



Clerk of the Circuit Court Board of County Commissioners

Marion County



Internal Audit Division

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MEMORANDUM

TO: Patrick G. Howard, County Administrator
Janet Y. Tutt, Deputy County Administrator

FROM: David R. Ellspermann, Clerk of the Circuit Court
Wallace K. Watford, Internal Auditor

DATE: July 30, 2004

RE: LIMITED REVIEW: MARION COUNTY HOUSING FINANCE AUTHORITY

The County's external financial auditors, Purvis, Gray & Company, have expressed certain concerns over the past three years about the Marion County Housing Finance Authority. These concerns did not rise to the level of an issued "management letter" comment, but were significant enough to be raised and discussed with County management. The expressed concerns consisted essentially of two related matters that were initially raised at the conclusion of the FY 2001 financial audit. The first is that County management should provide more administrative oversight of the operating and financial activities of this significant authority. The second is that there is a lack of segregation of incompatible financial duties performed by Authority board members, apparently due to the small number of volunteer members. At the conclusion of the FY 2003 financial audit, Purvis, Gray & Company noted that County management has provided increased oversight by County staff attendance at board meetings, but the financial activities are still of some concern.

The Internal Audit Division has therefore performed a separate review of the financial operations of the Authority to determine if internal control improvements are warranted. This review was limited in scope. We did not review or examine the bond issuance activities or the housing projects approved by the Authority. The following is our report on our activities.

Background

The Authority was created pursuant to Florida Statutes and Marion County Code, and its expressed purpose is to alleviate shortages of affordable housing in the community. The Authority is composed of a five member volunteer, uncompensated board of directors and has no staff of its own. County Code requires that "no fewer than three (3) of the members shall be knowledgeable in one of the following fields: labor, finance or commerce."

The Authority is considered a component unit of Marion County for financial reporting purposes. The following information was extracted from the County's Comprehensive Annual Financial Report for fiscal year ended September 30, 2003. "The Marion County Housing Finance Authority was established under Florida Statutes, section 159.601, and Marion County Code Sections 2-96 through 2-101. The Board does not maintain budgetary control over the operations of the...Authority. However, the Board is financially accountable for the activities of the ...Authority since the Board both (a) appoints a voting majority of the Authority's governing body, and (b) has the ability to impose its will by removing voting members of the Authority's governing body. Therefore, the ... Authority is included in the County's financial statements as a discretely presented component unit. Separate financial statements for the ... Authority have not been developed."

The ability of the County to exert considerable influence is codified in section 2-101 of the Marion County Code. This section states that "The County may, at its sole discretion and at any time, alter or change the structure, organization, programs or activities of the authority..." subject to certain limitations.

The Authority's scheduled meetings, based on review of recent minutes, are attended by the five Authority board members, the appointed City of Ocala representative, at least one County representative, the Authority legal counsel, the Authority bond company representative, and other interested parties. The City of Ocala representative (non-voting, appointed by the Ocala City Council and ratified by the BCC) has been referred to as the sixth member of the Authority.

Activities Performed

Internal Audit reviewed the circumstances of the Purvis, Gray & Company suggestions and planned our examination accordingly. We also became familiar with the statutory purposes and other requirements of the Authority, as contained in Florida Statutes and Marion County Code. We reviewed the available minutes of several previous Authority meetings. We met with Authority's Chairman, Mr. Russell (Rusty) Branson, on two occasions to discuss pertinent Authority financial, operating and administrative activities. We then reviewed and examined selected financial and banking records of the Authority that pertained to our review, including supporting documentation to issued checks, monthly bank statements and all cancelled checks since January 2001.

We concentrated our review on the internal controls of the Authority over revenue and expenditure transactions, including bank accounts. We did not perform any activities concerning the bonding issuance or housing projects approved by the Authority.

We prepared the following findings and recommendations for consideration by the Authority's members. These also should be of interest to Marion County management, who still have oversight responsibility.

Findings and Recommendations

At June 15, 2004, the Authority had cash in bank assets of \$266,620.58. This amount is presently contained in one bank account at Compass Bank, at which the Chairman is an officer. Until March 31, 2003, a second account, now closed, existed at SunTrust Bank.

Our limited review disclosed that internal controls surrounding the financial activities could be improved. We therefore are in agreement with the concerns expressed by Purvis, Gray & Company. Mr. Branson agrees and had similar thoughts on improving these controls. The following are specific findings and recommended improvements.

There are a number of incompatible finance and accounting duties performed by the Chairman. This appears to be due to organizational limitations of the volunteer composition of Authority membership. In addition to the Chairman, the Authority has one member who serves as Secretary, whose principal duty is to sign the meeting minutes. The minutes are prepared by the Authority's legal counsel, Michael Dean of Dean and Dean, LLP, and submitted to the membership for review and approval. All other significant operating and financial activities are presently performed by the Chairman, who performs some duties which would normally be performed by a separate Treasurer and perhaps one other member. Mr. Branson informed us that the Authority did once have a Treasurer, but that position remained unfilled after the member retired from the Authority.

We commend Mr. Branson for performing so many duties, including those not usually associated with a Chairman, to ensure that the Authority's mission is accomplished. We believe that certain of the duties presently performed by him should be assigned to others, along with other duties and actions that could be performed. **We recommend that** the Authority members not presently assigned duties be requested to volunteer as Treasurer and/or perform other financial review tasks. The recommended duties could include the following noted actions:

- Monthly bank reconciliation
- Review and comparison of bank deposits against schedule of bond revenues
- Review of documentation supporting each disbursement
- Physical preparation of Authority checks
- Dual signatures required for any Authority check

We recommend that the position of Treasurer be filled by a member with appropriate knowledge of accounting and/or financial activities and reporting. Further, **we recommend that** the Treasurer not have incompatible relationships with the banking, bonding or investment institutions used by the Authority. As previously mentioned, all Authority funds are deposited and maintained in one bank in which the Chairman is an officer. This is a considerable convenience, but it is a weakness in internal controls for one person to have unfettered access to an organization's funds, especially when in a banking institution in which he is a significant official. Therefore, if the above recommended internal control improvements are not implemented, particularly the Treasurer position or dual signatures for each check, **we recommend that** the Authority transfer its funds to a banking institution in which no member has a significant business or personal relationship.

We noted that there is no interim financial reporting to the members, and it appears that annual reporting may be enhanced. **We recommend that** there be a reporting of the Authority's finances to all members, at least quarterly, and presented at each scheduled Authority meeting. This should occur whether or not there is any change in the current duties of the members. The financial report should be approved by the membership in the same manner as meeting minutes. The suggested reporting actions include:

- Routine financial reporting to Authority of cash balances, cash uses and results of financial operations
- Routine financial reporting to Marion County Board of County Commissioners, following presentation to, and approval by, the Authority

Immediately after our initial meeting with Mr. Branson, he initiated the preparation of a draft resolution to formally establish the positions and duties of Authority Chairman, Vice Chairman and Secretary/Treasurer. This resolution, to be presented at the August meeting, would better enable the Authority to distribute the administrative and management responsibilities of the Authority, including the above recommended activities. We commend Mr. Branson for his immediate attention to this matter. We suggest that the duties of these positions, after Authority approval, be specifically stated in writing to the extent practicable. The approved resolution and any following actions should be presented to BCC as information items on

subsequent agendas.

During our limited review of expenditures, we noted that board members are reimbursed for travel and training expenses incurred on Authority business. These reimbursement requests, which are supported by receipts, are not submitted in a standardized reporting format. This is not a critical issue, but **we recommend that** the Authority devise a standard reimbursement form to ensure better documentation and ease of review of such expenses.

As mentioned previously, the Authority presently has over \$266,000 in the bank. Although not part of our review, it appears that the Authority will have a net excess of revenues over expenditures of over \$40,000 for both the current and the following year, which will further increase the cash in bank. **We recommend that** the Authority prepare a business plan for future uses of the current cash balance, including investment of funds, and anticipated annual net revenues. After such a plan is approved and implemented, we suggest that the Authority develop and approve an annual financial budget to accomplish the business plan.

The Authority has never had a separate annual audit performed because the required audit threshold had not been reached, but also reportedly due to the cost involved and the perceived lack of benefit that such an audit would provide. We note that the Authority is classified as a dependent special district, as identified in Florida Statutes, section 189.403(2). According to Florida Statutes, section 218.39 (1)(h), no annual financial audit is required for such special districts with less than \$50,000 in revenues or total expenditures and expenses. However, the Authority's current fiscal year gross revenue has already exceeded that threshold amount at May 31, 2004, which should require the performance of an annual financial audit of its accounts and records. We further note that, per Florida Statutes, section 218.39 (3), the Authority, as a dependent special district, "...may make provision for an annual financial audit by being included within the audit of another local governmental entity upon which it is dependent." It appears to us that the Authority could request to be part of the County's FY 2004 annual financial audit or elect to have a separate independent audit. In any event, **we recommend that** the Authority immediately begin planning for such an audit.

Our review disclosed that the City of Ocala representative to the Authority is appointed by the City and ratified by the BCC. The Ocala representative has been referred to as the "sixth member" who, according to correspondence from the Authority's legal counsel, has non-voting status and acts as City of Ocala liaison. The Chairman has expressed his understanding that this position is not an official member of the Authority. We noted in the Authority minutes that the individual has been listed as a member in attendance, but there is no reference as to voting status. Some minutes have shown that the previous minutes were "unanimously approved," which seems to indicate that the City representative cast a vote. In another meeting (4/20/04), the minutes noted that "a quorum was not met" even though three of the five BCC-appointed members were there, but the Ocala representative was not in attendance. We believe that the "sixth member" is a formal representative who should never be treated as a voting member and therefore not be counted toward a quorum. To minimize any confusion, **we recommend that** the Ocala representative's name be listed in the minutes separately from the voting members, along with the names of the other attendees.

Conclusions

We concur with Purvis, Gray & Company and the Authority's Chairman that improvements to financial internal controls are needed and possible. We believe the Authority should review the recommended internal control enhancements and determine which are most appropriate for the Authority. Further, we suggest that Marion County management can enhance its oversight responsibilities by having the County representative to the Authority periodically report back on the implementation of these recommended actions by the Authority.

This review was performed by Wallace Watford, Internal Auditor, and Sachiko Leon, Staff Auditor. We would like to express our appreciation to Mr. Branson, Authority Chairman, for his cooperation and courtesy in the conduct of our review, as well as his prompt subsequent actions.

C: John W. Garri, Finance Director
Russell (Rusty) Branson, Authority Chairman
Michael E. Dean, Authority Counsel
Helen Painter, Purvis, Gray & Company