



**MARION COUNTY HOUSING FINANCE AUTHORITY
FISCAL YEAR ENDED SEPTEMBER 30, 2019**

Report No. 2020-04

Presented To
The Honorable Board of County Commissioners
Mounir Bouyounes, County Administrator

April 24, 2020

Issued By
David R. Ellspermann, Clerk of the Circuit Court and Comptroller
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ENGAGEMENT TEAM

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REPORT ABBREVIATIONS AND TERMS

Terminology	Abbreviation
Committee of Sponsoring Organizations of the Treadway Commission	COSO
Community Services Department	Community Services
Comprehensive Annual Financial Report	CAFR
Marion County Board of County Commissioners	BCC
Marion County Housing Finance Authority	Authority
Neighborhood Stabilization Program	NSP

EXECUTIVE SUMMARY

We have audited the Marion County Housing Finance Authority's (Authority) Statement of Net Position and Statement of Activities (financial statements, collectively) for the fiscal year ending on September 30, 2019. (Exhibit A and B). The Authority's financial position is incorporated in the Comprehensive Annual Financial Report (CAFR) as a discretely presented component unit of Marion County Board of County Commissioners (BCC).

Since 2007, Internal Audit has assisted the County and the external auditors in reviewing the Authority's financial transactions and monitoring internal controls.

The Authority had no direct program expenditures in the previous fiscal year. During FY 2019, the Authority has significantly expanded its operations. It received two vacant land properties on August 13th through donation, 27 single homes on September 5th, and one duplex on September 30th utilizing federal or state grants through the Community Services Department (Community Services). We therefore determined that it was appropriate to formalize and issue an audit report.

We evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Authority management, as well as the overall presentation of the financial statements. We believe that the audit evidence we obtained was sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, of the financial position of the Authority as of September 30, 2019.

We also evaluated the internal controls over the Authority's financial activities and noted the following opportunities for improvement (Table1):

- Financial statements should be provided to auditors timely;
- The Authority should execute written agreements with appropriate parties; and
- Passwords for banking should be unique for each individual user and not shared.

Throughout the audit, we communicated our concerns and findings with the Authority's Chair, Treasurer, and Executive Director. They agreed with our recommendations and the Authority is continuing to take action to enhance internal controls.

The scope of this audit did not include evaluations of compliance to the federal and state requirements for grant funding used by the Authority.

Table 1
Overview of Opportunities for Improvement

#	Observation	Individual Recommendation	Management Response
1	Timely submission of financial statements is essential.	For any future audits, the Authority should provide completed financial statements and supporting documentation to auditors timely to allow adequate time to complete a financial statement audit.	Concur
2	The authority needs to execute agreements with appropriate parties to ensure all conditions and expectations of the agreement were properly documented.	The Authority should execute written agreements with H2 Advisors for accounting services, Dean Law Firm, LLC for legal services, and the County. The Authority, along with Community Services, should ensure all agreements are in compliance with federal and state requirements for grant funding.	Concur
3	Account password needs to be unique for each user and not shared.	Each authorized individual with access to the Authority's bank account should maintain his/her own unique password and not share with any other user.	Concur

BACKGROUND

The BCC created the Authority in 1980 by the County Ordinance No. 80-5 to alleviate “shortages of housing and of capital for investment in the County.” The Authority is composed of five volunteer board members appointed by the BCC, and each member serves a staggered four-year term.

The County and the City of Ocala also designated the Director of Community Services and Director of Revitalization Strategies, respectively, as liaisons to work collaboratively with the Authority.

Although the Authority is a separate governing board as defined in Florida Statute Chapter 159 Part IV, Housing Finance Authorities, the BCC retains powers to “alter or change the structure, organization, programs or activities of the Authority, and has the power to terminate the Authority.” (Ordinance Sec. 2-101) As such, the Authority’s financial position is incorporated in the CAFR as a discretely presented component unit of the BCC.

Between mid-August through September 2019, the Authority expanded services and used grants to acquire 27 single homes through the Neighborhood Stabilization Program, and one duplex through HOME Investment Partnerships Program. The Authority also received two vacant land properties by donation.

The Authority continues to explore additional opportunities to increase the availability of essential housing by:

- purchasing, rehabilitating, and leasing foreclosed and vacant houses in target areas to re-stabilize neighborhoods;
- working jointly with Community Services and the City of Ocala Community Development Services Department to assist families with low to moderate income households to attain safe, decent and affordable housing through education, reduced lending fees and down payment assistance in the form of 0% interest, and deferred payment loans;
- renovating/creating units of special needs housing through grants to non-profit agencies; and
- initiating public forums/meetings regarding affordable housing and encourage active involvement with the Affordable Housing Advisory Committee.

In anticipation of providing additional services, the Authority hired an Executive Director and a Project Grant Manager in June and November 2019, respectively, to carry out day-to-day activities. Both positions have office space within the Community Services Department.

Accounting services are provided by H2 Advisors while Dean Law Firm, LLC provides legal services to the Authority.

OBJECTIVE, SCOPE, AND OUR APPROACH

The objective of the audit was to ascertain that the Authority's financial activities were correctly recorded in all material respects to be incorporated in the FY 2019 Marion County CAFR.

We reviewed the Authority's financial activities for FY 2019 (October 1, 2018-September 30, 2019) on a sample basis. We also conducted interviews and reviewed policies and procedures to assess the adequacy of the internal controls over the financial process.

The scope of this audit did not include evaluations of compliance to the federal and state requirements for grant funding used by the Authority.

OPPORTUNITIES FOR IMPROVEMENT

Observation 1 – Timely submission of financial statements is essential

Internal Audit's due date to complete a review of the Authority's FY 2019 financial statements and submit to the Finance Department was January 31, 2020. We received complete documentation necessary to audit in mid-January. The time frame created time constraints to complete the audit by the due date.

By not timely providing the necessary information, there is a potential for leaving auditors with inadequate time to sufficiently review and test audit evidence.

Compilation and reporting of financial statements were a challenge for the Authority for reporting of FY 2019 as this was the first year that the Authority took on responsibility of property management of two vacant land properties, 27 homes, and one duplex.

Committee of Sponsoring Organizations of the Treadway Commission (COSO) states that the organization communicates with external parties regarding matters affecting the functioning of internal control. External communications provide information to external parties in response to requirements and expectations.

We recommend that for any future audits, the Authority provide completed financial statements and supporting documentation to auditors timely to allow adequate time to complete a financial statement audit.

Management Response:

HFA will be more timely with supplying their financial reports in future audits.

Observation 2 – The Authority needs to execute agreements with appropriate parties to ensure all conditions and expectations of the agreement were properly documented

There was not a written agreement between the Authority and H2 Advisors for accounting services, and the Authority and Dean Law Firm, LLC for legal services. The Authority voted that H2 Advisors would provide accounting services for the Authority in exchange for a monthly fee during FY 2019 but did not follow up with a written agreement. Dean Law Firm, LLC has provided legal services since the creation of the Authority but never formalized their service with an agreement.

The Authority acquired two vacant properties through donation and plan to place mobile homes utilizing HOME grant fund through Community Services; however, there was no executed agreement between the Authority and the County as of September 30, 2019.

Beginning work without a written and executed agreement could lead to misunderstanding of the expectations of each party involved.

Executed agreements are especially important as the operations become more complex and to manage properties purchased with grants which may involve strict guidelines and requirements.

COSO states that management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. Also, well written agreements identify the terms and conditions to be upheld and detail the rights and obligations of each party.

We recommend:

- the Authority execute written agreements with H2 Advisors and Dean Law Firm, LLC; and
- the Authority, along with Community Services, ensure all property transfers meet the federal and state grant requirements and execute necessary agreements timely.

Management Response:

The recommended agreements have been created, approved and executed by all parties.

- Agreement on the two vacant land properties with the BCC was approved on February 4, 2020.
- Agreement with H2 Advisors was approved on February 12, 2020.
- Agreement with Dean Law Firm, LLC was approved on February 12, 2020.

Observation 3 – Account password needs to be unique for each user and not shared

We observed that certain Authority members and a H2 Advisors representative shared username and passwords to certain online banking services instead of creating separate login credentials for each user. This was due to convenience when conducting banking and lack of security awareness. We note that we did not find any inappropriate transactions.

Sharing of passwords creates a security risk. In the event of inappropriate account activity, the responsible person will not be identified through audit trails.

The Information System Audit and Control Association states that “a password for a Login ID should be known only by the individual user; if a password is known to more than one person, the accountability of the user for all activities within the account cannot be enforced. In addition, unique passwords keep each user's activities accountable and may identify and/or protect the user in the event that the account is used for inappropriate purposes”.

We recommend that each authorized individual with access to the Authority's bank account maintain his/her own unique password and not share with any other user.

Management Response:

In order to submit ACH payments from tenants, new passcode procedures have been implemented and secured with the bank.

EXHIBIT A

Housing Finance Authority of Marion County
Statement of Activities - AUDITED
October 2018 through September 2019

	<u>Oct '18 - Sep 19</u>
ASSETS	
Current Assets	
Checking/Savings	329,292.35
Total Checking/Savings	<u>329,292.35</u>
Accounts Receivable	
Accounts Receivable	7,377.00
Total Accounts Receivable	<u>7,377.00</u>
Total Current Assets	336,669.35
Fixed Assets	
Accumulated Depreciation	(8,009.08)
Real Estate - NSP/Homes	2,961,803.00
Total Real Estate - NSP/Homes	<u>2,961,803.00</u>
Total Fixed Assets	2,953,793.92
Other Assets	
Investments	204,254.65
Loan Receivable - Florida Low Income Housing	30,000.00
Loans Receivable - Project Hope	101,852.50
Security Deposits Asset - Escrow Account	2,000.00
Total Other Assets	<u>338,107.15</u>
TOTAL ASSETS	<u><u>3,628,570.42</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Tenant Security Deposits	16,606.00
Total Tenant Security Deposit	<u>16,606.00</u>
Total Other Current Liabilities	<u>16,606.00</u>
Total Current Liabilities	<u>16,606.00</u>
Total Liabilities	16,606.00
Net Position	
Unrestricted	658,170.50
Investment in Capital Contribution	2,953,793.92
Total Net Position	<u><u>3,611,964.42</u></u>

EXHIBIT B

Housing Finance Authority of Marion County
Statement of Activities - AUDITED
 October 2018 through September 2019

	<u>Oct '18 - Sep 19</u>
Ordinary Income/Expense	
Income	
Direct Public Support	
Capital Contributions	2,961,803.00
Direct Public Support - Other	<u>1,964.99</u>
Total Direct Public Support	2,963,767.99
General Revenue	
Investment Income	<u>2,485.23</u>
Miscellaneous Revenue	<u>53,617.32</u>
Rental Income	<u>17,784.00</u>
Total General Revenue	<u>73,886.55</u>
Total Income	<u>3,037,654.54</u>
Gross Profit	3,037,654.54
Expense	
Depreciation	8,009.08
Bank Service Charges	12.00
Contract Services	
Legal Fees	24,067.00
Outside Contract Services	<u>12,329.18</u>
Total Contract Services	36,396.18
Facilities and Equipment	
Property Taxes	<u>(6,098.04)</u>
Total Facilities and Equipment	(6,098.04)
Operations	
Advertisement	773.31
Association Dues	1,775.00
Bank Fees	168.74
Insurance-Rental Properties	7,758.00
Postage, Mailing Service	101.00
Repairs and Maintenance	728.00
Supplies	1,436.29
Telephone, Telecommunications	<u>455.73</u>
Total Operations	13,196.07
Other Types of Expenses	
Appraisal Fees	425.00
Inspection Fees	1,230.00

Marion County Housing Finance Authority Financial Audit

Insurance - Liability, D and O	1,530.00
Total Other Types of Expenses	3,185.00
Travel and Meetings	
Conference, Convention, Meeting	1,071.77
Meals	29.93
Travel	576.84
Total Travel and Meetings	1,678.54
Total Expense	56,378.83
Net Ordinary Income	2,981,275.71
Other Income/Expense	
Other Income	
Late Fees	75.00
Total Other Income	75.00
Net Other Income	75.00
Net Income	2,981,350.71
Net Position - Beginning	630,613.71
Net Position - Ending	3,611,964.42

REPORT DISTRIBUTION LIST

Name	Position Title
The Honorable Kathy Bryant	Chairman of the Board of County Commissioners
The Honorable Jeff Gold	Vice Chairman of the Board of County Commissioners
The Honorable David Moore	District 1 Commissioner
The Honorable Carl Zalak	District 4 Commissioner
The Honorable Michelle Stone	District 5 Commissioner
Mounir Bouyounes	County Administrator
Jeannie Rickman	Assistant County Administrator-Public Services
Cheryl Martin	Community Services Director
Jennifer Cole	Finance Director
P.H. Culver	Chairman, Marion County Housing Finance Authority
Rebecca Lyles	Treasurer, Marion County Housing Finance Authority
Scot Quintel	Secretary, Marion County Housing Finance Authority
Jon Kurtz	Marion County Housing Finance Authority
Byron Zonin	Marion County Housing Finance Authority
Mike Dean	General Counsel, Marion County Housing Finance Authority
Keith Fair	Executive Director, Marion County Housing Finance Authority