

**GROWTH MANAGEMENT
AND
DEVELOPMENT SERVICES**

**HOUSING AND COMMUNITY
DEVELOPMENT DIVISION
HOUSING PROGRAMS
AUDIT 06-21
FEBRUARY 23, 2007**



CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Roger Strout, Internal Audit Director

February 23, 2007

Honorable Pam Iorio
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Housing Programs, Audit 06-21

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on Housing Programs.

The Housing and Community Development Division has already taken positive actions in response to our recommendations. We thank the management and staff of Housing and Community Development Division, Revenue and Finance, and East Tampa Community Redevelopment Area for their cooperation and assistance during this audit.

Sincerely,

Roger Strout
Internal Audit Director

cc: Cynthia Miller, Growth Management and Development Services Director
Mark Huey, Economic and Urban Development Administrator
Bonnie Wise, Revenue and Finance Director
Darrell Smith, Chief of Staff

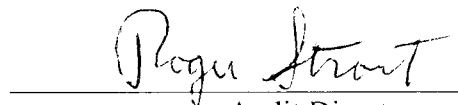
**GROWTH MANAGEMENT AND DEVELOPMENT SERVICES
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Auditor



Audit Supervisor



Audit Director

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INTRODUCTION

The City of Tampa’s affordable housing program is administered by the Housing and Community Development Division (HCD) of Growth Management and Development Services. HCD has an authorized staff of 30 and obtains funding through various federal and state grants. Currently, the City receives funding through Community Development Block Grants (CDBG), Home Ownership Made Easy (HOME), Housing Opportunities for People with Aids (HOPWA), Emergency Shelter Grant Program (ESGP), and State Housing Initiatives Program (SHIP). Additionally, HCD is responsible for administering the East Tampa Community Redevelopment Area’s Tax Increment Financing (TIF) housing assistance related funds.

There are several funding opportunities offered by HCD: down payment assistance, owner-occupied rehabilitation, emergency relocation, emergency shelter, on-site replacement, and multi-family rental. Individuals requesting assistance must qualify with income guidelines established by the funding source to be used. Multi-family projects that receive funding are required to maintain a pre-determined number of affordable housing units for individuals who meet the income guidelines of the funding source used for the project. All funding provided is recorded with the Clerk of the Court as a mortgage on the property and as a deferred payment loan with the City of Tampa. Deferred payment loans are not repaid to the City of Tampa unless title to the property changes from the initial applicant.

STATISTICS

<u>GRANT SOURCE:</u>	FY04	FY05	FY06
CDBG	\$7,118,449	\$9,834,745	\$5,986,926
HOME	\$2,301,450	\$2,273,728	\$1,123,761
HOPWA	\$3,641,761	\$2,814,113	\$2,483,144
SHIP	\$3,336,470	\$3,293,722	\$3,915,091
EMERG SHELTER	\$150,892	\$181,330	\$164,770
TOTAL REVENUES	<u>\$16,549,022</u>	<u>\$18,397,638</u>	<u>\$13,673,692</u>

Source of Information: FY07 Budget Supplement Actual, except for FY06 which reflects projected budget.

As of May 31, 2006, the mortgage servicing agent reported more than \$29 million in outstanding loans for housing program related activities.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY06 Audit Agenda. The objectives of this audit were to ensure that:

1. Loans were disbursed in compliance with the guidelines of the funding source.
2. Denial letters were sent in a timely manner.
3. Owner-occupant requirements for deferred payment loans were being met.

STATEMENT OF SCOPE

The audit period covered current housing program activity and any outstanding loans that occurred from October 1, 2004, through May 31, 2006. Source documentation was obtained from the Housing and Community Development Division. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data provided by an external mortgage servicing agent. The system that generates the report is not accessible by City of Tampa employees. Therefore, no conclusion can be made regarding the integrity of the data.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Overall, loans were disbursed in compliance with the guidelines of the funding source. However, in some instances, documentation supporting compliance required improvement. Additionally, the process ensuring that all loans are properly recorded in the City's financial system needs improvement.
2. Denial letters were not always sent in a timely manner.
3. Confirmation letters disclosed some instances where owner-occupant requirements for deferred payment loans were not always being met.

NOTEWORTHY ACCOMPLISHMENTS

The Housing and Community Development Division of Growth Management and Development Services displayed substantial improvement in its documentation and overall control environment. The staff has been re-organized and a new Manager has enhanced the administration of housing programs with a dedicated monitoring function.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Housing and Community Development Division, they do present risks that can be more effectively controlled.

DEFERRED PAYMENT LOANS

The Housing and Community Development Division (HCD) provides funding for multi-family housing rental assistance, economic development projects, and single family home ownership or rehabilitation. Approved funding is recorded as a mortgage on the property and disbursed as a deferred payment loan. However, the method used to record the funding in the City's financial system and "monitor" the status of ownership of the property is not consistent.

Single Family Residences

Funding for single family residences that are to be disbursed are wired, by the City's Accounting Division, to an external escrow agent and subsequently recorded on the City's financial system (FAMIS) as an accounts receivable. Additionally, the mortgage information is submitted to an outside mortgage servicing agent in order to monitor the payment of property taxes and hazard insurance. If the mortgage servicing agent notifies HCD of any unpaid tax bills or lapsed insurance coverage, HCD will follow-up to determine if there has been a change in ownership of the property. A change in ownership is deemed to be a "default" in the terms of the mortgage and requires repayment of the deferred payment loan to the City of Tampa.

Multi-Family Residences and Economic Development Projects

Instead of using an escrow agent (as noted above), funding provided for recent multi-family projects and an economic development project were disbursed directly to the mortgagee by a purchase order through the City's accounts payable system (ADPIC). In addition – instead of an external mortgage servicing agent – staff within HCD was responsible for monitoring the status of the property for ownership changes.

The importance of the proper recording of the mortgage is predicated upon the terms of the mortgage. All of the mortgages and terms of the deferred payment loan require that the mortgagee remain on the property (single family residence), provide affordable housing (multi-family residence), or provide an economic impact (economic development project) for an established period of time. If the terms are not met, the amount of the deferred payment loan is required to be repaid.

HCD Management determined that the terms for the multi-family and economic development projects were highly favorable to the mortgagee to the extent they would never be in default. Therefore, loans were disbursed directly to the mortgagee, no accounts receivable was recorded, and the loan was not submitted to the mortgage servicing agent. However, in reviewing activity for prior projects, it was noted that one project had been recorded as an accounts receivable in FAMIS. From an internal control standpoint, the inconsistent treatment of the same funding activity can create an opportunity for mishandling of loan resources.

From a control standpoint, there should also be a separation between the initiation, approval, recording, and monitoring processes for deferred payment loans. However, currently, HCD

initiates, approves, submits loans to be monitored to the mortgage servicing agent, and instructs General Accounting on which loans to record, either as a payable or receivable.

RECOMMENDATION 1

Management should review its procedure for recording deferred payment loans and ensure it is consistent with Generally Accepted Accounting Principles (GAAP). It is important to note that in the 2004 and 2005 Comprehensive Annual Financial Reports (CAFR) the external auditors advised the City of Tampa to submit all loans to the mortgage servicing agent and record the loans. We recommend that each recorded mortgage be recorded as an accounts receivable and that a procedure be developed and implemented to ensure an independent source is used to identify all disbursements that generate an accounts receivable.

AUDITEE RESPONSE FROM REVENUE AND FINANCE AND GROWTH MANAGEMENT

GROWTH MANAGEMENT'S RESPONSE:

We agree. HCD will conduct a review of Policy and Procedures for recording deferred payment loans for single-family residences, multi-family projects, and economic development projects. HCD will work with the General Accounting Division of Revenue and Finance to develop a Policy and Procedure where each recorded mortgage is recorded as an accounts receivable and that an independent source is used to identify all disbursements that generate an accounts receivable.

REVENUE AND FINANCE MANAGEMENT'S RESPONSE:

We agree. R & F will conduct a review of Policies and Procedures for recording deferred payment loans for single-family residences, multi-family projects, and economic development projects. R & F will work with HCD to develop Policies and Procedures which either record mortgages as an accounts receivable and / or provide an independent source to identify disbursements related to these mortgages.

CONFIRMATION PROCESS

A random sample of 50 deferred payment loan recipients were sent a confirmation letter to determine if the original mortgage holder was still the owner-occupant of the property. There were 28 responses received. Alternate procedures were performed and an additional 10 non-responding recipients were contacted. Based on the responses and the alternate procedures, it was determined that nine recipients (23%) were no longer the primary resident of the property. The loans to these nine recipients totaled \$153,776.

The terms of the deferred payment loan were that the funds did not have to be repaid as long as the recipient was the primary resident of the property; however, if title to the property and / or residency of the original mortgagee changes, the funds are due and payable. Currently, the only process to monitor single family residences with deferred payment loans, to determine if title had changed, occurred when the mortgage servicing agent notified HCD of any lapsed insurance coverage or unpaid property taxes. Multi-family residences and economic development projects with deferred payment loans were monitored on a scheduled basis by assigned staff within HCD.

RECOMMENDATION 2

Management should determine the status of the loans identified as non-owner occupied during this audit. Also, a periodic confirmation process for all outstanding loans should be developed and performed with the appropriate follow-up for those who are not in compliance.

In addition, a procedure should be developed for the action to be taken when it is determined that insurance coverage has lapsed on properties secured by a mortgage.

AUDITEE RESPONSE

We agree. HCD Management will follow-up to determine the status of the loans identified as non-owner occupied during this audit and take appropriate action. HCD will establish a Policy and Procedure to establish a process for periodic follow-up for all outstanding loans and a methodology for ensuring compliance. HCD will initiate discussions concerning a Policy for requiring insurance coverage on properties secured by a mortgage.

EAST TAMPA TAX INCREMENT FINANCING

During the preliminary survey phase of the audit, it was identified that the Housing and Community Development Division was also responsible for providing funds, generated through the East Tampa Tax Increment Financing (TIF) to eligible property owners. However, there was no written policy or procedure for how the funds were to be administered.

During the fieldwork phase of the audit, a draft policy and procedure was provided. However, the draft indicated that the East Tampa Community Revitalization Partnership (ETCRP) would have input in any decision made to deny an applicant. A discussion with the East Tampa Community Redevelopment Area Manager indicated that the ETCRP is an advisory group only and does not have any policy making or loan approval / denial review capabilities.

RECOMMENDATION 3

A written policy and procedure for the administration of the East Tampa Tax Increment Financing funds for income qualified owner-occupied housing assistance should be approved and implemented. The authority of the ETCRP in the awarding of TIF funds for property transactions should be determined. If it is determined that ETCRP has a role, it should be clearly delineated in a written policy.

AUDITEE RESPONSE

The East Tampa Tax Increment Financing (TIF) policy has been approved by the management of HCD, GMDS, and Urban Re-development Departments. The East Tampa Community Revitalization Partnership (ETCRP) is only an advisory group and does not have any policy making or loan approval/denial authority. ETCRP is informed on a monthly basis on the status of all TIF funded rehabilitation cases.

LOAN DENIALS

A sample of 43 applications that had been denied deferred payment loan assistance was selected to review for compliance with the Equal Credit Opportunity Act (ECOA). The review disclosed that only 19 applications were required to comply with the guidelines of ECOA. Of the 19, it was identified that seven recipients (37%), had a Notice of Denial form that was dated more than 30 days after the decision to deny had been made. The notice of denial dates ranged from 32 to 86 days after the decision was made.

East Tampa Address

There were 15 addresses in East Tampa that had been denied funding assistance. Seven of the denials were based on the cost to repair. However, in reviewing the documentation, there was no evidence that the funding allowed through the East Tampa Tax Increment Financing was considered as additional monies to be combined with the resources available through the housing assistance programs offered by the City of Tampa.

During a discussion with the Housing and Community Development Division Management it was indicated that the denials for rehabilitation in East Tampa were being re-evaluated.

RECOMMENDATION 4

Management should develop a procedure that would ensure that all loans adequately document all the information used in making a loan denial decision and that denial letters be mailed within 30 days.

AUDITEE RESPONSE

HCD Management is modifying all applicable HCD Policy and Procedures to ensure that information used to make a loan denial decision is documented in each separate case file and that loan denial letters are mailed within 30 days.