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## Health & Human Services Department State Housing Initiatives Partnership Program

**Audit Report 2018-A-0005**  
**Issued: September 6, 2018**

### SUMMARY

#### What We Did

At the request of Martin County (“County”) Administration we conducted an audit of the State Housing Initiatives Partnership (SHIP) Program operating within the County’s Health & Human Services Department (“Department”).

#### What We Found

The Department generally complied with the laws, rules and regulations concerning the SHIP Program; however, opportunities exist to improve the existing system of internal control. Improvements can be made in the following areas:

#### Functions that Oversee Risk – Second Line of Defense

The Department provided SHIP eviction prevention assistance to nine ineligible applicants. Our review identified that each on the ineligible applicants received assistance during a 3-month period in 2017.<sup>1</sup>

<sup>1</sup> Monetary assistance was provided during the months of June, July and August 2017.

<sup>2</sup> On June 22, 2018, the Treasure Coast Homeless Services Council provided the County with a check for \$3,060.00 as payment [reimbursement] for three applicants that met its criteria for rental assistance. Therefore, remaining ineligible expenditures total \$9,156.51.

Department staff acknowledge that during the period between February 2017 and June 2018, it was not performing “second-line-of-defense” functions.

**Ineligible assistance totaled \$12,216.51,<sup>2</sup>** which is required to be reimbursed to the local housing trust fund.

#### FY16-17 SHIP Allocation moneys were not encumbered timely.

Florida Administrative Code Rule 67-37.007(1)(a), states that all “local housing distribution funds shall be Encumbered<sup>3</sup> by June 30 of the State fiscal year following the end of the applicable State fiscal year [the moneys were received].”

Records supplied by the Department demonstrate that as of June 30, 2018, it had encumbered only \$3,000.00 of the \$21,883.00 received for “housing counseling.”

<sup>3</sup> **Encumbered** is defined in Rule 67-37.002(10), Florida Administrative Code, as “deposits made to the local affordable housing trust fund [that] have been committed by contract, or purchase order, letter of commitment or award in a matter that obligates the county, eligible municipality, or interlocal entity to expend the amount upon delivery of goods, the rendering of services, or the conveyance or real property by a vendor, suppliers contractor, or owner.”

The remaining \$18,883.00 is considered unencumbered and subject to recapture by the Florida Housing Finance Corporation (FHFC).

**SHIP Annual Reports submitted to the Florida Housing Finance Corporation are inaccurate.**

On, or about, September 15, 2017, the Department submitted 3 Annual Reports to the FHFC: FY14-15 SHIP Closeout Report; FY15-16 Interim Report; and FY16-17 Interim Report.

The combination of (a) the current SHIP Allocation accounting methodology and (b) transferring files between open SHIP Allocations, for the sole purpose of satisfying statutorily mandated “set-aside” requirements, caused all 3 submissions to be inaccurate.

**SHIP Annual Reports were not reconciled to the County’s general ledger prior to submission.**

Interviews of staff with the Department and Office of Management and Budget (OMB) identified that the SHIP Annual Reports were not reconciled to the County’s general ledger prior to submission to the FHFC.

Documents supplied by OMB indicate that although it tried to reconcile the SHIP Annual Reports to the general ledger, reconciliation had not been successfully completed since at least the FY11-12 SHIP Closeout Report submitted on, or about, September 15, 2014. The reconciliation process was hampered due to: (a) the current SHIP Allocation accounting methodology; and, (b) transferring files

between SHIP Allocations in order to satisfy program “set-aside” requirements.

**Internal Controls over the administration of the SHIP Program need strengthening.**

In addition to its Local Housing Assistance Plan (LHAP), the Department can strengthen internal controls of the SHIP Program by implementing policies and/or procedures concerning, but not limited to: (a) Collection of applicant social security account numbers; (b) Verifications of income, employment and assets; and, (c) Record retention.

**What We Recommend**

We made nine recommendations that, if implemented, will enhance the Department’s existing system of internal control over its SHIP Program by ensuring: (a) “second-line-of-defense” functions are consistently performed; (b) SHIP Annual Reports are accurate; (c) SHIP Annual Reports are reconciled to the County’s general ledger; and, (d) strengthen internal controls over the SHIP Program.

On September 5, 2018, we received the County’s response to the Audit Report **(Attachment A)**. Contained therein, the County stated that it agrees with our recommendations.

## MARTIN COUNTY CLERK & COMPTROLLER

The Florida Constitution established the clerk of the circuit court as the local constitutional officer who serves as the public trustee for the county. In addition to serving as the clerk to the courts, the clerk provides a county level system of checks and balances through services as the county comptroller, clerk to the board of county commissioners, guardian of public and official records, clerk to the value adjustment board and internal auditor of county funds.



Internal audit activity is established as a responsibility of the County Clerk & Comptroller by Florida Constitution Article VIII, §1, cl.(d) as the “ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds.” The internal audit activity is administered on the government operations of the County Clerk, and its functional divisions, and the Martin County Board of County Commissioners, and its functional divisions, as specified in the State Constitution, State Statutes and decisions and opinions of the State Judiciary.

## BACKGROUND

In the early 1980’s the Florida Legislature established a state housing finance corporation to encourage the investment of private capital in residential housing through the use of public financing. Chapter 420, Florida Statutes, Part V, created the FHFC to assist in providing an array of affordable housing opportunities. Programs include, but are not limited to, SHIP, Affordable Housing Catalyst and Down-payment Assistance.



The SHIP Program was implemented to provide all 67 Counties and 52 Community Development Block Grant (CDBG) entitlement municipalities with funds as an incentive to create local housing partnerships, to expand production of and preserve affordable housing, to further the housing element of the local government comprehensive plan [*affordable housing*], and to increase housing-related employment. Funds, when available, are allocated to local governments using a population-based formula and subsequently distributed to households with area median incomes categorized as extremely-low income, very-low income, low income, and moderate income. Since state fiscal year 2015<sup>4</sup>, the County received the following allocations:

<sup>4</sup> The State of Florida fiscal year is July 1st through June 30<sup>th</sup>.

SHIP Allocation (fiscal year)	Allocation Amount	Area Median Income
2014-2015	\$741,008.00	\$53,300.00
2015-2016	\$748,184.00	\$56,300.00
2016-2017	\$992,714.00	\$58,000.00
2017-2018	\$493,744.00*	\$60,500.00

\* As of June 30, 2018

Furthermore, because the SHIP Program provides assistance based upon an applicant’s verified income, we believe the following statutory definitions will assist management and the public in understanding the qualification process:

1. **Extremely-Low-Income:** annual gross household income that does not exceed 30 percent of the Area Median Income (AMI).
2. **Very-Low-Income:** annual gross household income that does not exceed 50 percent of AMI. With respect to rental units, the very-low-income household’s annual income at the time of initial occupancy may not exceed 50 percent of the AMI.
3. **Low-income:** annual gross household income that does not exceed 80 percent of the AMI.
4. **Moderate-income:** annual gross household income that does not exceed 120 percent of the AMI.

Finally, allocated funds may be used for “emergency repairs, new construction, rehabilitation, down-payment and closing cost assistance, impact fees, construction and gap financing, mortgage buy-downs, short-term acquisition of property for affordable housing, matching dollars for federal housing grants and programs, homeownership counseling, and other activities required by legislative action.”<sup>5</sup>

## OBJECTIVES, SCOPE AND METHODOLOGY

The Department is responsible for establishing and implementing a system of internal control designed to provide a reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. Internal Auditing is an “independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”<sup>6</sup>

The **objective** of this audit is to ensure the Department: (1) complied with the laws, rules and regulations applicable to the SHIP Program; and, (2) ensure proper recordation,

<sup>5</sup> State Housing Initiatives Partnership (SHIP) Program: Program Overview and Procedures Manual, (revised January 2018), published by the Florida Housing Finance Corporation.

<sup>6</sup> International Professional Practices Framework, definition of Internal Auditing.

documentation and maintenance of applicant files. The **scope** of this audit includes reviewing a judgmental sample of applicant files reported to the FHFC on or about September 15, 2017.<sup>7</sup> Department staff represented that these files were funded with various SHIP Allocations. Our scope **did not** include reviewing the roles and responsibilities of the Affordable Housing Advisory Committee (AHAC) as outlined in §420.9076, Florida Statutes.

Audit **procedures** included, but were not limited to:

1. Reviewing financial records maintained in the County's financial software program ("Banner")
2. Reviewing the Local Housing Assistance Plan (LHAP)
3. Reviewing the SHIP Program manual issued by FHFC
4. Reviewing a judgmental sample of SHIP applicant files.
5. Verifying SHIP Annual Reports reconcile to the County's general ledger
6. Reviewing the SHIP tracking system maintained by the Department
7. Tracing expenditures from the tracking sheet, through Banner, to the SHIP Annual Reports
8. Reviewing laws, rules and regulations, as appropriate
9. Interviewing Department and OMB staff

The audit was planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our comments and conclusion based upon the audit objectives. This audit report is intended to provide management, and those charged with governance and oversight, with information to improve program performance and operations, reduce cost, facilitate decision making by parties with responsibility to oversee or initiate corrective action and contribute to public accountability. We believe that the evidence obtained provides a reasonable basis for our comments and conclusions based upon our stated objectives.

## **OPPORTUNITIES FOR IMPROVEMENT AND RECOMMENDATIONS**

### Observation (1)

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**The Health & Human Services Department provided \$12,216.51 in rental assistance [eviction prevention] to nine ineligible households.**

### Criteria

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Chapter 420.9072(7)—State Housing Initiatives Partnership Program.—Florida Statutes; Martin County, SHIP Local Housing Assistance Plan, *revised March 28, 2017 and July 25, 2017*;

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<sup>7</sup> Mandatory annual reports were filed with the Florida Housing Finance Corporation for SHIP allocations in FY14-15 (closeout report); FY15-16 (interim report); and, FY16-17 (interim report).

and, Chapter 420.9075(14)—Local housing assistance plans; partnerships.—Florida Statutes.

Chapter 420.9072(7)(b), Florida Statutes, states: “A county or eligible municipality may expend its portion of the local housing distribution to provide the following types of rental assistance and rent subsidies:

1. Security and utility deposit assistance
2. **Eviction prevention subsidies not to exceed 6 months’ rent** *[emphasis added]*
3. Rent subsidies for very-low-income households with at least one adult who is a person with special needs as defined in s. 420.004 or a person who is homeless as defined in s. 420.621 when the person initially qualified for a rent subsidy ...”

Local Housing Assistance Plan—Rental Assistance/Eviction Prevention Strategy states: “[t]his strategy enables the County to assist income eligible persons in rental housing in need with: (1) Security and utility deposit assistance; (2) **rental eviction prevention for up to 6 months** *[emphasis added]*; and, (3) a rent subsidy program for households with at least one adult who is a person with special needs as defined in s. 420.004 or a person who is homeless as defined in s. 420.621.” This strategy serves verified income categories designated as extremely low, very low and low; however, rental subsidies are limited to extremely low and very low households.

Chapter 420.9075(14), Florida Statutes, states: “If the corporation [*Florida Housing Finance Corporation*] determines that a county or eligible municipality has expended program funds for an ineligible activity, the corporation shall require such funds to be repaid to the local housing trust fund. Such repayment may not be made with funds from the State Housing Initiatives Partnership Program.”

### Internal Audit Review

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We judgmentally selected three applicant names from the FY16-17 SHIP<sup>8</sup> tracking sheet maintained by the Department. Our review identified the following two applicants as being ineligible to receive the amount of assistance provided:

Applicant	Application Date	Assistance Provided	Maximum Allowable
S. B.	May 2017	\$1,050.00	\$565.00
S. M.	June 2017	\$1,000.00	\$677.00
<b>Ineligible Assistance:</b>		<b>\$2,050.00</b>	

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<sup>8</sup> Applicant grants began with the FY16-17 SHIP Allocation.

While discussing these two applicants with Department staff, they stated that they were aware of the problem and initiated a “self-review” of similar eviction prevention assistance recipients. The “self-review” identified seven additional ineligible applicants totaling \$10,166.51. **The total amount of ineligible assistance is \$12,216.51.**<sup>2</sup>

### Root Cause Analysis

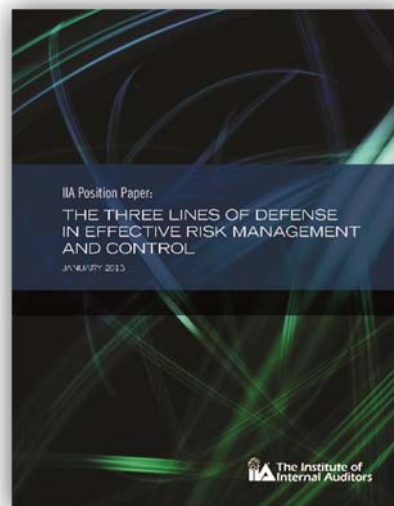
Department staff stated that in February 2017, it was decided that they would no longer use their consultant to review applicant files. Prior to February 2017, the consultant performed an array of secondary reviews that mitigated the Department’s risk of providing assistance to ineligible applicants.

Our review of the nine ineligible applicants identified each as having received eviction prevention assistance during a 3-month period in 2017,<sup>1</sup> when the consultant was not engaged to perform a secondary review of applicant files. It is noted that in June 2018, the consultant was re-engaged to perform “second-line-of-defense” functions as described by the Institute of Internal Auditors (IIA).

### Three-Lines-of-Defense Model

The IIA issued a “Position Paper” addressing effective risk management and control.<sup>9</sup> According to the Position Paper, the “Three Lines of Defense” model provides entities with an effective way to communicate risk management and control activities throughout the organization by clarifying roles and responsibilities. According to the IIA, the following three lines are involved in effective risk management:

- A. Functions that own and manage risks (first-line-of-defense): operational managers own and manage risks. Operational management identify, assess, control and mitigate risk, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives. Moreover, operational management is responsible for implementing corrective actions that address process and control deficiencies.
  
- B. Functions that oversee risks (second-line-of-defense): management establishes various risk management and compliance functions to help build and/or monitor the first-line-of-defense controls.



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<sup>9</sup> Institute of Internal Auditors Position Paper: The Three-Lines-of-Defense in Effective Risk Management and Control (January 2013).

- C. Functions that provide independent assurance (third-line-of-defense): internal auditors provide the governing body and senior management with comprehensive assurance based on the highest level of independence and objectivity within the organization. Internal audit provides assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives.

## Recommendations

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1. Martin County should reimburse the local housing trust fund the remaining ineligible assistance expenditures (\$9,156.51).

**Management Response:** *Actions have been taken pursuant to county policy to reimburse the local housing trust fund.*

2. Health & Human Services Department should ensure that “second-line-of-defense” functions are consistently performed on SHIP Program applicant files. “Second-line-of-defense” functions can be performed by Department staff, an external consultant or a combination thereof.

**Management Response:** *Appropriate actions have been taken to provide “lines-of-defense” for SHIP Program applicant files.*

## Observation (2)

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### **The Health & Human Services Department did not fully encumber its FY16-17 SHIP Allocation by June 30, 2018.**

#### Criteria

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Chapter 420.9072(4)—State Housing Initiatives Partnership Program.—Florida Statutes; and, Rule 67-37.007(1)(a)—Uses of and Restrictions Upon SHIP Local Housing Distribution Funds for Local Housing Assistance Plans.—Florida Administrative Code.

Chapter 420.9072(4), Florida Statutes, in part, states: “Moneys in the Local Government Housing Trust Fund shall be distributed by the corporation to each approved county and eligible municipality within the county as provided in s. 420.9073.”

Rule 67-37.007(1)(a), Florida Administrative Code, states: “All local housing distribution funds shall be Encumbered<sup>3</sup> by June 30 of the State fiscal year following the end of the applicable State fiscal year.”



## Internal Audit Review

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In late 2016, the FHFC reallocated funds from its Foreclosure Counseling Program to the SHIP Program for the “specific purpose of providing housing counseling.” These moneys were made available to each eligible local government. On or about December 10, 2016, the Department requested an increase in its FY16-17 SHIP Allocation of \$21,883.00 to be used for housing counseling. Banner records show these moneys were received on January 11, 2017.

According to SHIP Program rules these moneys were required to be fully encumbered by June 30, 2018, and fully expended by June 30, 2019. However, records produced by the Department demonstrate that as of June 30, 2018, it had only encumbered \$3,000.00. The remaining \$18,883.00 is considered unencumbered and subject to recapture by the FHFC.

## Recommendations

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3. Health & Human Services Department should ensure that its SHIP Allocation is fully encumbered within 24-months from the beginning of the State fiscal year when it is received.

**Management Response:** *County Administration concurs with this recommendation and is working with the Office of Management and Budget to rectify the situation.*

4. Health & Human Services Department should contact the Florida Housing Finance Corporation to determine if an extension can be granted to spend the remaining funds designated for providing housing counseling allocation.

**Management Response:** *HHS SHIP staff has been directed to ask for an extension of the grant.*

5. If an extension is not granted, Martin County should be prepared to return the unexpended moneys (\$18,883.00).<sup>10</sup>

**Management Response:** *If an extension is denied HHS SHIP staff will prepare with OMB to return the unexpended money.*

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<sup>10</sup> On July 26, 2018, the Department received correspondence from the FHFC stating it could return the unencumbered funds immediately.

Observation (3)

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**The SHIP Annual Reports submitted to the Florida Housing Finance Corporation on or about September 15, 2017, are inaccurate.**

Criteria

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Chapter 420.9075(10)—Local housing assistance plans; partnerships.—Florida Statutes.

Section 420.9075(10), Florida Statutes, in part, states: “[e]ach county or eligible municipality shall submit to the corporation by September 15 of each year a report of its affordable housing programs and accomplishments through June 30 immediately preceding submittal of the report. The report shall be certified as **accurate and complete** (*emphasis added*) by the local government’s chief elected official or his or her designee.”

Internal Audit Review

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Program guidelines require local governments to: (a) expend<sup>11</sup> the SHIP Allocation within 36 months from the start of the State fiscal year from which it was received; and, (b) submit annual reports for each open SHIP Allocation by September 15. Because local governments have a maximum of 36 months to “expend” its SHIP Allocation, in many instances it will be responsible for submitting three separate SHIP Annual Reports. As illustrated below, on September 15, 2017, the Department submitted its FY14-15 Closeout Report; its FY15-16 Interim Report and its FY16-17 Interim Report:

SHIP Allocation	Fully Encumbered By (24 months)	Fully Expended By (36 months)	Report Type (September 15, 2017)
FY14-15	June 30, 2016	June 30, 2017	Closeout
FY15-16	June 30, 2017	June 30, 2018	Interim
FY16-17	June 30, 2018	June 30, 2019	Interim

Audit procedures included identifying if the Department fully **expended** the FY14-15 SHIP Allocation and fully **encumbered** the FY15-16 SHIP Allocation, by June 30, 2017. Moreover, to support the representations made in the FY14-15 SHIP Closeout Report, we reviewed a sample of applicant files and/or financial records to verify that assistance was provided in the following statutory (“set-aside”) requirements:

- At least 30% of the funds were awarded to very-low income persons;
- At least another 30% of the funds were awarded to low-income persons;

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<sup>11</sup> **Expended** is defined in Rule 67-37.002(12), Florida Administrative Code, as “meaning affordable housing activity is complete and funds deposited to the local affordable housing trust fund have been transferred [spent] from the local housing assistance trust fund account to pay for the cost of the activity.”

- At least 20% of the funds were awarded to persons with special needs as defined in §420.004, Florida Statutes;
- At least 65% of the funds were used for homeownership;
- At least 75% of the funds were used for construction, rehabilitation, or emergency repair of affordable housing; and,
- Up to 25% of the funds were used for rental housing.

**FY14-15 SHIP Closeout Report – Fund 13323**

The purpose of submitting the FY14-15 SHIP Closeout Report is to document the County (a) expended all of the moneys received and (b) that the expenditures satisfied the “set-aside” requirements. Importantly, local governments are responsible for satisfying the “set-aside” requirements for each SHIP Allocation received.

As identified below, the Department’s FY14-15 SHIP Closeout Report inaccurately identified seven applicants as having received assistance from the FY14-15 SHIP Allocation (Fund 13323); however, Banner demonstrates assistance was provided to two applicants from Fund 13322 (FY13-14 SHIP Allocation) and five applicants from Fund 13324 (FY15-16 SHIP Allocation). Furthermore, it is our understanding the impacted files were transferred from their respective SHIP Allocations to the FY14-15 SHIP Allocation in order to satisfy the program “set-aside” requirements.

Applicant File Number	Applicant on Internal Tracking Sheet	Applicant on SHIP Closeout Report	Reported FUND Expenditure ( FHFC)	Actual FUND Expenditure (Banner)
S1602D	Yes	Yes	13323	13324
S1609R	Yes	Yes	13323	13324
S1306	Yes	Yes	13323	13322
S1613S	Yes	Yes	13323	13324
S1611R	Yes	Yes	13323	13324
S1403	Yes	Yes	13323	13322
S1521R	Yes	Yes	13323	13324

Moreover, because two files (S1306 and S1403) were transferred from the FY13-14 SHIP Closeout Report<sup>12</sup> to the FY14-15 SHIP Closeout Report, the FY13-14 SHIP Closeout Report was no longer accurate. During this audit Department staff initiated corrective action to maintain the accuracy of the FY13-14 SHIP Closeout Report. Specifically, staff worked with its consultant and identified two applicants with similar criteria as applicants S1306 and S1403 that were funded from an open SHIP Allocation. Subsequently, applicants S1306 and S1403 were replaced by these two applicants and on June 18, 2016, a “draft” FY14-15 SHIP

<sup>12</sup> By statute, the FY13-14 SHIP Allocation was required to be fully expended by June 30, 2016, with a Closeout Report submission, or about, September 15, 2016.

Closeout Report was prepared by the consultant for submission to the FHFC after being certified as “accurate and complete” by the Martin County Board of County Commissioners.

However, the “draft” FY14-15 SHIP Closeout Report still represents five applicants as having received assistance from the FY14-15 SHIP Allocation but, as shown above, Banner indicates assistance was provided from the FY15-16 SHIP Allocation.

**FY15-16 SHIP Interim Report – Fund 13324**

It appears the purpose of submitting the FY15-16 SHIP Interim Report is to document the County has (a) encumbered all of the moneys received and that (b) when fully expended the “set-aside” requirements will be achieved. Similar to a Closeout Report, the information provided in an Interim Report lists each applicant’s name and the corresponding expended amount. However, because the moneys are not required to be fully expended the Interim Report provides an aggregate encumbered amount. Local governments are not required to provide either the applicant’s name or the corresponding encumbered amount.

As identified below, our review of the Department’s internal tracking sheet and its FY15-16 SHIP Interim Report identified three applicants on the internal tracking sheet as having received assistance from the FY15-16 SHIP Allocation (Fund 13324); however, Banner demonstrates assistance was provided to one applicant from Fund 13323 (FY14-15 SHIP Allocation) and two applicants from Fund 13325 (FY16-17 SHIP Allocation). Moreover, the FY15-16 SHIP Interim Report identified one applicant as receiving assistance from the FY15-16 SHIP Allocation (Fund 13324); however, Banner demonstrates it was provided from Fund 13323 (FY14-15 SHIP Allocation).

Applicant File Number	Applicant on Internal Tracking Sheet	Applicant on SHIP Interim Report	Reported FUND Expenditure (FHFC)	Actual FUND Expenditure (Banner)
S1618R	Yes	No		13325
S1426D	No	Yes	13324	13323
S1518R	Yes	No		13323
S1710R	Yes	No		13325

Similar to the FY14-15 SHIP Closeout Report, it is our understanding the impacted files were transferred from their respective SHIP Allocations to the FY15-16 SHIP Allocation in order to satisfy the approaching “set-aside” requirements.

**FY16-17 SHIP Interim Report – Fund 13325**

It appears the purpose of submitting the FY16-17 SHIP Interim Report is to provide initial information demonstrating the County is making progress toward (a) encumbering all of the moneys within 24 months of receipt and that (b) when fully expended in 36 months, the “set-aside” requirements will be achieved.

As identified below, our review of the Department’s internal tracking sheet and its FY16-17 SHIP Interim Report identified one applicant as receiving assistance from the FY16-17 SHIP Allocation (Fund 13325); however, Banner demonstrates it was provided from Fund 13324 (FY15-16 SHIP Allocation).

Applicant File Number	Applicant on Internal Tracking Sheet	Applicant on SHIP Interim Report	Reported FUND Expenditure (FHFC)	Actual FUND Expenditure (Banner)
S1605D	Yes	Yes	13325	13324

Similar to the FY14-15 SHIP Closeout Report and the FY15-16 Interim Report, it is our understanding the impacted file was transferred from its respective SHIP Allocation to the FY16-17 SHIP Allocation in order to satisfy the approaching “set-aside” requirements.

#### Root Cause Analysis

As will be more fully explained in **Observation (4)**, the current SHIP Allocation accounting methodology used to capture related activity does not provide the Department with the necessary flexibility when transferring applicant files between open SHIP Allocations in order to satisfy “set-aside” requirements.

#### Recommendations

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6. Health & Human Services Department should ensure it is submitting accurate SHIP Annual Reports (Closeout and Interim) to the Florida Housing Finance Corporation. Specifically, the Annual Reports should accurately reflect the SHIP Allocation used to provide assistance.

***Management Response:** Appropriate actions have been taken to provide accurate reporting to the Florida Housing Finance Corporation.*

#### Observation (4)

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**Prior to submitting its SHIP Annual Reports, the Health & Human Services Department did not reconcile the SHIP Allocations to the Martin County general ledger.**

#### Criteria

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Chapter 420.9079—Local Government Housing Trust Fund.—Florida Statutes; and, Rule 67-37.008—Local Housing Assistance Trust Fund.—Florida Administrative Code.

Rule 67-37.008(3), Florida Administrative Code, requires that “[a]ll Expended funds reported on the SHIP Annual Report shall be reconciled to the general ledger for each State fiscal year **prior to submission** (*emphasis added*) of the SHIP Annual Report.”

Internal Audit Review

Interviews of Department and Office of Management and Budget (OMB) staff identified that SHIP Allocations were not annually reconciled to the County’s general ledger prior to submission to the FHFC. Documents provided by OMB indicate that although it tried to reconcile the SHIP Allocations to the general ledger, reconciliation had not been successfully completed since at least the FY11-12 SHIP Closeout Report submitted on, or about, September 15, 2014. The reconciliation process was difficult due to (a) the current SHIP Allocation accounting methodology; and, (b) transferring files between SHIP Allocations in order to satisfy “set-aside” requirements.

SHIP Allocation Accounting Methodology

As explained in **Observation (3)**, Florida Statutes require each SHIP Allocation to be fully expended within 36 months from the start of the State fiscal year from which the moneys were received. On June 29, 2018, we queried the County’s financial software program and identified the following SHIP Allocation funds as having a current balance:

Fund	SHIP Allocation	Fully Expended June 30th	Balance
13321	FY11-12 FY12-13	2014 2015	\$307.99
13322	FY13-14	2016	665.68
13323	FY14-15	2017	94,343.65
13324	FY15-16	2018	157,455.53
13325	FY16-17	2019	694,569.83
13326	FY17-18	2020	765,382,61
<b>Total</b>			<b>\$1,712,725.29</b>

When considering the timeframe the Department had to fully expend the moneys and submit a closeout report to the FHFC, we did not expect to see balances in **Fund 13321**, **Fund 13322**, **Fund 13323** or **Fund 13324**.<sup>13</sup> Audit procedures indicate that balances remain in these funds due to transferring of applicant files between SHIP Allocations.

Transferring SHIP Files

As described in **Observation (3)**, Fund 13323 was created to capture FY14-15 SHIP related activity. On September 15, 2017, the Department submitted its required FY14-15 SHIP Closeout Report to the FHFC. This report listed seven applicants as having received moneys from the FY14-15 SHIP Allocation; however, Banner shows the applicants received assistance from other SHIP Allocations. The applicants were transferred from other SHIP Allocations to the FY14-15 SHIP Allocation for the sole purpose of meeting the “set-aside” requirements.

<sup>13</sup> As of July 16, 2018, financial records demonstrate the balance in Fund 13324 remains at \$157,455.33.

The process of opening separate funds for each SHIP Allocation and then transferring files between allocations to meet the “set-aside” requirements made it difficult, if not impossible, for the Department and OMB to reconcile the FY14-15 SHIP Closeout Report to the County’s general ledger.

Reconciliation of SHIP Allocations

On June 29, 2018, Internal Audit obtained public records from the FHFC detailing the SHIP moneys received by the County since FY09-10 and reconciled it, in aggregate, to the general ledger. The following is the result of our reconciliation:

**SHIP ALLOCATION  
Reconciliation to the General Ledger  
June 29, 2018**

Balance Sheets - Banner			Aggregate Budget Status Reports - Banner	
FUND	13320	\$ -	Total Allocations - Per FHFC	\$ 4,084,758.00
FUND	13321	\$ 307.99	<b>Less: Expenditures</b>	<b>\$ (3,206,088.42)</b>
FUND	13322	\$ 665.68	Program Income	\$ 821,896.02
FUND	13323	\$ 94,343.65	Transfer In (from 13319)	\$ 3,380.36
FUND	13324	\$ 157,455.53	Transfer In (13320 to 13321)	\$ 8,779.33
FUND	13325	\$ 694,569.83		
FUND	13326	\$ 765,382.61		
<b>Total</b>			<b>Total</b>	<b>\$ 1,712,725.29</b>
<b>\$ 1,712,725.29</b>				

Although the individual SHIP Annual Reports were not reconciled to the general ledger, in aggregate, the County can fully account for its SHIP Allocations.

Recommendations

7. Health & Human Services Department should consult with the Office of Management & Budget to consider the merits of:
  - a. Establishing/maintaining a single local government housing trust fund for all SHIP Allocations received from the Florida Housing Finance Corporation.

*Establishing a single fund should provide the Department with flexibility when transferring files between SHIP Allocations in order to satisfy program set-aside requirements and facilitate compliance with Recommendation 6.*

**Management Response:** *Appropriate actions have been taken to consolidate the individual SHIP Funds into a single Trust Fund.*

- b. Consolidating the 6 SHIP funds into a single SHIP fund.

**Management Response:** *Appropriate actions have been taken to consolidate the individual SHIP Funds into a single Trust Fund.*

8. Health & Human Services Department should work with the Office of Management & Budget to reconcile the SHIP Annual Reports to the Martin County general ledger, for each open State fiscal year, prior to submission.

*Staff from the Department and OMB should meet periodically throughout the year to reconcile the SHIP Allocation to the general ledger. A periodic review will identify potential problems sooner and facilitate a smoother submission of the SHIP Annual Reports.*

**Management Response:** *Appropriate actions have been taken to correct and maintain a consistent schedule of balancing and reconciliation between HHS SHIP staff and OMB staff.*

#### Observation (5)

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#### **Internal Controls over the SHIP Program need strengthening.**

##### Criteria

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Chapter 119.071(5)—Other Personal Information.—Florida Statutes; and, International Standards for the Professional Practice of Internal Auditing, Performance Standard 2130 - Control.

Chapter 119.071(5)(a)2.a, Florida Statutes, states: “An agency may not collect an individual’s social security number unless the agency has stated in writing the purpose for its collection and unless it is: (I) Specifically authorized by law to do so; or (II) Imperative for the performance of that agency’s duties and responsibilities as prescribed by law.”

Performance Standard 2130, titled Control, requires the internal audit activity to evaluate the adequacy and effectiveness of control within the organization’s governance, operations and information systems regarding the: (a) achievement of strategic objectives; (b) reliability and integrity of financial and operational information; (c) effectiveness and efficiency of operations and programs; (d) safeguarding of assets; and, (d) compliance with laws, regulations, **policies, procedures** (*emphasis added*), and contracts.



## Internal Audit Review

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Our review of applicant files identified that the Department is collecting, and retaining, social security account numbers (SSAN) from applicants and co-applicants. All files reviewed contained a copy of the applicant's, and when applicable, the co-applicant's social security card. It is noted that although the Department needs SSAN information to adequately process the applicant's request, it does not have a document, or form, acknowledged by the applicant explaining the purpose of its collection and that it is either (a) specifically authorized by law to do so, or (b) imperative for the performance of its duties and responsibilities as prescribed by law.

Furthermore, although the Department's LHAP outlines the housing assistance strategies and programs it has implemented to make affordable residential units available to income qualified applicants, it does not specifically address the collection of SSAN's. Moreover, the LHAP is the only written or otherwise documented policy developed by the Department.

There are no written, or otherwise documented, SHIP Program procedures.

## Recommendations

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9. The Health & Human Services Department should establish written, documented policies and/or procedures for the administration of the SHIP Program including, but not limited to, the following:
  - a. Collection of applicant social security account numbers
  - b. Security of applicant personal information
  - c. Verifications (Income/Employment/Assets)
  - d. Record retention

*A **policy** is a stated principal that requires, guides, or restricts action. Policies should:*

- *Be clearly stated in writing in systematically organized handbooks, manuals, or other publications and should be properly approved.*
- *Be communicated to all officials and appropriate employees.*
- *Conform to applicable laws and regulations.*
- *Be designed to promote the conduct of authorized activities in an effective, efficient and economical manner.*
- *Should be periodically reviewed and revised when circumstances change.*

*In contrast, **procedures** are methods employed to carry out activities in conformity with prescribed policies. In addition to the principles applicable to policies, the following apply to procedures:*

- *To reduce the possibility of fraud and error, procedures should be coordinated so that one employee's work is checked by another who is independently performing separate duties.*
- *For non-mechanical operations, procedures should not be so detailed as to stifle the use of judgement.*
- *Procedures should not be overlapping, conflicting or duplicative.*
- *Procedures should be periodically reviewed and improved as necessary.*

***Management Response:*** *County Administration concurs with this recommendation and will oversee the development of a policies and procedures manual for the SHIP Program.*

## ACKNOWLEDGEMENT

Internal Audit staff would like to extend our appreciation to staff at the Health & Human Services Department and the Office of Management and Budget for the cooperation and courtesies extended to us in the completion of this audit.



7. Health and Human Services Department should consult with the Office of Management & Budget (OMB) to consider the merits of:  
Establishing/maintaining a single local government housing trust fund for all SHIP Allocations received from the Florida Housing Finance Corporation.  
**Management Response:** Appropriate actions have been taken to consolidate the individual SHIP Funds into a single Trust Fund.  
Consolidating the six (6) SHIP Funds into a single SHIP Fund.  
**Management Response:** Appropriate actions have been taken to consolidate the individual SHIP Funds into a single Trust Fund.
8. Health and Human Services Department should work with the OMB to reconcile the SHIP Annual Reports to the Martin County general Ledger, for each open State fiscal year, prior to submission.  
**Management Response:** Appropriate actions have been taken to correct and maintain a consistent schedule of balancing and reconciliation between HHS SHIP Staff and OMB Staff.
9. The Health and Human Services Department should establish written, documented policies and/or procedures for the administration of the SHIP Program including, but not limited to the following:
  - a. Collection of applicant social security account numbers
  - b. Security of applicant personal information
  - c. Verifications (Income/Employment/Assets)
  - d. Record retention**Management Response:** County Administration concurs with this recommendation and will oversee the development of a policies and procedures manual for the SHIP Program.