clearly and specifically addressed in the reports.

Absent a documented risk assessment that includes criteria for assessing the risks associated with the specific functions performed by the Corporation and those performed by the service organizations utilized by the Corporation, Corporation management's ability to demonstrate that all applicable Corporation activities and service organization functions are appropriately subjected to QARP review is limited.

Recommendation: We recommend that Corporation management document the QARP risk assessment used to develop annual QARP work plans and ensure that the risk assessment includes criteria for assessing the risks associated with the specific functions performed by the Corporation and those performed by service organizations utilized by the Corporation.

HARDEST HIT FUNDS

The United States Department of the Treasury (Treasury) established the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets to provide funds to state housing finance agencies to help prevent foreclosures and stabilize housing markets. In 2010, the Corporation entered into an agreement with the Treasury to utilize Hardest Hit Funds (HHF) and, as of September 29, 2010, more than \$1.1 billion in HHF had been awarded to the State with the condition that the State would use a portion of the funds specifically for targeted unemployment programs that provided temporary assistance for eligible homeowners. Accordingly, the State established six HHF programs, including the Unemployment Mortgage Assistance Program (UMAP),¹³ the Mortgage Loan Reinstatement Program (MLRP),¹⁴ and the Principal Reduction (PR) Program.¹⁵ Guidelines for each program, including recipient eligibility requirements, were approved by the Treasury in the agreement with the Corporation.

During the period January 2014 through December 2015, the Corporation contracted with two credit underwriting service organizations to determine applicant eligibility for the UMAP, MLRP, and PR Program. In addition, QARP staff were responsible for performing quality assurance reviews to determine whether applications deemed ineligible for UMAP, MLRP, and PR Program assistance had been correctly processed by the service organizations. According to Corporation records, as of December 31, 2015, the Corporation had provided over \$570 million in HHF to 24,799 of the 119,257 borrowers who had applied for assistance.

Finding 3: Quality Assurance Reviews of Hardest Hit Fund Eligibility Determinations

During the period January 2014 through December 2015, QARP staff conducted quality assurance reviews of the files for 621 of the approximately 31,900 UMAP, MLRP, and PR Program applicants deemed ineligible by the credit underwriting service organizations during the periods June 2013 through

¹³ The UMAP provides up to 12 months of payments, not to exceed \$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. Additionally, up to \$18,000 from the MLRP can be paid up-front to reinstate a delinquent first mortgage before UMAP payments commence.

¹⁴ The MLRP provides a one-time payment, up to \$25,000, to bring a delinquent mortgage current for a homeowner who, in part, has returned to work or has recovered from underemployment.

¹⁵ The PR Program provides up to \$50,000 to severely underwater, low-to-moderate income homeowners to reduce the principal loan amount to as close to 100 percent loan to value as possible. The minimum amount of assistance needed must equal or exceed \$5,000.

December 2013 and June 2014 through February 2015. For 20 of the 621 applicants deemed ineligible, QARP staff noted that the credit underwriting reviews had not been conducted in accordance with program guidelines.

As part of our audit, we reviewed the actions taken by the Corporation to reevaluate the eligibility of the 20 applicants deemed ineligible by the credit underwriting service organizations. Our audit procedures disclosed that sufficient documentation was not available from the credit underwriting service organizations to support that 2 applicants had been appropriately deemed ineligible and the Corporation did not follow up with the service organizations to obtain additional evidence to support the determinations. In response to our audit inquiry, Corporation management indicated that the applicants' files were more than a year old and requesting additional evidence from the applicants may not have changed the eligibility determinations.

The Corporation's timely reevaluation of the eligibility status of applicants deemed by credit underwriting service organizations to be ineligible for UMAP, MLRP, and PR Program assistance is critical to ensure that the determinations are based on supporting evidence, made in accordance with program guidelines, and eligible applicants are provided assistance to help prevent potential foreclosures.

Recommendation: We recommend that, for each UMAP, MLRP, and PR Program applicant deemed ineligible for assistance and whose file was subject to a quality assurance review that determined that the credit underwriting review had not been conducted in accordance with program guidelines, the Corporation timely reevaluate applicant eligibility to ensure eligibility determinations are supported by sufficient evidence and applicants receive program funds for which they are eligible.

Finding 4: Background Screenings

In report No. 2013-047 (finding No. 12), we noted that the Corporation had not designated positions of special trust or required background screenings prior to employment or as a condition of continued employment. Subsequent to our audit, the Corporation established a policy¹⁶ designating all Corporation positions as positions of special trust requiring criminal history records checks as a condition of employment and continued employment. Additionally, the Corporation requested that the Department of Law Enforcement establish an account, through the Federal Bureau of Investigation (FBI), that would allow the Corporation to conduct level 2 screenings on all personnel.¹⁷ However, in response to the request, the FBI concluded that the Corporation was not a governmental entity pursuant to State law¹⁸ and, therefore, could not obtain an account for the purpose of conducting national criminal history records checks. According to Corporation management, the Corporation subsequently obtained level 1 background screenings¹⁹ for all Corporation personnel. As part of our audit, we requested and

¹⁶ Corporation Policy No. 2100, *Criminal History Record Checks For Employment Purposes* (effective June 24, 2013).

¹⁷ Pursuant to Section 435.04, Florida Statutes, a level 2 screening is to include, but need to be limited to, fingerprinting for State criminal history records checks through the Department of Law Enforcement, national criminal history records checks through the FBI, and may include local criminal history records checks through local law enforcement agencies.

¹⁸ Chapter 110, Florida Statutes.

¹⁹ As defined in Section 435.03, Florida Statutes, a level 1 screening includes, but need not be limited to, employment history checks and Statewide criminal correspondence checks through the Department of Law Enforcement, a check of the Dru Sjodin National Sex Offender Public Web site, and may include local criminal history records checks through local law enforcement agencies.

obtained evidence that level 1 background screenings had been conducted for a sample of 48 Corporation employees.

In addition, during our audit we noted that a Corporation service organization offered CounselorDirect, a self-guided, Web-based tool that enables consumers to apply for State and Federal mortgage assistance programs and is used by underwriters to process consumer applications for assistance. CounselorDirect also maintains confidential applicant records such as social security numbers. Our examination of Corporation records of user access privileges to the UMAP and PR modules of CounselorDirect as of January 20, 2016, disclosed that the Corporation had granted 412 non-Corporation users, including individuals from advisor agencies and credit underwriting organizations responsible for assisting the Corporation in determining eligibility for the UMAP and PR Program, access privileges to assigned applicant files within CounselorDirect.

In response to our audit inquiry, Corporation management indicated that the Corporation had neither requested nor obtained background screenings for the non-Corporation users of CounselorDirect. In lieu of background screenings, Corporation management indicated that they had used the National Loan Modification Scam Database²⁰ to search for complaints filed against non-Corporation personnel prior to granting access to CounselorDirect. If complaints were noted, the Corporation's Office of Inspector General would use an online public records search tool to determine whether the individual had a criminal or civil court record.

The performance of level 2 screenings for all Corporation personnel would provide management greater assurance that only individuals with appropriate backgrounds are employed. In addition, notwithstanding the use of public complaint databases and online public records search tools, ensuring that individuals granted access to CounselorDirect by the Corporation are subject to appropriate background screenings would help mitigate the risk that individuals with inappropriate backgrounds could be granted access to confidential applicant information.

Recommendation: We recommend that Corporation management work with the Legislature to ensure that the Corporation is authorized to conduct level 2 screenings on all personnel designated as holding a position of special trust. Additionally, we recommend that Corporation management ensure that appropriate background screenings are performed and documented for all individuals who have been, or will be, granted access to CounselorDirect by the Corporation.

Finding 5: CounselorDirect User Access Privilege Reviews

Effective information technology (IT) access controls are intended to prevent or detect inappropriate access to IT resources and to protect the confidentiality, integrity, and availability of data. Effective access controls include provisions for information owners to periodically review access privileges to IT systems. Such reviews help ensure that only authorized users have access and that the access privileges provided to each user remain appropriate. As noted in Finding 4, as of January 20, 2016, the Corporation had granted 412 non-Corporation personnel user access privileges to CounselorDirect, including 395 advisor agency personnel.

²⁰ The National Loan Modification Scam Database includes homeowner complaints regarding potential loan modification scams. Users can search and sort data to analyze national trends.

As part of our audit, we evaluated Corporation IT user access controls for CounselorDirect and noted that the Corporation had neither established procedures requiring periodic reviews of CounselorDirect user access privileges nor had such periodic reviews been performed. As of August 20, 2012, Corporation procedures required advisor agencies to submit to the Corporation surveys each time a change in employment necessitated the addition or deletion of user access privileges to CounselorDirect or when the Corporation and advisor agency entered into a new or renewed contract. However, our review of Corporation records for 97 of the 395 advisor agency personnel granted access privileges to CounselorDirect as of January 20, 2016, disclosed that 5 of the advisor agency personnel had separated from employment prior to August 20, 2012. According to CounselorDirect records, none of the 5 user accounts had been accessed subsequent to August 20, 2012.

Periodic review of CounselorDirect user access privileges provides Corporation management assurance that user access privileges are appropriate and reduces the risk that unauthorized disclosure, modification, or destruction of applicant data could occur.

Recommendation: We recommend that Corporation management enhance procedures to require periodic reviews of CounselorDirect user access privileges.

STATE HOUSING INITIATIVES PARTNERSHIP PROGRAM

State law²¹ establishes the State Housing Initiatives Partnership (SHIP) Program to provide funds to eligible counties and municipalities (subrecipients) as an incentive to create local housing partnerships, produce and preserve affordable housing, and increase housing-related employment. The Legislature appropriated to the Corporation \$40 million, \$96 million, and \$101 million, in SHIP Program funds for the 2013-14, 2014-15, and 2015-16 fiscal years, respectively.

Finding 6: Electronic Funds Transfers

The Corporation used electronic funds transfers (EFTs) to transmit SHIP Program funds to subrecipients. During the period July 31, 2014, through July 1, 2015, the Corporation made 387 EFTs, totaling approximately \$94.7 million in SHIP Program funds, to subrecipients (an average of \$244,611 per EFT). According to Corporation management, the Corporation required subrecipients to complete a *Direct Deposit Authorization* (EFT) form prior to receiving funds electronically or amending EFT instructions.

As part of our audit, we evaluated Corporation procedures for transferring SHIP Program funds to subrecipients and examined the EFT form. Our audit procedures disclosed that improvements in Corporation controls over the electronic transfer of SHIP Program funds to subrecipients were needed. Specifically, we noted that the Corporation:

- Periodically made the EFT form available to the public through its Web site.
- Did not maintain a listing of individuals authorized to submit EFT forms or to make changes to EFT instructions.
- Only required one signature to submit initial EFT instructions or to request changes to EFT instructions.

²¹ Section 420.9072, Florida Statutes.

- Did not require Corporation personnel to contact subrecipients or perform other procedures to validate an EFT form submission or requested changes to EFT instructions, when the signer of the EFT form was known to Corporation personnel.

As of March 2, 2016, our audit procedures found that the Corporation had removed the EFT form from its Web site. In response to our audit inquiry, Corporation management indicated that changes to EFT instructions were infrequent and the Corporation's practice consisted of calling known subrecipient personnel for confirmation when the signer was not known.

Although any one of the conditions noted would not necessarily be indicative of a weakness in controls over EFT processes, the combination of such control weaknesses increases the risk that EFT forms may be submitted by unauthorized persons or inappropriate changes in EFT instructions would not be prevented or timely detected.

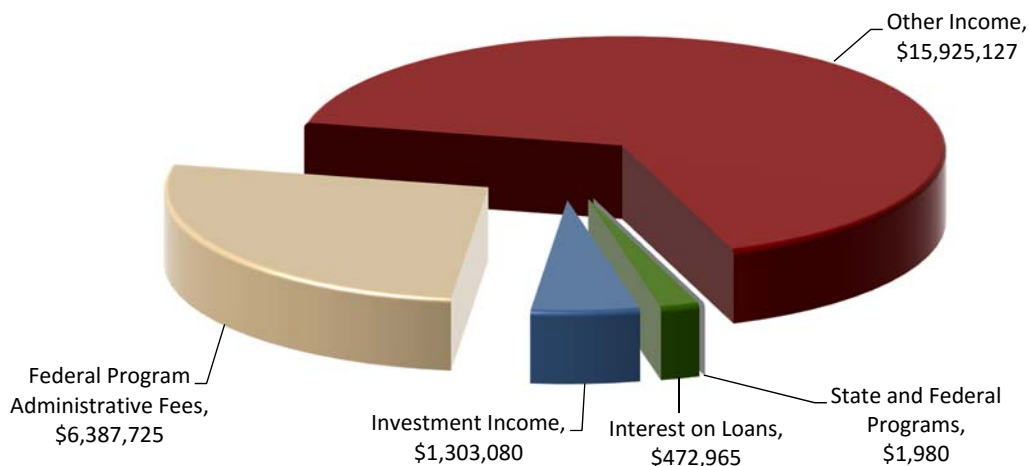
Recommendation: We recommend that Corporation management maintain listings of individuals authorized to submit EFT forms and make changes to EFT instructions and enhance procedures to ensure that EFT instructions are adequately supported and validated.

SELECTED ADMINISTRATIVE ACTIVITIES

The Corporation maintains an Operating Fund to account for program fees collected from bond issues, fees for awarding housing credits, and administrative fees associated with Federal and State housing programs. The Operating Fund was also used to account for expenses incurred in operating the Corporation and administering its various programs. The Corporation's audited financial statements for the year ended December 31, 2015, disclosed that the Operating Fund's unrestricted net position totaled approximately \$172.3 million. The Corporation's Board of Directors (Board) designated the unrestricted net position balance for a variety of uses, including loans and loan commitments, working capital and future operating and capital expenses, coverage of single family bond issuance costs, and costs associated with holding foreclosed property.

For the Operating Fund for the year ended December 31, 2015, the Corporation reported assets totaling approximately \$291.9 million, liabilities totaling approximately \$114.4 million, revenues totaling approximately \$24.1 million, and expenses totaling approximately \$20.4 million. Chart 1 shows the Operating Fund revenues by source.

Chart 1
Corporation Operating Fund Revenues
For the Year Ended December 31, 2015



Source: 2015 Corporation Financial Report.

As part of our audit, we evaluated Corporation financial and operational controls and processes related to selected administrative activities, including, but not limited to: general and administrative expenses, provision of personnel bonuses, disclosure of conflicts of interest, procurement of commodities and contractual services, management of tangible personal property, use of social security numbers, and review and deactivation of user access privileges to the Corporation’s network and other information technology systems. As subsequently described, our audit procedures disclosed that the Corporation needs to strengthen certain financial and operational controls and processes.

Finding 7: Corporation Expenses

In our report No. 2013-047 (finding No. 15), we noted that 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. As part of our follow-up audit procedures, we reviewed applicable provisions of State law and examined Corporation records for 36 expenses, totaling \$99,637, incurred during the period January 2014 through December 2015, and noted similar instances in which expenses for food, beverages, and other charges did not appear to be clearly necessary to the performance of the Corporation’s statutory duties. Specifically, our audit procedures disclosed that:

- Pursuant to State law,²² the Corporation has the authority to create recognition programs, including the provision of certificates of recognition, to honor individuals, community-based development organizations, units of local government, or others who demonstrate the ideals of community stewardship and increase access to housing for low-income households. In August 2015, the Corporation hosted a lender appreciation dinner in Orlando for 210 attendees that featured, for \$89 per person, items such as filet mignon and broiled lobster tail. In addition, the Corporation incurred expenses related to lodging and rental of audio-visual equipment,

²² Section 420.507(39), Florida Statutes.

photography, and for providing a hosted bar of deluxe brand liquors, an imported and domestic cheese display, and hors d'oeuvres. As shown in Table 1, expenses for the dinner totaled \$52,548, of which, \$37,548 was paid by the Corporation from the Corporation's Operating Fund and \$15,000 was paid by sponsorship fees.²³

Table 1
Lender Appreciation Dinner Costs
August 2015

Good or Service Provided	Costs
210 Dinners	\$18,690
Service Charges	8,545
Audio-Visual Equipment Rental	7,028
479 Alcoholic Beverages	5,213
40 Hotel Room Charges	4,960
450 Hors d'Oeuvres	2,025
Imported and Domestic Cheese Display	1,800
Printing Charges	1,378
Miscellaneous Charges	561
10 Fruit Baskets	540
Foliage	413
Signage	390
2 Bartenders	350
90 Non-Alcoholic Beverages	330
Photographer	325
Total	<u>\$52,548</u>

Source: Corporation records.

As part of the lender appreciation dinner and the Corporation's recognition program, the Corporation purchased and presented to lenders 114 awards with costs totaling \$4,242. In response to our audit inquiry, Corporation management indicated that State law specifically authorizes the Corporation to create recognition programs such as the lender dinner and the awards presented at the dinner. Further, Corporation management indicated that they believed that the lender awards dinner met the public purpose outlined in law as the awards presented recognized lenders who had increased access to affordable homeownership. Notwithstanding Corporation management's response and that State law authorizes the creation of recognition programs, including the provision of certificates of recognition, for individuals and entities who increase access to housing for low-income households, the totality and nature of the expenses incurred for the dinner did not appear to be clearly necessary to the performance of the Corporation's statutory duties or commensurate with the recognition programs authorized by State law.

- State law²⁴ specifies that members of the Corporation's Board are not to receive compensation for their services but are entitled to the necessary expenses, including per diem and travel expenses, incurred in the discharge of their duties, as provided by law. State law²⁵ sets forth the standard travel reimbursement rates, procedures, and limitations applicable to public officers,

²³ According to Corporation management, the Corporation solicits voluntary participation in the lender dinner from entities that work with lenders on a daily basis. The sponsors are recognized in the lender dinner program guide and on any signage.

²⁴ Section 420.504(6), Florida Statutes.

²⁵ Section 112.061, Florida Statutes.

employees, and authorized persons, including travel-related meal allowances of \$6 for breakfast, \$11 for lunch, and \$19 for dinner. Our examination of Corporation expense records disclosed that meals were sometimes provided for the Corporation's Board members and others that exceeded the meal allowances authorized by State law and did not appear to be clearly necessary to the performance of the Board's or Corporation's statutory duties. Specifically, we noted that:

- o The Corporation held a reception costing \$3,315 for Board members and others the evening before the August 8, 2014, Board meeting. Table 2 summarizes the costs of the reception which featured a pork carving station; paella, Spanish charcuterie, and dessert stations for 30 attendees; and a hosted beer and wine bar. Corporation records indicated that the costs of the reception were paid from the Corporation's Operating Fund and that 6 Board members and 12 Corporation personnel attended the Board meeting.

Table 2
Corporation Board Reception Costs
August 7, 2014

Good or Service Provided	Costs
Paella Station	\$ 630
66 Alcoholic Beverages	574
Service Charge	571
Pork Carving Station	425
Spanish Charcuterie Station	420
Chef Attendant and Bartender	300
Dessert Station	300
19 Non-Alcoholic Beverages	95
Total	<u>\$3,315</u>

Source: Corporation records.

- o The evening before the June 13, 2014, Board meeting the Corporation also held a Board reception that included various food items and alcoholic and non-alcoholic beverages. Corporation records indicated that seven Board members and six Corporation personnel attended the Board meeting and, as shown in Table 3, reception costs totaling \$1,188 were paid from the Corporation's Operating Fund.

Table 3
Corporation Board Reception Costs
June 12, 2014

Good Provided or Expense	Costs
Food	\$ 761
Tip	186
39 Alcoholic Beverages	162
Sales Tax	70
3 Non-Alcoholic Beverages	9
Total	<u>\$1,188</u>

Source: Corporation records.

In response to our audit inquiry, Corporation management indicated that Board members had previously requested that group meals be provided the evening before Board meetings in lieu of the dinner meal allowance. Additionally, Corporation management indicated that Board members

felt that the receptions were more time efficient, provided a relaxed atmosphere for the Board members to interact with staff and key advisors, and allowed Board members to build and enhance relationships, which more than offset any costs over the dinner allowance amounts provided by State law. Notwithstanding Corporation management's response, as State law²⁶ specifies that members of the Corporation's Board are entitled only to the necessary expenses incurred in the discharge of his or her duties, as provided by law, and State law²⁷ establishes meal allowances, the costs of providing meals, including alcoholic beverages, for the receptions appeared in excess of the amounts authorized by State law and did not appear to be necessary expenses to discharge Board or Corporation duties.

As stewards of public funds, Corporation management is responsible for ensuring that expenditures are authorized by and in accordance with applicable law, reasonable in the circumstances and necessary to accomplish authorized purposes of the Corporation and Board, and in pursuit of a public, rather than a private, purpose.

Recommendation: We recommend that Corporation management ensure that the totality and nature of the expenses associated with lender appreciation dinners are clearly necessary to the performance of the Corporation's statutory duties and commensurate with the recognition programs authorized by State law. We also recommend that, should meals be provided to Board members, the Corporation limit expenses to those that are clearly necessary to discharge Board duties and to the amounts provided by State law.

Follow-Up to Management's Response

Corporation management indicated in their written response that Section 420.504(6), Florida Statutes, states that Board members shall be entitled to the necessary expenses, including per diem and travel expenses, incurred in the discharge of his or her duties, as provided by law. In addition, Corporation management indicated that, while Florida Statutes govern the amount of per diem that may be reimbursed to the Board members for expenses they incur, the Corporation believed that this does not necessarily directly translate into a limitation on the cost that may be provided. However, the point of our finding was that, while the Corporation is authorized to provide for those expenses necessary to discharge Board duties, the totality and nature of the expenses incurred exceeded the meal allowances authorized by State law and did not appear to be clearly necessary to the performance of the Board's statutory duties. Consequently, the finding and related recommendation stand as presented.

Finding 8: Bonuses

State law²⁸ provides that the Corporation may implement rules regarding the employment of employees and may also establish benefit and incentive plans for any and all of its current or former employees or agents. During the 2014 calendar year, the Corporation paid net bonuses totaling \$208,650 to employees, including bonuses totaling \$52,500 to 8 members of senior management and bonuses totaling \$156,150 to 55 other employees. During the 2015 calendar year, the Corporation paid net bonuses totaling \$233,700 to employees, including bonuses totaling \$59,500 to 8 members of senior management and bonuses totaling \$174,200 to 61 other employees.

²⁶ Section 420.504(6), Florida Statutes.

²⁷ Section 112.061, Florida Statutes.

²⁸ Sections 420.506(1) and 420.507(32), Florida Statutes.

In our report 2013-047 (finding No. 15), we noted that the Corporation had not established an employee bonus plan 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 to support the payments. We also noted that bonuses had been paid to Corporation employees absent adequate documentation of the justification. As part of our follow-up audit procedures, we noted that the Corporation established policies and procedures that specified that bonuses could be granted by the Executive Director. The policies and procedures specified that, among other things, the employees selected to receive a bonus had to demonstrate initiative, innovation, and/or superior performance exceeding expectations; senior management was to provide the Executive Director a summary of the employee's achievements on which their bonuses would be based; and any bonus payments for the Executive Director or Inspector General required Board approval.

Our examination of Corporation records for 16 bonuses, totaling \$73,200, paid to 15 employees during the period January 2014 through December 2015, disclosed that improvements in Corporation controls over the payment of employee bonuses were still needed. Specifically, we found that:

- While the Corporation had established policies and procedures for employee bonuses, the policies and procedures did not specify a methodology for calculating bonus amounts or determining the total amount of funds available for bonuses. Consequently, the 16 bonuses, ranging from \$200 to \$10,000, did not appear to be calculated based on any consistent methodology. Instead, senior management provided recommended employee bonus amounts to the Executive Director for approval. All 16 recommended bonus amounts were approved by the Executive Director without revision. In response to our audit inquiry, Corporation management indicated that bonuses were typically based on the amount of funds available at year-end and, while no total amount was formally set in writing, Corporation management generally discussed a working total.
- The Corporation was unable to provide evidence of Board approval for the 2014 and 2015 bonuses of \$5,000 and \$7,500, respectively, awarded to the Inspector General.

To ensure that bonus amounts are consistently awarded, Corporation management should establish a methodology for calculating bonus amounts and determining the total amount available for bonuses. Additionally, to ensure bonuses are paid in accordance with established policies and procedures, Corporation management should ensure that Board approval for all bonuses paid to the Executive Director and Inspector General is appropriately documented.

Recommendation: We recommend that Corporation management enhance policies and procedures to specify a methodology for calculating employee bonus amounts and determining the total amount available for bonuses each year. We also recommend that Corporation management ensure that evidence of prior Board approval is maintained for all bonuses paid to the Executive Director and Inspector General.

Finding 9: Conflicts of Interest

State law²⁹ requires any member,³⁰ officer, or employee of the Corporation to disclose, in writing, possible direct or indirect interests in entities that contract with, request loans from, or offer to sell loans to the

²⁹ Section 420.512, Florida Statutes.

³⁰ Section 420.503(24), Florida Statutes, defines "members" to mean the members of the Corporation's Board.

Corporation and to abstain from participating in any action by the Corporation with respect to the contract, sponsor, or lending institution. In addition, Corporation policies and procedures prohibited employees and Board members from engaging in any activity that conflicted with the interests of the Corporation and indicated that employees and Board members were expected to avoid conflicts of interest, or even the appearance thereof. Corporation policies and procedures further required Board members to execute two conflict of interest forms when conflicts were encountered regarding Board agenda items. Specifically, Board members were, before a vote, or, when not possible, within 15 days after a vote, to complete a *Memorandum of Voting Conflict for State Officers*. Board members were also required to execute a *Notice of Conflict of Interest* form and recuse themselves from acting on all applicable agenda items.

As part of our audit, we examined Board meeting agendas and minutes for the 2014 and 2015 calendar years and other Corporation records to evaluate whether Board members and Corporation employees properly and timely disclosed, in writing, the nature of any conflicts of interest and whether Board members recused themselves from participating in any action related to agenda items for which a conflict of interest existed. Our audit procedures disclosed that, during the June 13, 2014, Board meeting, a Board member participated in a vote related to a company that the Board member had an indirect financial relationship with, as the Board member was the principal in a company that provided general contracting services to a subsidiary company of the parent company subject to Board vote. Board meeting minutes disclosed that the Board member voted to approve the parent company's request for a SAIL loan interest rate reduction from 9 percent to 3 percent, pursuant to Corporation rules.³¹ However, for the August 8, 2014, Board meeting, the same Board member recused himself and filed a *Memorandum of Voting Conflict for State Officers* indicating that they were inured to the special gain or loss of the same company for which they voted to approve the loan modification during the June 13, 2014, Board meeting.

In response to our audit inquiry, Corporation management indicated that the Board member had been in a business relationship with the subsidiary company prior to the Board member's appointment. The Corporation's General Counsel further indicated that the June 13, 2014, agenda item involved the parent company, but did not involve the Board member's company and, as such, no conflict of interest regarding this agenda item existed. Notwithstanding these explanations, ensuring that Board members disclose, in writing, all possible direct or indirect conflicts of interest and abstain from voting on agenda items that have an actual or perceived conflict of interest is necessary to provide the public with assurance that Board members are acting in the best interests of the Corporation and State.

Recommendation: We recommend that Corporation management strengthen policies and procedures to ensure that Board members disclose, in writing, all possible direct or indirect conflicts of interest and recuse themselves from participating in any action where a conflict of interest related to a Board agenda item is encountered.

³¹ Corporation Rule 67-48.010(25), Florida Administrative Code.

Finding 10: Contract Records

In our report No. 2013-047 (finding No. 10), we noted that, although the Corporation maintained a listing of its contracts, the Corporation had not established a means for tracking the 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. As part of our follow-up audit procedures, we examined Corporation records and inquired of Corporation management to determine whether management had taken corrective actions for the finding. Our audit procedures disclosed that the Corporation still had not established a mechanism for tracking the payments made under each Corporation contract and the Corporation's accounting system did not include the information necessary to readily identify payments for each contract. Such tracking is especially important in instances where the Corporation executed multiple contracts with the same vendor.

In response to our audit inquiry, Corporation management indicated that the Corporation tracks payments by vendor and expenses are controlled through the Corporation's operating budget process. Corporation management further indicated that, since many Corporation contracts are not subject to maximum amounts, the Corporation believed its payment tracking process for these contracts was sufficient. However, establishing a means for tracking payments by contract would provide the Corporation an essential tool for reporting contract information, such as the total amount expended on contracts subject to maximum amounts, in a transparent manner.

Recommendation: We again recommend that Corporation management establish a means for tracking contract payments for each Corporation contract.

Finding 11: Tangible Personal Property

Effective controls for the management of tangible personal property require that property items be adequately controlled, safeguarded, and accounted for by Corporation management. In our report No. 2013-047 (finding No. 16), we noted that Corporation 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 included in the physical inventory process, or ensure that a physical verification of all property items was conducted at least once every year.

As of December 2015, the Corporation was responsible for tangible personal property with acquisition costs totaling \$1,093,320. As part of our follow-up audit procedures, we reviewed the Corporation's *Capital Asset Procedures (Procedures)* and property records and noted that improvements were still needed to strengthen accountability for and safeguarding of Corporation portable and attractive property items costing less than \$5,000. Specifically, we noted that, while the Corporation's information technology (IT) staff maintained a separate listing of all IT equipment, including IT equipment costing less than \$5,000, as of January 13, 2016, the 809 portable and attractive property items costing less than \$5,000 and recorded on the IT equipment list did not have unique property identification numbers or serial numbers to assist the Corporation in differentiating between similar property items and 324 items had not been assigned to a property custodian. Due to the lack of detailed property item information on the IT equipment list information, the Corporation could not perform a physical inventory of portable and

attractive property items costing less than \$5,000 during the period January 2014 through December 2015.

As part of our audit we requested Corporation staff to identify and physically locate five specific laptop computers included on the IT equipment list. However, Corporation staff were unable to locate the five laptop computers. Our examination of the IT equipment list disclosed that the lack of detailed property item information on the IT equipment list may have frustrated attempts to locate the laptop computers because, for example, the model name on the IT equipment list for one of the five laptop computers was the same as that of 18 other laptop computers.

In response to our audit inquiry, Corporation management indicated that a policy had been drafted to address portable and attractive property items, with an expected implementation date during the third quarter of 2016. Corporation management further indicated that, as of May 25, 2016, property identification tags had been ordered.

The lack of detailed property item information on the IT equipment list limits Corporation management's ability to adequately control, safeguard, and account for portable and attractive items, such as computers and electronic equipment, which, by their nature, are more susceptible to loss and theft. Due to the items' susceptibility to loss and theft, controls designed to ensure proper accountability for and adequate safeguarding of these items, and any sensitive or confidential information they may contain, are especially important.

Recommendation: We recommend that Corporation management enhance policies and procedures to ensure that portable and attractive items costing less than \$5,000 be recorded to Corporation records in sufficient detail to facilitate an annual physical inventory.

Finding 12: Collection of Social Security Numbers

The Legislature has acknowledged in State law³² that a person's social security number (SSN) was never intended to be used for business purposes. However, over time the SSN has been used extensively for identity verification and other legitimate consensual purposes.

Recognizing that an SSN can be used to perpetrate fraud against an individual and to acquire sensitive personal, financial, medical, and familial information, the Legislature specified³³ that State agencies may not collect an individual's SSN unless the agency is authorized by law to do so or it is imperative for the performance of that agency's duties and responsibilities as prescribed by law. Additionally, State agencies are required to provide each individual whose SSN is collected written notification regarding the purpose for collecting the number. The SSNs collected may not be used by the agency for any purpose other than the purposes provided in the written notification. State law further provides that SSNs held by an agency are confidential and exempt from public inspection and requires each agency to review its SSN collection activities to ensure the agency's compliance with the requirements of State law and to

³² Section 119.071(5)(a)1.a., Florida Statutes.

³³ Section 119.071(5)(a)2.a., Florida Statutes.

immediately discontinue SSN collection upon discovery of noncompliance. State law³⁴ provides that the Corporation is also subject to these provisions.

We noted that the Corporation had not established written policies and procedures for the collection and use of SSNs or provided employees from whom a SSN was collected written notification of the purpose for collecting their SSNs. Additionally, we found that the Corporation had not evaluated its collection and use of SSNs to ensure compliance with State law. In response to our audit inquiry, Corporation management indicated that the purpose for collecting employees SSNs had been verbally explained to employees during the hiring process and that the Corporation had ensured the security of the SSNs collected.

Effective controls, including written policies and procedures addressing the Corporation's collection and use of individuals' SSNs, and periodic assessments of SSN collection activities, would better ensure and demonstrate Corporation compliance with statutory requirements and reduce the risk that SSNs may be unnecessarily collected or utilized for unauthorized purposes.

Recommendation: We recommend that Corporation management establish written policies and procedures regarding the collection and use of individuals' SSNs and take appropriate steps to demonstrate compliance with applicable statutory requirements.

Finding 13: User Access Privilege Controls

Effective IT access controls are intended to prevent or detect inappropriate access to IT resources and protect the confidentiality, integrity, and availability of data. Effective access controls include provisions for information owners to periodically review access privileges to IT systems to help ensure that only authorized users have access and that the access privileges provided to each user remain appropriate. The Corporation utilized OnBase to electronically capture Corporation information, including sensitive and confidential information, and to grant staff access to the information. According to Corporation records, as of March 1, 2016, the Corporation had granted 124 Corporation personnel access privileges to OnBase, which personnel accessed through their network account. In addition, the Corporation utilized Citrix ShareFile (ShareFile) for file sharing and shared files containing sensitive and confidential information with applicants. As of March 1, 2016, the Corporation had granted ShareFile access privileges to 30 current and former Corporation personnel and 834 non-Corporation personnel.

Our audit procedures disclosed that, during the period January 2014 through December 2015, the Corporation had not reviewed network, OnBase, or ShareFile user access privileges. In response to our audit inquiry, Corporation management indicated Corporation policies did not require that periodic reviews of user access privileges be performed.

Effective IT access controls also include provisions to timely remove access privileges when access is no longer required. As part of our audit, we examined Corporation records for the 26 employees who separated from Corporation employment during the period January 2014 through December 2015 to determine whether the employees maintained access privileges to the Corporation's network, OnBase, or ShareFile subsequent to their separation dates. Our audit procedures disclosed that user access

³⁴ Section 420.504(2), Florida Statutes.

privileges to the Corporation's network and OnBase for one employee who separated from Corporation employment on December 31, 2014, remained active as of May 25, 2016, or 511 days after the employee's separation date. Our audit procedures further disclosed that the employee's network user account had been accessed on January 21, 2015, or 21 days after the employee's separation date. In addition, we noted that user access privileges to ShareFile for another employee who separated from Corporation employment on December 1, 2015, remained active as of March 1, 2016, or 91 days after the employee's separation date. As of May 6, 2016, the former employee's access privileges had been deactivated.

Periodic reviews of network, OnBase, and ShareFile user access privileges would provide Corporation management greater assurance that user access privileges are authorized and appropriate. In addition, timely deactivating user access privileges upon an employee's separation from Corporation employment decreases the risk that the confidentiality, integrity, and availability of Corporation data and related IT resources may be compromised.

Recommendation: We recommend that Corporation management establish procedures requiring the conduct of periodic reviews of the appropriateness of network, OnBase, and ShareFile user access privileges. We also recommend that Corporation management ensure that user access privileges to the Corporation's network, OnBase, and ShareFile are immediately deactivated upon an employee's separation from Corporation employment.

Finding 14: Security Controls

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls related to audit logging and monitoring of OnBase and Corporation network activity needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising Corporation data and related IT resources. However, we have notified appropriate Corporation management of the specific issues. Without adequate security controls related to audit logging and monitoring, the risk is increased that inappropriate or unauthorized system activity, should it occur, may not be timely detected and resolved.

Recommendation: We recommend that Corporation management strengthen security controls related to audit logging and monitoring of OnBase and Corporation network activity to better ensure that, inappropriate or unauthorized system activity, should it occur, is timely detected and resolved.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken corrective actions for the findings included in our report No. 2013-047.

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 2013-83, Laws of Florida, required the Auditor General to conduct an operational audit of the accounts and records of the Florida Housing Finance Corporation (Corporation). We conducted this operational audit from December 2015 through July 2016 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 the Corporation's Quality Assurance Review Program (QARP), the Hardest Hit Fund (HHF), the State Housing Initiatives Partnership (SHIP) Program, and selected administrative activities. The overall objectives of the audit were:

- To evaluate 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 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 determine whether management had corrected, or was in the process of correcting, all deficiencies disclosed in our report No. 2013-047.
- 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.

In conducting our audit we:

- Obtained an understanding of Corporation information technology (IT) controls, assessed the risks related to those controls, evaluated whether selected general and application IT controls were in place, and tested the effectiveness of the controls for the Corporation's network, OnBase, and Citrix ShareFile (ShareFile).
- Performed inquiries of Corporation personnel and examined Corporation records to determine whether the Corporation had established procedures for managing access to the Corporation's network, OnBase, and ShareFile and ensuring that access privileges for users who change assignments or responsibilities, or separate from Corporation employment, are timely deactivated. In addition, we performed inquiries of Corporation personnel and examined Corporation records to determine whether the Corporation periodically reviewed user access privilege records to assess whether user access privileges remained appropriate.
- Reviewed applicable laws, rules, Corporation policies and procedures, other guidelines, and Local Housing Assistance Plan (LHAP) documents, and interviewed Corporation personnel to gain an understanding of the SHIP Program.
- Reviewed Corporation IT policies and procedures, examined Corporation records, and performed inquiries of Corporation personnel to obtain an understanding of the SHIP Program Annual Reporting System, evaluate the effectiveness of selected SHIP Program Annual Reporting System application controls, and determine whether the Corporation's established processes were sufficient to ensure that user access privileges to the SHIP Program Annual Reporting System were appropriate.
- Determined whether the Corporation allocated SHIP Program funds in accordance with State law. Specifically, we:
 - Recalculated the Corporation's allocation of SHIP Program funds, totaling \$191,497,500 and appropriated by the Legislature to the Corporation for the 2014-15 and 2015-16 State fiscal years, to eligible counties and municipalities (subrecipients).
 - Compared the Corporation's allocation of \$95,750,000 of 2014-15 State fiscal year SHIP Program funds to 119 eligible subrecipients to the actual disbursements, totaling \$94,736,395, made by the Corporation to qualified subrecipients.
 - Examined Corporation records for 25 of the 113 disbursements of 2014-15 SHIP Program funds to qualified subrecipients to determine whether disbursements were made only to subrecipients that maintained approved LHAPs pursuant to Section 420.9072(2)(a), Florida Statutes; total disbursements to subrecipients did not exceed allocated totals; and all disbursements reconciled to Corporation financial records.
- Examined Corporation standard documents, including checklists, used to conduct SHIP Program monitoring activities during the 2015 calendar year to determine whether the standard documents were adequately designed to evaluate whether subrecipients complied with applicable laws, rules, and LHAPs.

- Examined Corporation records for 10 of 20 SHIP Program monitoring engagements completed during the period September 2014 through December 2015 to determine whether the Corporation had established effective controls for SHIP Program compliance monitoring.
- Examined Corporation records for 30 subrecipient annual reports, 15 from the 2014 calendar year and 15 from the 2015 calendar year, from the population of 112 subrecipient annual reports submitted during the 2014 and 2015 calendar years, to determine whether the Corporation had established effective controls to ensure SHIP Program annual reports were timely received, reviewed, and prepared in accordance with Section 420.9075(10), Florida Statutes.
- Performed inquiries of Corporation personnel and examined Corporation records related to the administration of the requirements of the Florida Single Audit Act (FSAA) to determine whether, for all SHIP Program funds subgranted to local governmental entities during the 2013-14 and 2014-15 State fiscal years, the Corporation complied with the FSAA and related Department of Financial Services rules.
- Examined Corporation records for 20 of the 112 subrecipients that submitted to the Corporation a Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2014, to determine whether the Corporation had established effective controls to ensure subrecipient CAFRs were timely received and properly reviewed by Corporation personnel.
- Performed inquiries of Corporation personnel and examined Corporation records related to the electronic transfer of SHIP Program funds to subrecipients to determine whether the Corporation had established effective controls for authorizing electronic funds transfer instructions by subrecipients.
- Reviewed applicable laws, rules, Corporation policies and procedures, other guidelines, and contract documents, and interviewed Corporation personnel to gain an understanding of the Corporation's QARP.
- Performed inquiries of Corporation personnel and examined Corporation standard documents for the QARP, including checklists, to determine whether the standard documents were adequately designed to evaluate whether service organizations complied with applicable laws, rules, and contract requirements.
- Performed inquiries of Corporation personnel and examined Corporation records related to the QARP risk assessment process to determine whether the Corporation ensured that the risk assessment considered all functional areas subject to the QARP and provided sufficient coverage for all significant program compliance requirements.
- Examined Corporation records for 8 of 16 QARP reviews completed during the period January 2014 through December 2015 to determine whether the Corporation's QARP provided adequate coverage of all functional areas subject to the QARP; the functional areas complied with applicable laws, rules, and contract requirements; and QARP staff appropriately and timely followed up on any deficiencies noted during the reviews.
- Examined Corporation records for 12 of 30 Statement on Standards for Attestation Engagements No. 16 (SSAE 16) reports prepared for 11 Corporation service organizations, obtained and reviewed by QARP staff during the period January 2014 through December 2015, to determine whether SSAE 16 reports relied upon by the Corporation were adequately reviewed and QARP staff conducted sufficient follow-up activities regarding any deficiencies in service organization controls disclosed in the SSAE 16 reports.
- Examined Corporation records for 10 of 589 compliance monitoring reviews completed by three service organizations for the Extremely Low Income, Housing Credits, HOME, State Apartment Incentive Loan, and Multifamily Mortgage Revenue Bond programs during the period January 2014 through December 2015, to determine whether Corporation controls were sufficient

to ensure service organizations adequately monitored that developments funded by these programs were in compliance with applicable laws, rules, and contract agreements.

- Reviewed applicable laws, rules, Corporation policies and procedures, other guidelines, and contract documents, and interviewed Corporation personnel to gain an understanding of the Corporation's administration of the HHF.
- Performed inquiries of Corporation management and examined Corporation records to evaluate whether the Corporation had requested or obtained background screenings for the 412 non-Corporation personnel with access privileges to CounselorDirect as of January 20, 2016.
- From the population of 412 non-Corporation personnel granted user access privileges to CounselorDirect as of January 20, 2016, examined Corporation records for 97 of the 395 advisor agency personnel with CounselorDirect user access privileges to determine whether the Corporation performed periodic reviews of user access privileges and timely removed user access privileges upon notification from the advisor agencies.
- Analyzed HHF CounselorDirect data for applications closed during the period January 2014 through December 2015 to determine whether the Corporation ensured applications were timely reviewed and unpaid mortgage balances did not exceed maximum allowable amounts in accordance with United States Department of the Treasury (Treasury) contract requirements.
- Compared HHF advisor agency invoice data to the number of applicant files reviewed by the Corporation during the period January 2014 through December 2015 to determine whether the Corporation performed an adequate number of reviews to ensure advisor agencies complied with Treasury contract and HHF compliance guideline requirements.
- Compared Corporation personnel data to data for the HHF CounselorDirect applications closed during the period January 2014 through December 2015 to determine whether any Corporation employees had received HHF awards.
- Examined Corporation records for 20 of 374 Unemployment Mortgage Assistance Program and Mortgage Loan Reinstatement Program (UMAP/MLRP) applicants deemed eligible for assistance by credit underwriting service organizations, and whose eligibility file was reviewed by the Corporation during the period January 2014 through December 2015, to determine whether the service organizations' eligibility determinations were timely concluded and adequately supported.
- Examined Corporation records for 20 of 367 Principal Reduction Program (PR) applicants deemed eligible for assistance by credit underwriting service organizations, and whose file was reviewed by the Corporation during the period January 2014 through December 2015, to determine whether the service organizations' eligibility determinations were timely concluded and adequately supported.
- Examined Corporation records for 18 of 319 UMAP/MLRP applicants deemed ineligible for assistance by credit underwriting service organizations, and whose file was reviewed by the Corporation during the period January 2014 through December 2015, to determine whether the service organizations' ineligibility determinations were timely concluded, adequately supported, and communicated to the applicant.
- Examined Corporation records for 17 of 302 PR applicants deemed ineligible for assistance by credit underwriting service organizations, and whose file was reviewed by the Corporation during the period January 2014 through December 2015, to determine whether the service organizations' ineligibility determinations were timely concluded, adequately supported, and communicated to the applicant.
- Examined Corporation records for 7 of 113 Elderly Mortgage Assistance Program applicants deemed ineligible for assistance by the Corporation during the period January 2014 through December 2015, to determine whether Corporation ineligibility determinations were timely concluded, adequately supported, and communicated to the applicant.

- Performed inquiries of Corporation personnel and examined records for the QARP’s review, conducted during the period January 2014 through December 2015, of ineligible HHF applicant files to determine whether the Corporation timely and appropriately re-evaluated applications when QARP personnel noted errors in service organization supporting documentation.
- Performed inquiries of Corporation management and analyzed the Treasury compliance reports issued during the period February 2014 through October 2015, to determine whether the Corporation had corrected the Treasury observations noted in our report No. 2013-047 (finding No. 6), and subsequent Treasury compliance report observations of noncompliance had been timely and appropriately corrected.
- Examined 4 of 24 HHF credit underwriter monthly invoices, received during the period January 2014 through December 2015, to determine whether the number of applications closed and the final application status on the invoices agreed with Corporation records.
- Reviewed applicable laws, rules, Corporation policies and procedures, other guidelines, and contract documents, and interviewed Corporation personnel to gain an understanding of the Corporation’s credit underwriting and loan modification processes.
- Examined Corporation records for 15 of 169 credit underwriting reports (CURs) completed during the period January 2014 through December 2015 to determine whether the CURs were adequately supported, in compliance with applicable rules, and were free from deficiencies. Additionally, we compared the 15 CURs to the loan modification requests received by the Corporation during the period January 2014 through December 2015 to determine whether the Corporation suffered any losses resulting from inaccurate CURs.
- Examined Corporation records for 25 of 147 developer requests for loan modifications approved by the Corporation during the period January 2014 through December 2015 to determine whether loan modifications were in accordance with applicable rules; Board approval was obtained, when applicable; and loan modifications would not pose a negative impact to the Corporation’s operations.
- Requested confirmations for the 11 loan modifications canceled by the developer during the period January 2014 through December 2015 to determine whether the developer initiated the cancellation or otherwise stopped pursuing the request for a loan modification.
- Evaluated Corporation actions to correct the findings noted in our report No. 2013-047. Specifically, we:
 - Reviewed the Corporation’s audited financial statements for the fiscal years ended December 31, 2013, 2014, and 2015 to determine whether the Corporation submitted audited financial statements within 6 months of its fiscal year-end in accordance with Section 420.511(4), Florida Statutes.
 - Reviewed the Corporation’s audited financial statements for the fiscal years ended December 31, 2013, 2014, and 2015 and applicable Board meeting minutes to determine whether the Corporation obtained Board approval for the planned use of unrestricted net assets and whether such uses were sufficiently disclosed in the audited financial statements.
 - Evaluated the actions taken by the Corporation to ensure that the Corporation’s internal audit activity complied with Section 20.055, Florida Statutes, and applicable internal auditing standards.
 - Performed inquiries of Corporation management and examined the Corporation’s *Investment Guidelines* and other records related to investments to determine whether the Corporation had implemented effective policies and procedures for monitoring investment compliance, including timely notification of investments experiencing a downgrade below limits established in the *Investment Guidelines*.

- Evaluated the Corporation's Federal cost allocation methodology and the costs allocated by the Corporation to Federal awards programs during the period January 2014 through December 2015 to determine whether the allocations were allowable and performed in an appropriate and equitable manner.
- Performed inquiries of Corporation management and examined Corporation personnel records for the period June 13, 2015, through June 27, 2015, to determine whether the records accurately reflected the actual time spent on each Federal award program by employees who had worked on multiple activities and whose Corporation salary and related benefit costs had been charged to Federal awards programs.
- Reviewed Corporation policies and procedures, Board meeting agendas and minutes for the 2014 and 2015 calendar years, and other Corporation records to determine whether the Corporation ensured that Board members and Corporation personnel timely and properly disclosed possible direct and indirect conflicts of interest.
- Reviewed Corporation procurement policies and procedures to determine whether the Corporation's policies and procedures required Board approval for all single source procurements in excess of \$35,000; a clear description of deliverables; explanations for significant changes in contract amounts; contracts to include effective dates and maximum amounts payable; review of the Department of Management Services' convicted vendor list; and the maintenance of adequate contract files.
- Performed inquiries of Corporation management and examined Corporation records to determine whether the Corporation had established a mechanism for tracking payments by contract.
- Examined 11 procurement and contract files, from the population of 77 contracts executed between January 2014 and December 2015, to determine whether the Corporation ensured that procurements and contracts complied with applicable laws and rules and contracts included a clear description of deliverables, contract files contained explanations for significant changes in contract amounts, and contracts provided for effective dates and maximum amounts payable.
- Reviewed Corporation policies and procedures to determine whether Corporation policies and procedures designated positions of special trust and required background screenings prior to employment or as a condition of continued employment.
- Examined Corporation personnel records for 48 of 130 Corporation personnel employed during the period January 2014 through December 2015 to determine whether the Corporation obtained background screenings for the personnel.
- Reviewed Corporation policies and procedures to determine whether the policies and procedures required Corporation personnel to verify prospective employees' education and work experience prior to employment.
- Examined Corporation personnel records for 5 of 27 Corporation employees hired during the period January 2014 through December 2015 to determine whether Corporation records demonstrated that, prior to hire, the employees had met the education and work experience requirements commensurate with their position.
- Reviewed Corporation policies and procedures related to bonuses to determine whether the policies and procedures included criteria for determining eligibility for bonuses, a methodology for calculating bonus amounts, and documenting bonus payments.
- Examined Corporation records for bonuses, totaling \$73,200, paid to 15 Corporation employees during the period January 2014 through December 2015, from the population of 132 employee bonuses, totaling \$442,350, to determine whether Corporation records

included appropriate justification for the bonuses and reflected Board member approval for the bonuses, when required.

- Examined Corporation records for 9 employee relations expense transactions, totaling \$1,551, from the population of 42 employee relations expenses transactions, totaling \$3,236, made during the period January 2015 through September 2015, to determine whether employee relations expenses were clearly necessary to the Corporation's performance of its statutory duties and served an apparent public purpose.
- Reviewed Corporation capital asset policies and procedures to determine whether the policies and procedures addressed the assignment of property custodians, separation of duties, property records for portable, attractive items costing less than \$5,000, and annual physical inventories.
- Reviewed Corporation property records as of March 11, 2015, to determine whether the Corporation recorded property items in accordance with Corporation policies and procedures.
- Compared the Corporation's 2014 and 2015 physical inventory reports to the Corporation's 2013 and 2014 property records, respectively, to determine whether the Corporation ensured that all property was accounted for and if property was found during the inventory, the property item was timely recorded to the property records. Additionally, we reviewed the Corporation's 2014 and 2015 physical inventory records to determine whether missing property items were either located or properly disposed of.
- Performed a physical inspection of Corporation IT equipment to determine whether Corporation processes were sufficient to ensure IT equipment was properly accounted for, including evidence that sensitive or confidential information was properly removed prior to disposing of IT equipment.
- Examined Corporation records for 10 capital asset expenses, totaling \$227,612, from the population of 19 capital asset expenses, totaling \$361,912, incurred during the period January 2014 through December 2015, to determine whether the Corporation timely and adequately recorded capital assets to the property records.
- Observed, documented, and evaluated the effectiveness of selected Corporation processes and procedures for:
 - Budgetary activities, cash management, financial reconciliations, settlement agreements, and the periodic review of user access privileges to selected Corporation IT systems.
 - The administration of Corporation purchasing cards in accordance with applicable guidelines. As of May 16, 2016, the Corporation had 67 active purchasing cards.
 - Examined Corporation records for 23 purchasing card expense transactions, totaling \$96,570, from the population of 472 purchasing card expense transactions, totaling \$505,856, made during the period January 2014 through September 2015, to determine whether purchasing card expenses were adequately supported, necessary, and served an apparent public purpose. For an additional 13 expense transactions, totaling \$3,067, we examined Corporation records to determine whether the expenses appeared to be clearly necessary to the performance of the Corporation's statutory duties.
 - The acquisition, assignment, and use of wireless devices with related costs totaling \$50,120 during the period January 2014 through December 2015.
 - Examined Corporation records for 15 travel expense transactions, totaling \$16,531, from the population of 763 travel expense transactions, totaling \$381,537, made during the period January 2014 through September 2015, to determine whether Corporation controls, including policies and procedures, were sufficient to ensure travel expenses complied with the

applicable provisions of State law and conference agendas were obtained by the Corporation prior to reimbursing travel expenses related to conferences.

- Interviewed Corporation management, reviewed Corporation forms, and evaluated Corporation compliance with applicable statutory requirements for collecting and utilizing individuals' social security numbers.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Chapter 2013-83, Laws of Florida, required the Auditor General to conduct an operational audit of the Florida Housing Finance Corporation and provide a written report to the President of the Senate and the Speaker of the House of Representatives by December 1, 2016. Pursuant to the provisions of Section 11.45, Florida Statutes, and Chapter 2013-83, Laws of Florida, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



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

November 10, 2016

Ms. Sherrill F. Norman
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman:

In accordance with Section 11.45(4)(d), Florida Statutes, enclosed is our response to the Auditor General's October 18, 2016, 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 Chris Hirst, Inspector General, at (850) 488-4197.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stephen P. Auger", with a long, sweeping flourish extending to the right.

Stephen P. Auger
Executive Director

Enclosure

Cc: Florida Housing Finance Corporation Board of Directors
Cissy Proctor, Executive Director, Department of Economic Opportunity
Chris Hirst, Inspector General

Rick Scott, Governor

Board of Directors: Bernard "Barney" Smith, Chairman • Natacha Munilla, Vice Chairman
Renier Diaz de la Portilla • Ray Dubuque • John David Hawthorne Jr. • Brian Katz • Leonard Tylka • Howard Wheeler
Taylor Teepell, Florida Department of Economic Opportunity, Ex Officio

Executive Director: Stephen P. Auger

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Quality Assurance Review Program

Finding 1: The Corporation contracted with service organizations to perform, among other things, credit underwriting, loan servicing, and compliance monitoring services. As similarly noted in our report No. 2013-047, the Corporation had not documented the service organization controls relied upon by the Corporation or always ensured that related service auditor's reports clearly and specifically addressed the design and operating effectiveness of all applicable controls. In addition, the Corporation did not always verify that the service organizations monitored and evaluated the adequacy and effectiveness of controls established by subservice organizations.

Recommendation: We recommend that Corporation management enhance procedures for documenting the service organization controls relied upon by the Corporation and work with its service organizations to ensure that SSAE 16 reports clearly and specifically address the design and operating effectiveness of all relevant controls. We also recommend that Corporation management enhance procedures to verify that service organizations monitor and evaluate the organization controls or otherwise ensure that subservice organization SSAE 16 reports provide the necessary assurances.

Response: *Florida Housing receives and reviews the SSAE16 Service Organization Control 1 Type 2 reports (SOC reports) from servicers performing outsourced functions. The controls identified in the SOC reports are reviewed for their relevance to processes related to the generation of the financial statements for Florida Housing. The external auditors of the Florida Housing financial statements examine the SOC reports and look at the documents supporting the review performed by staff. The systems and controls contained in the SOC reports are not the exclusive means of obtaining knowledge of the overall servicer processes relevant to Florida Housing. An important part of the staff review is to recognize the high level of Florida Housing interaction with the services performed by the service organizations.*

Florida Housing has control processes in place for credit underwriting, compliance monitoring, and loan servicing that are highly interactive with these servicers. As a complement to the SOC reports received, this high degree of interaction provides Florida Housing with knowledge of the functioning of the servicers' systems. These systems, which in many cases have no bearing on the financial transactions of Florida Housing, are an integral part of the business of Florida Housing. Florida Housing employs a checklist for the review of the SOC reports, which provides a method for documenting the controls relevant to financial transactions of Florida Housing.

There are other means of assessing the systems employed by service organizations. The response to Finding 2 articulates the high degree of regular interaction between servicers and Florida Housing for various types of internal processes. Ultimately, one very visible control of the credit underwriting process is the presentation of every report to the Board of Directors for their approval in the public Board meeting. Any Board meeting audience member is provided time to speak in public on any item on the agenda (which includes the credit underwriting reports) or other topics that concern them.

Florida Housing plans to implement an enhanced checklist, which will address the relevance and impact of the sub-service organization concern and document any Florida Housing pertinent mitigating controls including the level of interaction among all parties.

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Finding 2: Corporation processes for conducting quality assurance reviews need enhancement to ensure that risk assessments are documented and include criteria to assess the risks associated with specific functions performed by the Corporation and its service organizations.

Recommendation: We recommend that Corporation management document the QARP risk assessment used to develop annual QARP work plans and ensure that the risk assessment includes criteria for assessing the risks associated with the specific functions performed by the Corporation and those performed by service organizations utilized by the Corporation.

Response: *Recognizing there are risks inherent in outsourcing processes, Florida Housing has historically employed, and currently employs, numerous control processes to assess the quality, quantity, and accuracy of the services provided by the service organizations addressed in the finding. For example, there are control processes in place in units that include Asset Management, Loan Servicing, and Multifamily programs. The control systems in place use the criteria articulated in the servicer contracts to affirm the performance of the servicers. In Asset Management, every compliance report is reviewed, and if follow up is needed on noncompliance items identified by the servicer, the staff of Asset Management contacts the servicer. Loan Servicing: examines billings from the servicers to assure Florida Housing that the services are as contracted and consistent with the pricing in the appropriate contract; reviews loan draws created by the servicer to compare them to the total loan amount; and reconciles Florida Housing's loan records to the servicers' trial balances of the loans they service. Multifamily Programs' and HOME Investment Partnerships Program's staff examine and approve loan draw requests prior to processing for payment. The credit underwriting process employed by Florida Housing includes both internal and external professionals examining the report prior to having the Board act on it. Quality Assurance (QA) activities augment these processes by using the criteria expressed in the contract to perform its review.*

In the future, the Office of Inspector General (OIG) and QA will collaborate using results from the OIG enterprise risk assessment process. QA will refine the documentation process used to develop its annual work plan.

Hardest Hit Fund

Finding 3: Corporation controls for reassessing applicant eligibility for certain Hardest Hit Fund (HHF) programs need enhancement.

Recommendation: We recommend that, for each UMAP [Unemployment Mortgage Assistance Program], MLRP [Mortgage Loan Reinstatement Program], and PR [Principal Reduction] Program applicant deemed ineligible for assistance and whose file was subject to a quality assurance review that determined that the credit underwriting review had not been conducted in accordance with program guidelines, the Corporation timely reevaluate applicant eligibility to ensure eligibility determinations are supported by sufficient evidence and applicants receive program funds for which they are eligible.

Response: *During the period January 2014 through December 2015, Florida Housing's Quality Assurance staff performed two reviews on each of the two HHF service providers, a 2014 review and a 2015 review. The 2014 review covered determinations made between June and December 2013 for the UMAP and MLRP programs and October through December 2013 for the PR program (PR started October 2013).*

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The 2015 review covered determinations made between June 2014 and February 2015 for UMAP/MLRP and PR programs.

Quality Assurance staff reviewed 621 ineligible determinations in total over these 4 reviews to ensure they were properly made pursuant to program guidelines. Of these 621 determinations, a small population of 20 total (3.22% of the determinations), 13 from the 2014 reviews and 7 from the 2015 reviews, were found to not be in accordance with program guidelines. Upon a second review, an even smaller population of 2 out of 621 (0.32% of determinations), were determined not to be fully documented. These two determinations, one PR file determined ineligible October 2013 and one UMAP/MLRP file determined ineligible July 2013, were both noted in the earlier 2014 review performed by Quality Assurance.

Although not all documentation required by the program guidelines was properly submitted by the advisor agency, Florida Housing, based on advisor notes to the files and other ancillary documentation, maintains that the determinations were correct. As part of the ineligible determination process, all applicants have the right to appeal their determination if they believe it was in error. Directions for appeal are provided on every ineligible letter. As Florida Housing believed the determinations to be correct and the applicants did not appeal the determinations, Florida Housing did not go back and ask these two applicants for additional information that could further determine them to be ineligible for the programs.

As noted, these two determinations were from 2013 and reviewed by QA in 2014. All files noted in the 2015 QA reviews as not being processed according to Florida Housing's guidelines were concluded to be correctly determined ineligible. In addition, QA finalized their 2015 HHH review in September 2016 and noted that all files sampled were in compliance with Florida Housing's guidelines for both service providers. As the program has matured, there have been fewer files determined not to be in accordance with program guidelines (13 from the 2014 reviews, 7 from the 2015 reviews and zero from the 2016 reviews). Florida Housing maintains that current processes adequately ensure determinations have been correctly made.

Finding 4: The Corporation should work with the Legislature to ensure that the Corporation is authorized to conduct level 2 background screenings on all personnel designated as holding a position of special trust. In addition, the Corporation did not ensure that non-Corporation personnel with CounselorDirect user access privileges were subject to appropriate background screenings.

Recommendation: We recommend that Corporation management work with the Legislature to ensure that the Corporation is authorized to conduct level 2 screenings on all personnel designated as holding a position of special trust. Additionally, we recommend that Corporation management ensure that appropriate background screenings are performed and documented for all individuals who have been, or will be, granted access to CounselorDirect by the Corporation.

Response: *As acknowledged by the Auditor General, Florida Housing performs level 1 background screenings on all employees and is not authorized to conduct level 2 screenings. However, staff will continue to explore options for enhancing background screenings of individuals employed by Florida Housing.*

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Florida Housing contracts primarily with Department of Housing and Urban Development (HUD) approved local housing counseling agencies and licensed attorneys. Each HHF Advisor Agency is also required, by contract, to perform appropriate checks on each employee who will be providing services under the contract. In addition, and as noted in the report, Florida Housing worked with U.S. Treasury and was granted access to the National Loan Modification Scam Database to further screen Advisor Agency personnel. Florida Housing will consider other tools that may be available to us and weigh whether to implement additional screening measures.

Finding 5: The Corporation had not conducted periodic reviews of user access privileges to CounselorDirect or always ensured that access privileges granted to non-Corporation personnel were timely deactivated after the privileges were no longer required.

Recommendation: We recommend that Corporation management enhance procedures to require periodic reviews of CounselorDirect user access privileges.

Response: *HHF Compliance staff has developed well-established procedures for the handling of HHF Advisor Agency staff additions and deletions. HHF Advisor Agency contracts require notice of any change in the list of employees providing services under the contract (specifically, employees who require access to the CounselorDirect system) within seven (7) days of the change. In addition, Advisor Agencies must submit updated employee surveys upon contract renewal and before HHF Compliance staff provide any new access to CounselorDirect. New employee surveys are checked against an internal Microsoft Access database for staff additions and deletions as part of the established vetting process.*

Prior to August 20, 2012, active accounts became "deactivated" by means of Advisor Agency administrator-derived password changes. At the time of separation, the Advisor Agency administrator would change the password of the former employee, resulting in access validation failures if the former employee attempted to access the system. The pushbutton function that CounselorDirect currently uses to deactivate users did not exist at that time. Thus, the five (5) advisors in question remained classified in the CounselorDirect system as "active", even though their access had been deactivated under the process in effect at the time of their departure. As stated in the report, none of these accounts were accessed subsequent to August 20, 2012.

These procedures, along with the employee survey template, are just a few of the many safeguards in place to protect the security of borrower personally identifiable information in the CounselorDirect system. However, going forward, HHF Compliance staff will conduct a complete review of all CounselorDirect access privileges on a periodic basis.

State Housing Initiatives Partnership (SHIP) Program

Finding 6: Improvements in Corporation controls over the electronic transfer of SHIP Program funds to subrecipients were needed.

Recommendation: We recommend that Corporation management maintain listings of individuals authorized to submit EFT [electronic fund transfer] forms and to make changes to EFT instructions and enhance procedures to ensure that EFT instructions are adequately supported and validated.

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Response: *Florida Housing has implemented changes to the EFT procedures. As noted in the report, the EFT form has been removed from Florida Housing's website. SHIP recipient local governments now must request a copy of the form if changes to the deposit account for SHIP are needed. In addition, the form has been revised to require two signatures – one must be the chief elected official or SHIP Administrator and the other the Finance Director or Manager. Florida Housing's revised procedure ensures that all EFT forms requesting a change in banking information are verified by Florida Housing program staff through follow up calls or emails to the local government. The procedural changes to require two signatures from different departments of a local government and verification by Florida Housing staff appropriately mitigate the risk and help ensure that funds are disbursed to the proper local government accounts.*

Selected Administrative Activities

Finding 7: Corporation expenses associated with a lender appreciation dinner and receptions for the Corporation's Board of Directors (Board) did not appear to be clearly necessary to the performance of the Corporation's statutory duties, commensurate with the recognition programs authorized by State law, or limited to the amounts provided by State law.

Recommendation: We recommend that Corporation management ensure that the totality and nature of the expenses associated with lender appreciation dinners are clearly necessary to the performance of the Corporation's statutory duties and commensurate with the recognition programs authorized by State law. We also recommend that, should meals be provided to Board members, the Corporation limit expenses to those that are clearly necessary to discharge Board duties and to the amounts provided by State law.

Response: *As noted in the report, Florida Housing believes that the expenses incurred for the lender appreciation dinner meet the public purpose outlined in statute. The dinner is held every other year and honors lenders who play a critical role in the provision of affordable housing. Over the course of 2014 and 2015, these lenders closed almost 8,600 transactions totaling approximately \$1.6 billion to help Floridians achieve homeownership.*

The Board receptions provide an opportunity for Board members to interact with staff and key advisors, and as such, are an ordinary and necessary expense. The receptions are typically attended by six to eight Board members and at least 10 to 15 Florida Housing staff. The June 2014 meeting was held in Tallahassee. The receptions held in Tallahassee are often attended by more Florida Housing staff who may not travel to out-of-town board meetings. Section 420.504(6), F.S, states that Board members "shall be entitled to the necessary expenses, including per diem and travel expenses incurred" (emphasis added). While Florida Statutes govern the amount of per diem that may be reimbursed to the Board members for expenses they incur, Florida Housing believes this does not necessarily directly translate into a limitation on the cost that may be provided. When meetings are held in other cities, receptions are typically held at the meeting hotel. The cost of the reception is part of an overall package priced by the hotel, which typically includes a food and beverage minimum amount. When less is spent on food and beverage, other costs increase, effectively transferring the cost to another category, such as meeting rooms. Since per diem would then be paid to the traveler, plus possible transportation costs, there may be no real savings achieved. Florida Housing continues to believe that the receptions provide benefits beyond the cost of the food, and are within statutory authority.

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Finding 8: Corporation policies and procedures for employee bonuses did not specify a methodology for calculating bonus amounts or determining the total amount of funds available for bonuses. Additionally, Corporation records did not evidence Board approval prior to awarding bonuses, totaling \$12,500, to the Corporation's Inspector General in 2014 and 2015.

Recommendation: We recommend that Corporation management enhance policies and procedures to specify a methodology for calculating employee bonus amounts and determining the total amount available for bonuses each year. We also recommend that Corporation management ensure that evidence of prior Board approval is maintained for all bonuses paid to the Executive Director and Inspector General.

Response: *At Florida Housing, senior managers work closely with their team members to fulfill job responsibilities. As a result, senior managers have first-hand knowledge of employee's performance and achievements. This allows the senior manager to assess the level of the employee's contributions and identify a corresponding bonus amount. The senior manager then completes a bonus request form and provides specific information to support the bonus amount requested. All bonus requests are reviewed and approved by the Executive Director. The bonus recommendations are occasionally revised during the review process, although the form in the employee file will only reflect the final amount. The review of all bonuses by the Executive Director and the human resources department help ensure that the amounts are consistently awarded in accordance with established policies and procedures.*

As noted in the report, there is no specific amount set each year for bonuses. Florida Housing uses the salaries & benefits budget variance as well as overall net income to arrive at a working total. Senior managers are asked to recommend bonus amounts, and the amounts are reviewed by the Executive Director, Operations Director, Chief Financial Officer and Comptroller to ensure that the total bonuses awarded are reasonable and within the general working total.

Failure to obtain approval of the full Board of Directors for the two Inspector General bonuses was an oversight. Florida Housing provided documentation to the Auditor General staff confirming that both bonuses had been approved by the Board Chair. In the future, Florida Housing will ensure compliance with our policies.

Finding 9: Corporation policies and procedures need enhancement to ensure that Board members disclose, in writing, all direct or indirect conflicts of interest and recuse themselves from participating in any action where a conflict of interest related to a Board agenda item is encountered.

Recommendation: We recommend that Corporation management strengthen policies and procedures to ensure that Board members disclose, in writing, all possible direct or indirect conflicts of interest and recuse themselves from participating in any action where a conflict of interest related to a Board agenda item is encountered.

Response: *As noted in the finding, Florida Housing's General Counsel reviewed the circumstances regarding the Board Member's relationship to the entities appearing before the Board, and concluded that no conflict of interest existed. Nevertheless, new Board member training materials will be reviewed and revised, to ensure that Board members are aware to recuse themselves even in cases where there*

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may be no actual conflict of interest, but where a reasonable person may perceive such a conflict. Florida Housing's policies and procedures will be revised to clarify this as well.

Finding 10: The Corporation had not established a mechanism for tracking the payments made under each Corporation contract. A similar finding was included in our report No. 2013-047.

Recommendation: We again recommend that Corporation management establish a means for tracking contract payments for each Corporation contract.

Response: *As noted in the finding, Florida Housing tracks payments by vendor and expenses are controlled through its operating budget process. Since many contracts are not subject to maximum amounts, Florida Housing continues to maintain the payment tracking process utilized for all contracts is sufficient.*

Finding 11: Corporation controls continue to need improvement to ensure that all property items of a portable and attractive nature are properly recorded and accounted for in Corporation records.

Recommendation: We recommend that Corporation management enhance policies and procedures to ensure that portable and attractive items costing less than \$5,000 be recorded to Corporation records in sufficient detail to facilitate an annual physical inventory.

Response: *As noted in the finding, Florida Housing is in the process of refining the final Portable and Attractive Asset Control policy and establishing and documenting the associated field procedures. Asset tags have been acquired and affixed to all currently assigned assets during an initial inventory conducted in September and October of 2016 and entry of this information into the centralized tracking system is underway.*

Finding 12: The Corporation had not established policies and procedures for the collection and use of social security numbers or evaluated its collection and use of social security numbers to ensure compliance with State law.

Recommendation: We recommend that Corporation management establish written policies and procedures regarding the collection and use of individuals' SSNs [social security numbers] and take appropriate steps to demonstrate compliance with applicable statutory requirements.

Response: *Florida Housing takes great care to safeguard current and former employees' social security numbers and other confidential and sensitive information. Employee records, including social security numbers and other employment documents, are maintained in a locked room and access is limited to Human Resources staff. Florida Housing is updating policies and procedures to ensure compliance with state law and finalizing a written statement, which will be provided to all new hires, explaining why social security numbers are collected.*

Finding 13: Corporation controls for reviewing the appropriateness of network, OnBase, and ShareFile user access privileges need enhancement. Additionally, the Corporation did not always timely

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deactivate employee access privileges to the network, OnBase, or ShareFile upon an employee's separation from Corporation employment.

Recommendation: We recommend that Corporation management establish procedures requiring the conduct of periodic reviews of the appropriateness of network, OnBase, and ShareFile user access privileges. We also recommend that Corporation management ensure that user access privileges to the Corporation's network, OnBase, and ShareFile are immediately deactivated upon an employee's separation from Corporation employment.

Response: *Florida Housing is in the process of implementing a 3rd party security audit/reporting toolset with the associated procedures. These procedures will include periodic reviews of appropriateness reports and verification of non-use for terminated or inactive accounts. Florida Housing will also review and update the user access termination process, adding a second check with subsequent one-week and one-month proactive verifications. Florida Housing will require documentation and sign off for these steps.*

Finding 14: Certain security controls related to audit logging and monitoring of OnBase and Corporation network activity need improvement to better ensure that inappropriate or unauthorized system activity, should it occur, is timely detected and resolved.

Recommendation: We recommend that Corporation management strengthen security controls related to audit logging and monitoring of OnBase and Corporation network activity to better ensure that, inappropriate or unauthorized system activity, should it occur, is timely detected and resolved.

Response: *Florida Housing will implement a process to enhance security controls related to audit logging and monitoring of OnBase and network activity.*