

Bernard "Barney" Smith, Chairman
Brian Katz, Chair of the Audit Committee
Steve Auger, Executive Director

Chris Hirst, Inspector General

March 6, 2014

Steve Auger
Executive Director
227 N. Bronough Street, Suite 5000
Tallahassee, Florida 32301

Dear Executive Director Auger:

In accordance with Section 20.055(7)(b), Florida Statutes, I am submitting the Annual Report on the activities of the Office of Inspector General for the Fiscal Year of 2013.

The Office of Inspector General is committed to providing leadership in the promotion of accountability and integrity. Over the coming year, it is our goal to continue to work with the Board of Directors, the Audit Committee, and Corporation management and staff to promote our mission of "Enhancing Public Trust in Florida's Affordable Housing."

Sincerely,



Christopher T. Hirst
Inspector General



we make housing affordable

Office of Inspector General

Annual Report
Fiscal Year 2013
March 6, 2014

Chris Hirst, Inspector General

Enhancing Public Trust in Florida's Affordable Housing

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Introduction

Section 20.055, Florida Statutes, requires each Inspector General to submit an annual report summarizing its activities during the preceding fiscal year. This report includes, but is not limited to:

- 🏠 A summary of each audit and investigation completed during the reporting period;
- 🏠 A description of significant abuses and deficiencies relating to the administration of programs and operations of the agency disclosed by investigations, audits, reviews, or other activities during the reporting period; and
- 🏠 A description of recommendations for corrective action made by the Office of Inspector General (OIG) during the reporting period with respect to significant problems, abuses, or deficiencies identified.

This annual report summarizes the OIG's activities and accomplishments for 2013.

Background

Florida Housing Finance Corporation (FHFC or Corporation) was created by the Florida Legislature more than 25 years ago to help Floridians obtain safe, decent affordable housing that might otherwise be unavailable to them.

Today, Florida Housing continues its mission by increasing affordable housing opportunities and ensuring that its programs are well matched to the needs of those served. As such, FHFC continues to work with local governments, non-profits, elected officials and others to help spread the importance of affordable housing in Florida's communities.

In 2000, FHFC re-established the internal audit function and in 2011, Sections 20.055 and 420.506, Florida Statutes, were amended to create the Office of Inspector General within FHFC.

Office of Inspector General

The Office of Inspector General is an essential component of the Corporation providing independent, objective assurance and consulting services designed to add value and improve Corporation operations.









The OIG serves as a central point of coordination and is responsible for activities that provide accountability, integrity, and efficiency. This is accomplished by the OIG conducting independent audits, investigations, and other accountability activities. The OIG's purpose is to promote economy and efficiency and to prevent and detect fraud, waste, and abuse in programs and operations carried out or financed by the Corporation.

The OIG ensures effective coordination and cooperation between the Florida Auditor General, the Office of Program Policy Analysis and Government Accountability (OPPAGA), and federal auditors to avoid duplication of services.

Pursuant to statute, the OIG has full, free, and unrestricted access to all Corporation activities, records, data, and property, and may request any other information deemed necessary to carry out audit assignments or investigative needs. The unrestricted access ensures audits, investigations, and other activities are independent and that results are communicated in accordance with professional standards.

Statutory Requirements

As outlined in Section 20.055, Florida Statutes, the specific duties and responsibilities of the Inspector General include:

-  Providing direction for, supervising, and coordinating audits, investigations, and management reviews relating to the programs and operations of the agency;
-  Keeping the agency head [the board of directors of the Florida Housing Finance Corporation] informed of fraud, abuses, and deficiencies relating to programs and operations administered or financed by the agency, recommending corrective actions concerning fraud, abuses, and deficiencies, and reporting on the progress made in implementing corrective action;
-  Reviewing the actions taken by the agency to improve program performance and making recommendations for improvement;
-  Conducting, supervising, and coordinating activities that promote economy and efficiency and prevent or detect fraud, waste, and abuse;
-  Ensuring effective coordination and cooperation between the Auditor General, federal auditors, and other governmental entities;
-  Reviewing rules relating to programs and operations and making recommendations regarding impact;
-  Assessing the reliability and validity of information provided on performance measures and standards and making recommendations as needed; and
-  Ensuring an appropriate balance between audit, investigative, and other accountability activities.

Professional Standards

Pursuant to Section 20.055, Florida Statute, the Office of Inspector General is required to:

- 🔒 Comply with the General Principles and Standards for Offices of Inspector General as published and revised by the Association of Inspectors General.
- 🔒 Conduct audits in accordance with the current International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors, Inc., or, where appropriate, in accordance with generally accepted governmental auditing standards.

Professional Certifications

Current staff members hold the following certifications:

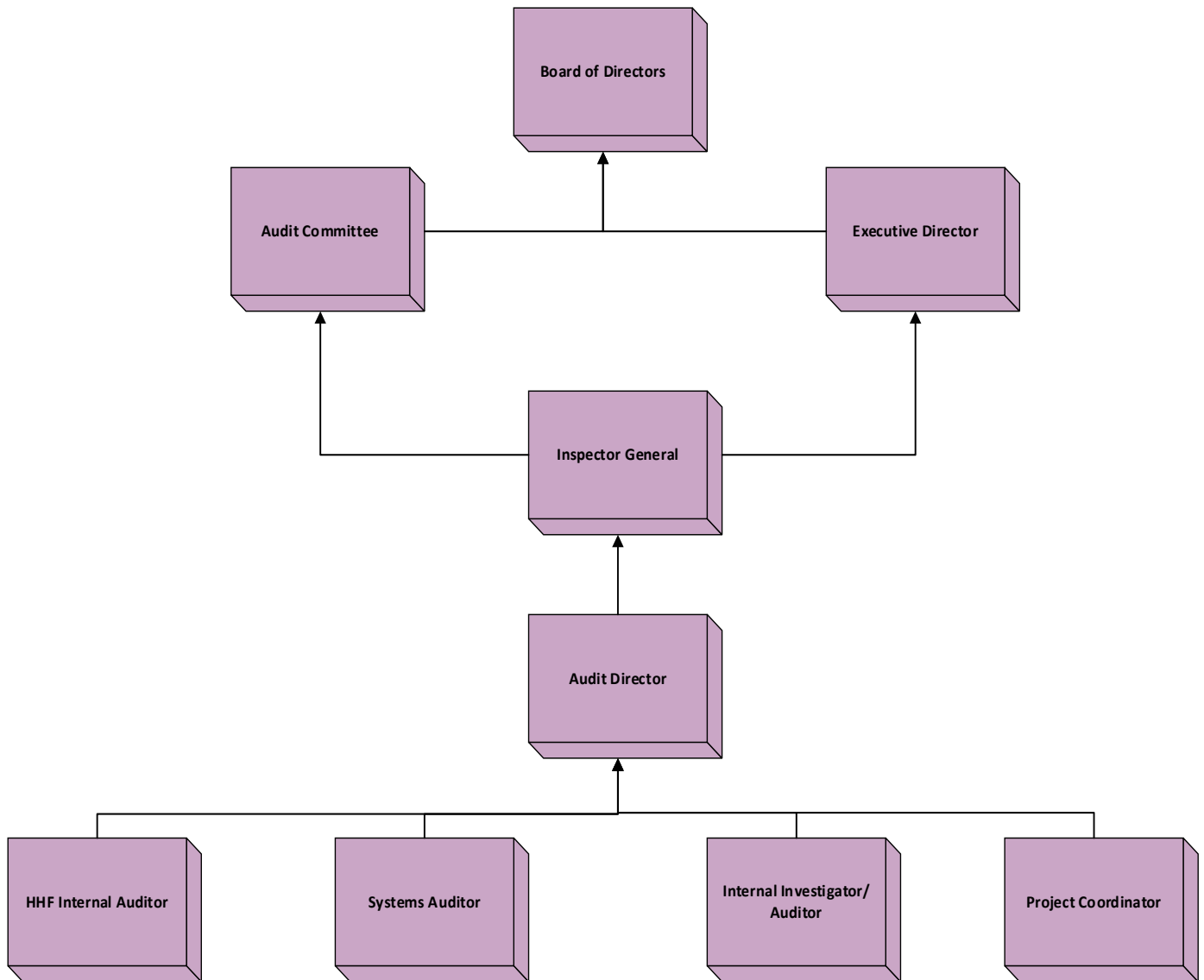
- 🔒 Certified Authorization Professional (1)
- 🔒 Certified Government Financial Manager (1)
- 🔒 Certified Information Systems Auditor (1)
- 🔒 Certified Information Systems Security Professional (1)
- 🔒 Certified Inspector General (3)
- 🔒 Certified Public Accountant (2)
- 🔒 Notary Public (3)

Professional Organizations

Current staff members belong to the following organizations:

- 🔒 Association of Government Auditors (AGA)
- 🔒 Association of Inspectors General (AIG)
- 🔒 Federal Bureau of Investigation National Academy (FBINA)
- 🔒 Institute of Internal Auditors (IIA)
- 🔒 Information Systems Audit and Control Association (ISACA)
- 🔒 Information Systems Control Association (ISC2)
- 🔒 State Law Enforcement Chief's Association (SLECA)
- 🔒 InfraGard (The program is a FBI public/private cooperative effort dedicated to improving our national security.)

Organizational Chart








The Office of Inspector General consists of six positions, five of which are funded by the Corporation, and one is funded through the Federal Hardest-Hit Fund (HHF) Program. This fiscal year, the OIG has experienced a 100% employee turnover of all Corporation funded positions. The composition of the OIG staff was restructured to accommodate the changing needs of the Corporation.

Investigations

The Office of Inspector General reviews all complaints or requests for assistance received via telephone, letter, fax or email. The Office reviewed a total of **143** complaints or requests for assistance.



Of the total number of complaints or requests for assistance received:

-  **74** were provided information or no further action was needed;
-  **25** were non-jurisdictional and were referred to the appropriate entity;
-  **24** were referred to Corporation management for handling as deemed appropriate;
-  **16** were opened for investigation or management review; and
-  **4** were referred to Corporation management for review and response.

Investigations Section

Staff initiate investigations or management reviews when violations of rule, statute, policy and/or contract requirements are alleged, including those filed under the Whistle-blower's Act.¹ While investigations are administrative in nature, criminal violations are often discovered during the investigative process. When a determination is made that the subject of an investigation has committed a potential criminal violation, the investigation is coordinated with the Florida Department of Law Enforcement, the State Attorney's Office, or the appropriate agency for criminal prosecution.

Investigations

-  **16** cases were opened for investigation.
-  **9** investigations were completed.

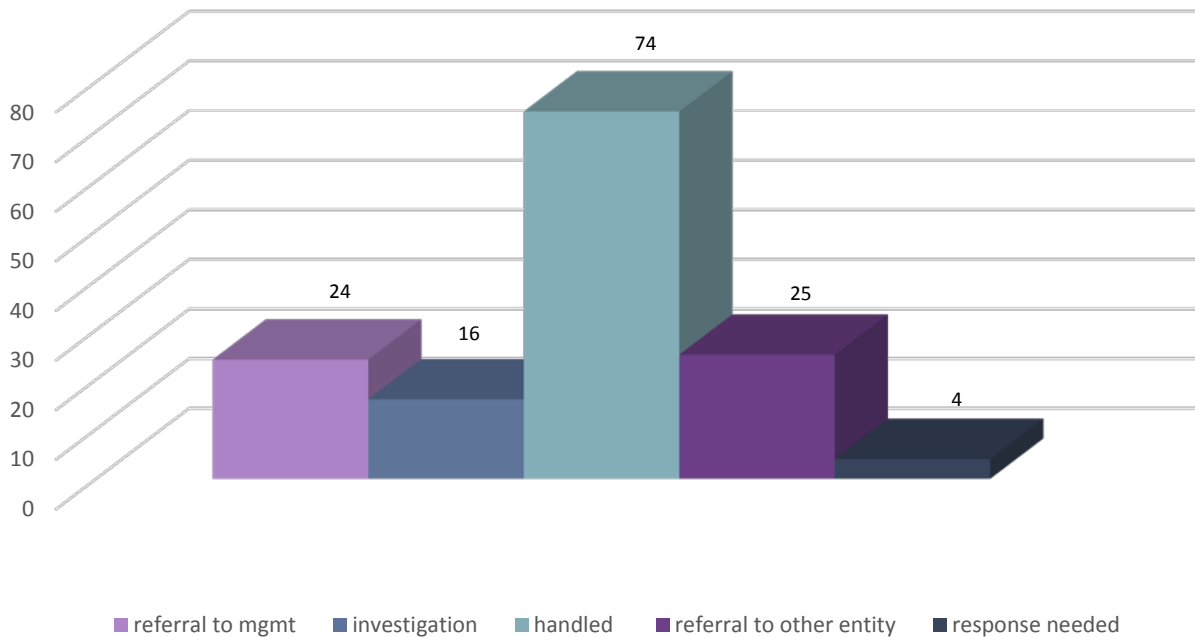
Recommended Corrective Actions

Based on the investigation, the OIG may make recommendations in the form of a corrective action. The recommendations are for the purpose of process improvement and are made to Corporation management or contracted providers. The final reports, including recommendations, are required to be sent to all appropriate parties and actions are to be tracked to completion.

¹ The Whistle-blower's Act, §112.3187-112.31895, F.S., is intended to protect current employees, former employees, or applicants for employment with state agencies or independent contractors from retaliatory action. Whistle-blower designation is determined by the OIG in consultation with the Governor's Chief Inspector General's office. If a complaint meets whistle-blower criteria, the whistle-blower's identity is protected from release and an investigation is conducted pursuant to §112.3189, F.S.

The following chart provides a comparative analysis of how complaints were handled in the OIG for Fiscal Year 2013

How Complaints Were Handled



Summary of Investigations and Corrective Actions Completed During FY 2013

IAC-2012-57

A Hardest Hit Fund recipient misrepresented their employment and income by not reporting a home health care business which they illegally owned and operated, earning approximately \$90,000 a year.

Finding: Not Supported

Correct Action: None required

IAC-2012-106

Married Hardest Hit Fund applicants do not meet the eligibility requirements because their income is too high.

Finding: Not Supported

Correct Action: It was recommended that HHF Program staff correct the formula error on the HHF eligibility computation form and document appropriate additional Area Median Income (AMI) test considerations.

IAC-2012-117

A Florida Housing Finance Corporation's employee conducted work for their personal business during work time and used Florida Housing's resources for the business as well.

Finding: Supported

Corrective Action: Employee received a verbal reprimand.

IAC-2012-124

A Hardest Hit Fund recipient may not meet eligibility requirements due to purchasing her home "free and clear"; unclaimed child support; child's medical bills were covered by insurance and the child's father; indicating child is her dependent even though father provides all financial support; identifying herself as a single mother head of household although the custody agreement is 50/50; child's medical condition is not as serious as listed; and recipient had a job until she was laid off in 2010 and did not regain employment until 2012.

Finding: Not Supported

Correct Action: None required

IAC-2012-129

A Hardest Hit Fund recipient, who was included in an article by the *Tampa Bay Times*, had been subject to several previous fraud investigations, charges and convictions and is currently in jail.

Finding: Supported

Correct Action: HHF Program staff was informed of the findings which were appropriately noted in the recipient's HHF file. Florida Housing Loan Serving staff were also informed due to providing a payoff amount of \$8,113.00 for the recipient's HHF loan. Florida Housing Legal staff will formally request repayment of these HHF funds. In accordance with HHF procedures, the US Treasury was also informed of the findings.

130426-03²

A Hardest Hit Fund recipient misrepresented her marital status, household size and household income when she applied for the HHF program.

Finding: Not Supported

Correct Action: None required

130429-11

A Hardest Hit Fund applicant did not disclose income from self-employment when applying for the program.

Finding: Supported

Corrective Action: It was recommended that the report be forwarded to US Treasury in accordance with HHF procedures and the Office of General Counsel should refer the applicant to the Florida Bar for conduct unbecoming a member in good standing. It was also referred to the Department of Economic Opportunity

² The numbering system used for reports was changed by the interim Inspector General.

as the determination of eligibility for unemployment compensation may have also been based on misrepresentations. An additional recommendation was that HHF Program staff consider requiring applicants to submit copies of tax returns regardless of their employment status, as the tax returns may reveal information that applicants do not readily disclose otherwise.

130610-01

The City of Fort Pierce was engaging in questionable business practices with regards to certain contractors being favored in the awarding of contracting jobs; low bidding and receiving change orders on the back end; double dipping; certain families being favored in getting funding; in house funding to employees; and kickbacks.

Finding: Neither Supported Nor Refuted

Corrective Action: It was recommended to apply more oversight on the front end of the selection process. In addition, the Board should be made aware of "Contractor Awards," as this would create more transparency and control during the selection process.

130709-03

A Hardest-Hit Fund Administrator for St. Johns Housing Partnership, Inc. (SJHP) conspired with a Hardest-Hit Fund applicant to falsify an application for assistance from the Hardest-Hit Fund program. The administrator also had a conflict of interest in working with the applicant.

Finding: Supported

Corrective Action: It was recommended that FHFC notify SJHP of any conditions for continuing to contract with SJHP. It was also recommended that an independent evaluation be obtained to ensure that SJHP's internal controls system is effective in identifying and disclosing false statements and events of default. Additionally, the report was forwarded to FDLE for criminal review and subsequent prosecution.

Internal Audit

Internal Audit Section

The Internal Audit Section's primary responsibility is to assist Corporation management in determining whether adequate controls exist and risks are mitigated to ensure the orderly and efficient conduct of business. In addition, Section 20.055(7)(a), F.S., requires a description of activities related to the development, assessment, and validation of performance measures. These activities are integrated into the audit process.

The Internal Audit Section published two audit reports, which included three recommendations for improvement. Follow-ups on three external audits/reviews were completed. There were no significant recommendations described in the previous annual report on which corrective action has not been completed.

Summary of Internal Audit Reports Issued During FY 2013

Quality Assurance Audit Report HHF Compliance Monitoring Agent - Seltzer Management Group

The Florida Housing Finance Corporation (FHFC) contracted with compliance monitor Seltzer Management Group (SMG) to evaluate the performance of Hardest Hit Fund (HHF) Advisor Agencies. The HHF Advisor Agencies perform basic intake and eligibility determination services for the HHF Program. Pursuant to the contract, SMG was required to review a sample of HHF Advisor Agencies' client files and management procedures. The objectives of the audit of HHF Compliance Monitoring Agent SMG were to evaluate: (1) SMG's compliance with contract terms, agreements, laws, administrative rules, other guidelines, and HHF policies; (2) the reliability of applicable HHF records and reports; (3) the effectiveness and efficiency of the HHF compliance monitoring reviews; and (4) the safeguarding of related HHF assets. While it was noted that improvements were needed in the areas of file scoring and Advisor Agency response reviews, SMG generally complied with contractual requirements to perform reviews of Advisor Agencies. In addition, SMG issued reports timely, tested all files as requested by FHFC, and used agreed upon scoring methodologies. It was recommended that SMG review procedures for evaluating files to ensure that file scores are accurate and that file reviews address inadequate or inconsistent documentation related to each cause of ineligibility. Additionally, it was recommended that SMG verify responses to all observations to ensure that corrective actions are completed. SMG's response included, "Seltzer has strived to improve the review process by adding additional quality control review before reports are sent to the Advisor Agencies and adding a second sign-off process before an Advisor Agency's review report is closed out."

130429-07 – Audit of Compliance by Munroe & Munroe Mortgage & Money Management, Inc. – a Hardest-Hit Fund Advisor Agency – with Requirements to Safeguard Personally Identifiable Information

The Hardest Hit Fund (HHF) Program's contracted advisor agencies, such as Munroe & Munroe Mortgage & Money Management, Inc. (5M Inc.), are required to obtain, store and safeguard personally identifiable information (PII). The objective of this audit was to evaluate 5M Inc.'s compliance with PII requirements for the period beginning in June 2012 when the contract was revised through the date fieldwork was completed. Overall, 5M Inc. had established adequate internal controls required to adhere to the PII requirements in the contract. Their written procedures addressed file storage, retention, and disposal and also included requirements that employees acknowledge their awareness of HHF PII requirements. 5M Inc. also had a policy to load and store incoming files received from homeowners on three thumb drives in an effort to reduce the need for retaining paper files. While 5M Inc. did have a procedure to ensure that the thumb drives were properly locked and secured when not in use, additional security controls were needed. In response to the recommendation to implement adequate controls, 5M Inc. eliminated the use of thumb drives and implemented cloud file storage. Therefore no further action was required by 5M Inc.

Summary of Reviews Completed During FY 2013

130429-04 – 2012 Annual FHFC Performance Measures Review

130429-03 – 2013 First Quarter FHFC Performance Measures Review

130722-02 – 2013 Second Quarter FHFC Performance Measures Review

131011-01 – 2013 Third Quarter FHFC Performance Measures Review

Section 20.055, Florida Statutes, requires that the OIG perform a validity and reliability assessment of the agency performance measures and, if needed, make recommendations for improvements. The Florida Housing Performance Measures Reviews, prepared pursuant to the Affordable Housing Services Contract with the Department of Economic Opportunity (DEO), are reviewed quarterly and annually. These reports contain data pertaining to the performance measures and targets established by Section 420.511(1)(a) through (e), Florida Statutes. The OIG reviewed the quarterly and annual performance measures to ensure its accuracy prior to submission of the report to the DEO Executive Director. Each of the Corporation's reviews determined that the reports were accurate and supported by the appropriate documentation prior to submission.

130502-05 – State Housing Initiatives Partnership Pinellas County Review

State Housing Initiative Partnership (SHIP) Program staff asked that the OIG provide guidance for responding to the findings of Pinellas County Division of Inspector General Investigation Report Number I-2011-04, *Investigation of Community Development's \$3.4 million SHIP Loan to Crest Capital, LLP*. The investigation questioned whether the loan was properly handled by the Pinellas County Community Development staff. The review found that SHIP funds were used to purchase a parcel of land that was to be used to construct affordable housing. However, legal and construction difficulties prevented the project from moving forward. Pinellas County filed suit, and was awarded a judgment against the developer. Pinellas County did reimburse the SHIP account and the funds were reallocated to other eligible SHIP projects. It was recommended that the Pinellas County SHIP program be subject to a compliance monitoring review to include the process weaknesses identified in this report. Management agreed with the recommendation for a compliance monitoring review and indicated that a compliance monitoring review will be scheduled as soon as possible. Management also indicated that SHIP staff had reviewed Pinellas County Annual Reports for the past four close-out years through fiscal year 2009/2010, and the reports properly recorded the SHIP fund reimbursement.

130611-02 – ITS Policy Review

The report provided a commentary on the information technology policies in Florida Housing's Employee Policy and Procedures Handbook. The comments were intended to provide management with suggestions from independent OIG staff that could enhance the policies reviewed.

External Audit Reports Issued During FY 2013

130429-09 Audit Assistance for Annual Financial Statement (Ernst and Young)

Two OIG internal auditors assisted with the external audit of the Corporation. They provided approximately 800 hours of audit assistance.

Follow-up Reports Completed During FY 2013

Auditor General

Report No. 130429-05 – Six-Month Status Report of Corrective Actions Taken for Auditor General (AG)
Report No. 2013-047

OPPAGA

Report No. 130429-06 - Six-Month Status Report of Corrective Actions Taken for Office of Program Policy Analysis and Government Accountability (OPPAGA) Report 12-10

US Treasury

Report No. 130502-02 – Follow-up on US Treasury HHF Compliance Review

Special Projects

Throughout the fiscal year, the Office of Inspector General participated in various special projects assisting Florida Housing management.

Lottery Number Assignment for RFA 2013-01

Lottery Number Assignment for RFA 2013-02

Lottery Number Assignment for RFA 2013-03

Lottery Number Assignment for RFA 2013-04

Lottery Number Assignment for RFA 2013-05

Lottery Number Assignment for RFA 2013-06

Lottery Number Assignment for RFP 2013-07

Lottery Number Assignment for RFP 2013-08

Lottery Number Assignment for RFA 2013-10

The instructions for various Florida Housing competitive funding programs provide that each request for funding will receive a random lottery number at or prior to the issuance of final scores or ranking. Florida Housing's, Office of Inspector General, has a process to assign lottery numbers using a random number generator program. The process depends on seed numbers being input into the program and to remove any bias, the seed numbers are selected by the Chairman of the Florida Housing Board of Directors.

The Chairman is presented a booklet containing 1500 line numbers in 14 columns. This booklet was produced in 1949 by tabulating 75,000 machine cards that recorded the waybills received during three months by the Interstate Commerce Commission, Bureau of Transport Economics and Statistics. Persons who generated lists of random numbers have continued to use this set of numbers as seed numbers for much more modern random numbers generation software. The Chairman selects 10 sets of column and row numbers. The five digit numbers selected in this matter are the seed numbers used to generate the lottery numbers used for the competitive funding programs.

130925-01 - Principal Reduction Initial Roll-out Complaints

For the period of September 25, 2013 until November 13, 2013, the OIG responded to 47 complaints pertaining to the Principal Reduction Program. These complaints were received from the HHF Report Fraud Website and transmitted to the OIG via email. The OIG reviewed the complaints to ensure that there were no issues related to fraud, waste or abuse.

Over 60% of the complaints (30), were received the first two days that the Principal Reduction program website went live and started receiving applications. These complaints involved receiving a message that stated the program had already exceeded the number of allowable applicants. It was determined to be a glitch in the system and the issue was resolved within seven minutes.

There were also multiple complaints received related to customer service or lack of contact by advisor agencies assigned to review files for eligibility. Finally, there were some complaints relating to technical

issues. These involved such things as misleading websites and the inability to gain re-entry into the system. The OIG assisted management with identifying appropriate referrals and ensuring timely resolution of technical and customer service-related issues.

OIG Initiatives

Since September of this fiscal year, the OIG has begun several projects to improve the efficiency and effectiveness of the office. The OIG is working diligently to meet its statutory mandates and fulfill its mission of “Enhancing Public Trust in Florida’s Affordable Housing.”

- 🏠 OIG Charter – required by the professional standards of the IIA – subsequently approved in January 2014.
- 🏠 Audit Committee Charter – outlines the responsibilities, including the mission and authority of the OIG for FHFC – subsequently approved in January 2014.
- 🏠 Policy and Procedures – all of the policies and procedures relating to the OIG have been revised, along with the addition of several more, including a mandatory reporting requirement for FHFC employees to follow.
- 🏠 ICMS – Investigations and Complaint Management System – a correspondence/investigation tracking database. It also has the ability to run various reports of the information contained within the database.
- 🏠 IIAMS – Integrated Internal Audit Management System – a system to manage all aspects of an internal audit project, including time management.