

**Bernard Smith, Chairman**  
**Stephen Auger, Executive Director**

**Brian Katz, Audit Committee Chairman**  
**Chris Hirst, Inspector General**

**Project #2015-02**

**Final Report**  
**Audit of Ethical Climate**

**July 13, 2015**

## SUMMARY

The Office of Inspector General (OIG) conducts audits of Florida Housing Finance Corporation's (Florida Housing) programs to provide management and other stakeholders with unbiased, timely, and relevant information for use in promoting accountability, stewardship and efficient operations.

Our audit disclosed that, overall, staff<sup>1</sup> held a positive, favorable view of Florida Housing's ethical climate.<sup>2</sup> Furthermore, we concluded that Florida Housing was adequately complying with the requirements of applicable ethics codes and regulations; however, some key areas could be improved, such as developing a stand-alone ethics policy and ethics training course.

## OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with the OIG's Annual Audit Plan for Fiscal Year 2015, we conducted this audit. The *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, requires the internal audit activity to evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs and activities. Our audit objectives were to:

- Determine applicability of the Office of the Governor's Executive Order Number 11-03, (Ethics and Open Government), and Chapter 112, Part III, Florida Statutes (Code of Ethics for Public Officers and Employees);
- Evaluate the implementation of applicable ethics codes and regulations; and
- Evaluate the design and effectiveness of Florida Housing's ethics-related objectives, guidance, and activities in order to identify areas of potential weakness.

Our audit scope included ethics-related codes, policies and procedures which were in effect at the time of our audit.

To achieve our objectives, we reviewed the Executive Office of the Governor's Executive Order Number 11-03; Chapter 112, Part III, Florida Statutes; and Florida Housing's policies, procedures and

<sup>1</sup> Staff, as used in this report, consists of employees and contracted individuals with valid Florida Housing email addresses.

<sup>2</sup> Ethical climate is concerned with the "collective personality" of the organization. It is the psychological view of the organization. Ethical climate particularly focuses on ethics-related attitudes; perceptions; and decision-making processes in an organization.

program requirements. We prepared a list of applicable ethics-related requirements and, based on interviews and reviews of records, we determined what actions were being taken to ensure compliance with those requirements. Additionally, we distributed an Ethics Survey to the Florida Housing staff to determine their understanding and opinions regarding the ethical climate.

## BACKGROUND

Ethics can be defined as the discipline dealing with what is good and bad and with moral duty and obligation; a set of moral principles; a theory or system of moral values; the principles of conduct governing an individual or a group; a consciousness of moral importance or a set of moral issues or aspects.<sup>3</sup>

In January 2011, Governor Scott issued Executive Order 11-03, directing the immediate adoption and implementation of a revised Code of Ethics by the Office of the Governor and that it applies to all employees within the Office of the Governor, as well as the secretaries, deputy secretaries, and chiefs of staff of all executive agencies under the Governor's purview. Florida Housing is not an executive agency and therefore is not required to implement the provisions of the Executive Order. Furthermore, Chapter 112, Part III, Florida Statutes (Code of Ethics for Public Officers and Employees), does not apply to Florida Housing based on guidance from Florida Housing's General Counsel. However, Florida Housing recognizes the value in using these documents for guidance in developing their ethics-related policies and procedures.

Florida Housing sets the ethical tone for the organization through the *Strategic Plan* which states that "As Florida Housing carries out its mission and vision, we will conduct business in an honest, ethical, open and respectful manner." In addition, Florida Housing has implemented the following ethics-related policies:

- #1130 - Mission Statement and Guiding Principles
- #2140 - Employment of Relatives
- #2150 - Conflicts of Interest
- #2160 – Outside Employment
- #2170 - Post Employment Restrictions
- #6120 – Employee Conduct and Work Rules

For the Hardest Hit Fund Program, Florida Housing's emphasis on integrity and ethical values have been included in the Program's internal control plan.

On April 1, 2015, the OIG sent to all 128 Florida Housing staff members with a valid corporate email address a 16-question survey to be used to assess Florida Housing's ethical climate and structure. Responses were received from 96 members, a 75% response rate.

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<sup>3</sup> Source: Merriam-Webster Dictionary (<http://www.merriam-webster.com/dictionary/ethic>)

## FINDINGS AND RECOMMENDATIONS

### **Finding 1: Ethics Policy**

An ethics policy is a document that outlines a set of principles that affect decision making by reflecting the organization's values. The ethics policy should be written in such way that it will help employees know what to do when there isn't guidance for something. It is generally wide-ranging and non-specific, designed to provide a set of decision-making approaches that enable employees to make independent judgments about the most appropriate course of action. In many instances, the ethics policy is coupled with a code of conduct which provides a clear set of expectations about actions that are required, acceptable and prohibited.

Although Florida Housing has policies relating to conduct, as noted above, there is not an ethics policy. Additionally, guidance for making ethical decisions needs to be strengthened. When asked in the survey what "makes it difficult to comply with Florida Housing ethics or code of conduct policies" and "what, if anything, would further assist employees to act ethically in connection with their work", some staff members responded:

- *"Having a clear separate policy, periodic training..."*;
- *"I'm uncertain as to whether Florida Housing has any ethics/code of conduct policies"*;
- *"Because unclear about the policies, can't offer suggestions for assistance"*; and
- *"Knowing where to find FHFC Ethics and conduct policies"*.

We recommend that Florida Housing develop an ethics policy using the Governor's January 2011 Code of Ethics as a base standard, to the extent possible. At a minimum, the ethics policy should include the following topics:

- Designation of an ethics officer and delineation of their responsibilities;
- Restrictions on acceptance of gifts;
- How to report suspected ethical violations and fraud;
- Requirements for ethics training; and
- Requirements for disclosure of conflicts of interest by managers and staff.

The ethics policy should also include a list of Florida Housing's other ethics-related policies so that management's expectations regarding conduct and ethics will be addressed in one location.

## **Finding 2: Ethics Training and Awareness**

In the survey, staff were asked to identify when they last received ethics training provided by Florida Housing. Of the 92 responses<sup>4</sup>, 31 (33.70%) stated they had never received ethics training. An additional 17 staff members (18.48%) indicated they had not received training within the past three years.

Survey question number 15 asked *“In your opinion what, if anything, would further assist employees to act ethically in connection with their work.”* Of the 96 responses, 23 (24%) indicated that additional or improved training would assist them. Below are excerpts from some of the responses:

- *“More regularly held ethics training would be very helpful, maybe annually”;*
- *“It would help to have a refresher on ethics, as I truly can't remember the last one”;*
- *“More training on this subject”;* and
- *“Annual ethics training and perhaps reports to the Board regarding ethics training and ethics climate on some regular intervals”.*

In response to the survey results, in April and May 2015, the Inspector General (who serves as the Ethics Officer within Florida Housing), in conjunction with the General Counsel, developed and presented training on the responsibilities of the Office of Inspector General that included a discussion on ethics and integrity. The training was mandatory for all managers and staff and as of May 26, 2015, 117 (96%)<sup>5</sup> staff members had attended the training, with additional sessions planned.

We recommend that Florida Housing implement procedures to ensure that: (1) all current staff receive the ethics training, (2) ethics training is provided to new hires within 30 days of employment and (3) ethics training is presented annually to staff. Additionally, we encourage managers to include applicable ethics-related information in all internal training courses.

## **ETHICS SURVEY RESULTS**

As part of the audit, we assessed the ethical climate of Florida Housing. To accomplish this task, the Inspector General distributed an agency-wide survey that asked staff to rate the ethical climate and structure within Florida Housing and to provide the most appropriate response based on their personal experience.

The Inspector General distributed the survey to 128 staff members. Ninety-six members responded for a response rate of 75%. The responses indicated that members feel that Florida Housing has a favorable ethical climate. For example:

- 83% of respondents agree or strongly agree that senior management models and promotes ethical behavior. 94% and 92%, respectively, responded favorably regarding their supervisors and co-workers.

<sup>4</sup> There were 96 surveys returned to the OIG; however, some respondents did not provide an answer to this survey question.

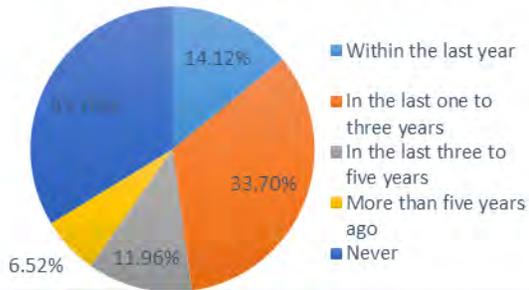
<sup>5</sup> During the training period, there were 122 staff members.

- Of the 89 responses received explaining why staff members had never reported unethical behavior and/or fraud, 82% indicated it was because they never had a question (i.e. they had not encountered unethical or fraudulent activity that they felt should have been reported).

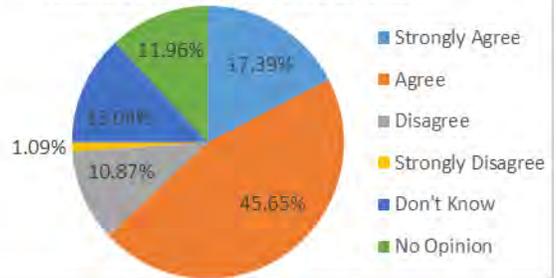
Below are the graphical results of survey questions 1 through 13:



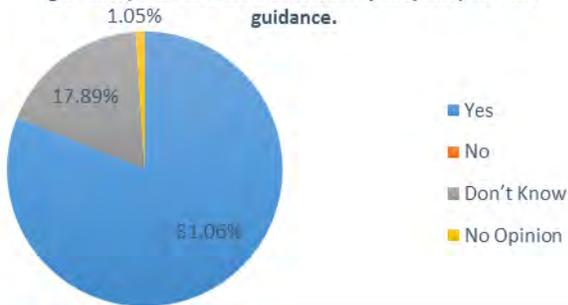
**Question #7: I have received ethics training provided by Florida Housing (choose the appropriate time period):**



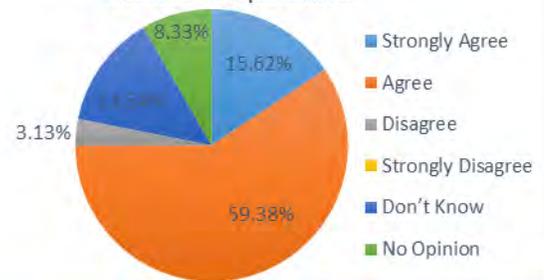
**Question #8: I have been adequately trained by Florida Housing staff to know what constitutes ethical and unethical behavior.**



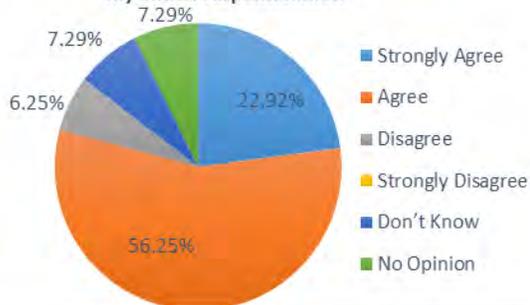
**Question #9: Florida Housing has written ethical guidance, such as a code of conduct policy and/or other guidance.**



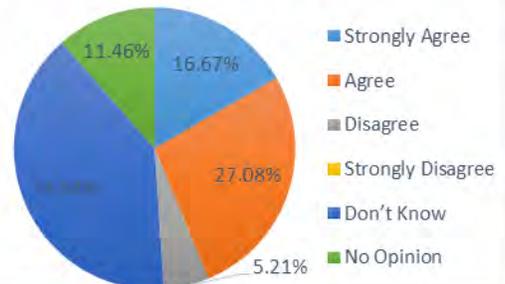
**Question #10: Florida Housing's ethical guidance, including code of conduct, policy and/or other guidance, is clear and comprehensive.**



**Question #11: I believe Florida Housing has made clear my ethical responsibilities.**



**Question #12: Unethical conduct is handled appropriately by Florida Housing management.**



**Question #13: I have been employed at Florida Housing:**



Questions 14 through 16 requested narrative responses. Some of those responses are included in the Findings and Recommendations section of this report. The complete list of responses has been provided to management for their review and consideration.

Question #14: In your opinion what, if anything, makes it difficult to comply with Florida Housing ethics or code of conduct policies?

Question #15: In your opinion what, if anything, would further assist employees to act ethically in connection with their work?

Question #16: Please use the space below to add any comments you wish to offer.

## RESPONSE

In a response letter dated July 6, 2015, management concurred with our recommendations. The response is included in this report as Appendix A.

## ACKNOWLEDGEMENT

The Office of Inspector General would like to extend our appreciation to the management and staff of the Corporation for their assistance and cooperation during this audit.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors. The audit was conducted by David Merck, Systems Auditor, CISA, CISSP-ISSMP, CAP, under the supervision of Kim Mills, Director of Auditing, CPA, CGFM, CIG. This report and other reports prepared by Office of Inspector General can be obtained from the Corporation's website, <http://www.floridahousing.org/AboutUs/OfficeOfInspectorGeneral>.

**APPENDIX A-RESPONSE FROM MANAGEMENT**

(Continued on next page)

July 6, 2015

Mr. Chris Hirst, Inspector General  
Florida Housing Finance Corporation  
227 North Bronough Street, Suite 5000  
Tallahassee, FL 32301

RE: Preliminary Findings and Recommendations on Audit of Ethical Climate

Dear Mr. Hirst:

In accordance with Section 20.055, Florida Statutes, enclosed you will find our response to the Preliminary Findings and Recommendations on the Audit of Ethical Climate dated June 5, 2015.

We appreciate the work of you and your team on this audit. As you will see on the attached document, we have already begun planning for implementing the recommendations.

Please contact me if you have any questions or need additional information.

Sincerely,



Rene Knight,  
Operations Director

Attachments

CC: Executive Director Auger

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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  
Bill Killingsworth, Florida Department of Economic Opportunity

Executive Director: Stephen P. Auger

## Response to Preliminary Findings and Recommendations – Audit of Ethical Climate

### Finding 1 – Ethics Policy

We recommend that Florida Housing develop an ethics policy using the Governor’s January 2011 Code of Ethics as a base standard, to the extent possible. At a minimum, the ethics policy should include the following topics:

1. Designation of an ethics officer and delineation of their responsibilities;
2. Restrictions on acceptance of gifts;
3. How to report suspected ethical violations and fraud;
4. Requirements for ethics training; and
5. Requirements for disclosure of conflicts of interest by managers and staff.

### Response 1

**We concur with the five recommendations described above and will take the following steps to implement the recommendations:**

1. The Operations Director, Inspector General and General Counsel will work together to develop a draft policy that includes the topics identified in this finding by August 31, 2015.
2. The draft policy will be reviewed by Executive Director Auger and Senior Managers and comments/suggestions provided as necessary by September 30, 2015.
3. The anticipated effective date of the final policy is October 31, 2015.
4. Discussion of the policy with all employees will occur at the first all-staff meeting after the policy is final.
5. Beginning after the Ethics Policy is final, new employees will be provided the Ethics Policy in their orientation with Human Resources and it will be discussed with them.

### Finding 2 – Ethics Training and Awareness

We recommend that Florida Housing implement procedures to ensure that:

1. All current staff receive ethics training;
2. Ethics training is provided to new hires within 30 days of employment; and
3. Ethics training is presented annually to staff.
4. Additionally, we encourage managers to include applicable ethics-related information in all training courses.

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Renier Diaz de la Portilla • Ray Dubuque • John David Hawthorne Jr. • Brian Katz • Leonard Tylka • Howard Wheeler  
Bill Killingsworth, Florida Department of Economic Opportunity

Executive Director: Stephen P. Auger

## Response to Preliminary Findings and Recommendations – Audit of Ethical Climate

### Response 2

#### **We concur with the recommendations and submit the following information regarding Implementation:**

1. Item 1 under Finding 2 above is nearly complete. After the ethical climate survey discussed in this audit was completed, the Inspector General and General Counsel presented training for Florida Housing employees in spring 2015 on ethics and integrity requirements. Less than 10 employees need to attend the training and a make-up session is scheduled for July – August 2015.
2. At each new employee's orientation which is provided by Human Resources within their first week of employment, the new employee will receive the Ethics Policy and be trained on ethics requirements as noted in Response 1, item 5. This step will begin when the newly created Ethics Policy is final (estimated to be October 2015).
3. Ethics training will be provided each spring for all employees, including new hires.
4. We will provide ethics-related information in applicable training programs.

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