



**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

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

DATE: March 24, 2006

RE: FOLLOW-UP REVIEW OF MARION COUNTY HOUSING FINANCE AUTHORITY

The Internal Audit Division has performed a follow-up review of the Marion County Housing Finance Authority (*Report No. 2004-05, dated July 30, 2004*) to report on the status of recommendations contained therein. This review was conducted in accordance with Division Policy and Procedures #3.5 to “determine the extent of actions subsequently taken by County management in response to the findings and recommendations included in the report.”

Our original review was performed in response to concerns raised by the County’s external financial auditors (Purvis Gray & Company) about the Marion County Housing Finance Authority. Internal Audit performed the 2004 review of the financial operations of the Authority to determine if internal control improvements were warranted. We concluded that the Authority did need better internal controls in financial matters.

Our follow-up review procedures principally consisted of management inquiries and review of records and written documentation. This report addresses the specific recommendations and management responses contained within the original report. While conducting this review, we performed a detailed analysis of Authority revenues during the past five (5) fiscal years.

As disclosed in the attached summary, there were nine (9) recommendations made in the original report. We determined that six (6) recommendations were fully implemented, two (2) were partially implemented and one (1) became not applicable upon full implementation of related recommendations. All recommendations were fully or partially implemented during or promptly after the initial review. We commend the Chairman for taking these immediate actions to enhance the internal controls over the Authority’s financial activities.

HOUSING FINANCE AUTHORITY FOLLOW-UP REVIEW

This report also includes a final section that expands our comments on the status of the partial implementation of recommendations #5 and #7. We also address the issues of bond fee revenues and bank deposit procedures that were included in our current review of Authority revenues.

We suggest that Marion County management can enhance its oversight responsibilities by having the County representative to the Authority monitor the reported issues and periodically report to the County Administration on the implementation of these recommended actions by the Authority.

This review was performed by Sachiko Leon and Kathy Fitzhugh, Staff Auditors, under the direction of Wallace Watford, Internal Auditor.

We would like to express our appreciation to the Authority's Chairman and Treasurer for their assistance and cooperation during this follow-up review.

c: Gisela R. Salas, Deputy County Administrator
 Russell (Rusty) Branson, Authority Chairman
 Tom McDonald, Authority Treasurer
 Michael E. Dean, Authority Counsel
 Helen Painter, Purvis Gray & Company
 Evelyn Rusciolelli, Community Services Director

HOUSING FINANCE AUTHORITY FOLLOW-UP REVIEW

Status of Recommendations made to Housing Finance Authority in Report # 2004-05

<u>Recommendation</u>	<u>Management Response</u>	<u>Current Status</u>	<u>Auditor Comments</u>
1. The Authority members not presently assigned duties should be requested to volunteer as Treasurer and/or perform other financial review tasks.	Concur	Implemented	Treasurer was elected at the September 14, 2004 meeting.
2. The position of Treasurer should be filled by a member with appropriate knowledge of accounting and/or financial activities and reporting.	Concur	Implemented	The Treasurer is self-employed in the real estate business.
3. The Treasurer should not have incompatible relationships with the banking, bonding or investment institutions used by the Authority.	Concur	Implemented	The Treasurer does not have incompatible relationships with the institutions used by the Authority.
4.If the above three recommended internal control improvements are not implemented, the Authority should transfer its funds to a banking institution in which no member has a significant business or personal relationship.	Concur	Not Applicable	The three recommendations concerning the Treasurer's position were fully implemented.
5. Reporting of the Authority's finances to all members should be performed at least quarterly and presented at each scheduled Authority meeting.	Concur	Partially implemented	The Treasurer currently presents financial information quarterly only if he attends the meeting. (See Additional Discussion.)
6. The Authority should devise a standard reimbursement form to ensure better documentation and ease of review of such expenses.	Concur	Implemented	The Authority members utilize the State of Florida travel reimbursement form and attach supporting documentation.
7. The Authority should prepare a business plan for future uses of the current cash balance, including investment of funds and anticipated annual net revenues.	Concur	Partially implemented	Business plan has not been formulated; however, FY 2005 and FY 2006 budgets were prepared by the Chairman and adopted by the Authority. (See Additional Discussion.)
8. The Authority should immediately begin planning for its annual financial audit.	Concur	Implemented	The Authority again will be reported as a "Discretely Presented Component Unit" as part of BCC's FY 2005 annual audit.
9. The Ocala representative's name should be listed in the meeting minutes separately from the voting members, along with the names of the other attendees.	Concur	Implemented	Starting with the Aug. 17, 2005 meeting minutes, the City of Ocala Liaison was listed separately from the voting members.

ADDITIONAL DISCUSSION

Financial Reporting to Authority Members (Recommendation #5)

We recommended in our original report that “there be a reporting of the Authority’s finances to all members, at least quarterly, and presented at each scheduled Authority meeting.” The Treasurer informed us that he had presented financial information but only if he would be attending the scheduled meeting. **We recommend** that the Treasurer submit financial information at least quarterly to the Authority regardless of his attendance at meetings. This reporting would be enhanced by presenting and comparing the actual financial results to the adopted annual budgets as noted in next section.

Business Plan (Recommendation #7)

As of January 31, 2006, the balance of the Authority’s bank account was \$314,328.57. This balance will continue to increase primarily because of recurring bond fee revenues and absence of current business activities. In our original report, we recommended that the Authority “prepare a business plan for future uses of the current cash balance.” This business plan has not been formulated, but budgets for FY 2005 and 2006 were prepared by the Chairman and adopted by the Authority. Budgets are important and we commend this practice, but budgets are most effective in the implementation of a business plan.

A major expenditure since our original report was for a market study of a proposed senior affordable housing project that was presented to the Authority members in October 2004. No action was taken after the market study. According to the Chairman, this has been due to the unfavorable market for bonds. The October 19, 2004 minutes show that “members were encouraged to read the market study and to consider options.” There has not been any further discussion of the study evidenced in the minutes. The Chairman also mentioned that the members would discuss a down payment assistance program in the near future.

We again recommend that the Authority formulate a business plan for future uses of the current cash balance, including investment of funds and anticipated annual net revenues. The business plan should include determining how the Authority can generate more revenues, such as investing available excess cash to generate a higher yield. The Authority’s cash is in a business checking account that currently earns interest of .1 % per annum. The Authority earned \$251.42 in interest during FY 2005 and had a checking account cash balance at September 30th of \$300,640.15. The Authority might benefit from preparing a cash flow analysis of anticipated revenue streams and expenditures to: assist in the implementation of the business plan; evaluate actual financial operations; and determine the financial impact of any proposed projects considered in the future.

HOUSING FINANCE AUTHORITY FOLLOW-UP REVIEW

Bond Fee Revenues

The following is Summary of Bond Issuances:

<u>Name of Project</u>	<u>Trustee</u>	<u>Bond Fee Due Dates</u>
Paddock Park	Bank of New York	10/1
Belvedere	Bank of New York	6/1, 12/1
Oakhurst	Bank of New York	6/1, 12/1
Paddock Place	Bank of New York	6/1, 12/1
Summer Trace	Bank of New York	6/1, 12/1
Silver Oaks	SunTrust Bank	8/15

The Housing Finance Authority is involved in bond issuances for developers to build affordable housing. There are currently six outstanding bonds (see above). The Authority receives issuance fees derived from those bonds, which are the main source of Authority's revenues. The Bank of New York is the corporate trustee for five bonds; SunTrust Bank is the trustee for the sixth bond.

The examination and confirmation of revenues were not part of our initial review; however, we noted during this follow-up review that there have been significant fluctuations over the years in the amounts of revenues the Authority had received. This prompted us to expand the scope of our review to examine bond issuance fee revenues. We were concerned whether all revenues due to the Authority were timely paid, deposited and recorded in the correct fiscal year. We addressed this concern to the Chairman, who subsequently contacted the account administrators at the Bank of New York and SunTrust.

We discussed the fluctuations of fees received by the Authority with the Chairman and reviewed available documentation pertaining to the bonds. Our review of the bond fee revenues disclosed that the Bank of New York was often untimely in paying the fees to the Authority.

The Bank of New York, on several occasions, issued multiple checks on the same date that covered two or three periods for different bonds. We spoke to the responsible account administrators of the Bank. One administrator said the recent payment discrepancies were an oversight. Our analysis showed that some fees were overdue over 20 months, to which the administrator agreed and informed us that corrective action is in process. The Bank of New York had missed payments due in June 2004, December 2004, June 2005 and December 2005 related to the Belvedere and Oakhurst projects. These payments were issued on March 2, 2006 and deposited to the Authority account on March 8, 2006. Our analysis also showed that bond fees for Paddock Place and Summer Trace were due for December 2004, June 2005 and December 2005. The administrator in charge stated that payment was made in February 2006 for June 2005 and December 2005, and would review whether payments for December 2004 were made. We subsequently determined that the December 2004 payments had been made timely, but the Chairman had misplaced the checks. These were found and have been deposited. All payments are now considered current. The issue of misplacement of checks is discussed further in next section.

HOUSING FINANCE AUTHORITY FOLLOW-UP REVIEW

The combined late payments totaled \$24,760. These payments were behind as little as 1 month late (\$8,890), but most were 6 to 20 months behind (\$15,870). These delays in payments by the Bank of New York have resulted in loss of interest earnings. We believe that the Treasurer's duties should have included ensuring that these fees are paid timely and alerting responsible account administrators if late. **We recommend** that the Treasurer maintain a schedule of bond fees due and ascertain that these payments are made timely. The status of payments due should be reported quarterly to the Authority. We may revisit this issue in a year. **We further recommend** that the Chairman contact the Bank of New York to obtain any lost interest earnings or other financial penalties to which the Authority may be entitled pursuant to its agreement with the Bank.

Bank Deposit Procedures

During this review, the Chairman found three payments to the Authority, totaling \$6,800, which had been misplaced and were not deposited. One check (\$1,000) was issued in 2002 and two others (\$2,500 and \$2,900) were issued in January 2005. The 2005 checks were related to the Paddock Place and Summer Trace projects noted in the previous section. The Chairman stated that the 2002 check was reissued and deposited and that he would immediately deposit the two other checks into the Authority account.

We also noted that bank deposits are sometimes not made as timely as possible. As we had recommended, the Treasurer position was created and there is now a segregation of duties between the Chairman and Treasurer. Under present practice, the Chairman receives all payments and holds them until next scheduled meeting, at which time the payments are given to the Treasurer. The Treasurer subsequently deposits them into the bank account. The delays in this practice can result in loss of potential interest earnings and the possible misplacement of checks. **We therefore recommend** that all revenues be timely deposited. We suggest that the Authority determine the best method to ensure this is accomplished.