

COUNTY AUDIT DEPARTMENT

REPORT # 369

An Audit of:

AFFORDABLE HOUSING – GRANT ACCOUNTING

JULY 23, 2019



Pat Frank INTEGRITY. TRANSPARENCY. ACCOUNTABILITY.

CLERK OF COURT & COMPTROLLER • HILLSBOROUGH COUNTY, FLORIDA



July 23, 2019

The Honorable Lesley “Les” Miller, Jr., Chairman
The Honorable Ken Hagan
The Honorable Pat Kemp
The Honorable Sandra L. Murman
The Honorable Kimberly Overman
The Honorable Mariella Smith
The Honorable Stacy R. White

Dear Chairman Miller and Commissioners:

The Audit Team performed an audit of the Affordable Housing Grant Accounting process (Audit Report #369, dated July 23, 2019). Responses to the Audit Team’s recommendations were received from the Director of Affordable Housing and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of the Affordable Housing Department during this audit.

Sincerely,

Heidi Pinner, CIA, CISA, CFE, CRMA
Director of County Audit

CC: Mike Merrill, County Administrator
Bonnie Wise, Chief Financial Administrator
Ron Barton, Assistant County Administrator, Economic Prosperity
Cheryl Howell, Director of Affordable Housing
Kevin Brickey, Director, Management & Budget Office
Dan Klein, Chief of Staff, Clerk of Court and Comptroller
Rick VanArsdall, Chief Deputy, Clerk to the Board

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Affordable Housing Department (the Department) administers federal and state funding to develop effective affordable housing and community development strategies for low and moderate income residents. The Department must follow rules and regulations established by federal and state government agencies when administering these grant funds. These agencies monitor grant activities and fund/reimburse the County for allowable grant expenditures. Affordable housing grant activities and expenditures are also tested annually as part of the County's external financial statement audit in compliance with the Single Audit Act. The three most recent external audits have identified a material weakness related to the Department's grant reporting and close process.

One of the allowable expenditures of grant funds is employee salaries. The Department tracks hours worked on each grant in order to record employee salary expenses to each specific grant worked. An adjusting manual journal entry is then recorded on a quarterly basis to true up actual hours worked on each grant. The Department also records other types of manual journal entries on an as needed basis to ensure the general ledger is accurate. Manual journal entries are inherently a higher risk accounting transaction because they tend to have fewer automated or system controls.

One form of affordable housing assistance provided to residents includes loans for the purchase and/or rehabilitation of homes. These loans use a similar approach as a bank loan and include a formal process between the grantee and the County to establish a loan term (number of years) and record a mortgage contract. These grants differ from a bank loan in that the loan is forgiven once the family has remained living in the house for the term of the loan. The signed contract is recorded with the Hillsborough County Clerk of Court & Comptroller, Official Records Department. The Department maintains an accounting of all grant loans that have been issued in order to amortize the receivable amount until the loan term has passed.

OBJECTIVE

The objective of the audit was to determine whether or not the Affordable Housing Department has adequate controls to ensure accurate financial accounting over its grant award transactions.

SCOPE

The audit was conducted in conformance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

Audit testing included manual journal entries through Fiscal Year 2018 and all outstanding loan receivables as of Quarter 3, Fiscal Year 2018.

OVERALL EVALUATION

Department employees were responsive to the Audit Team's inquiries and provided information as requested. During the course of the Audit, the Department had significant turnover of key personnel resulting in a loss of knowledge on departmental accounting processes.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	<p>Opportunities exist to improve the process for allocating employee time to grants.</p> <ul style="list-style-type: none"> • Hourly employee time has not been tracked timely. • One of five manual journal entries tested was not recorded timely. • It was not always clear where supporting documentation was pulled from or summarized. • Calculations use a series of lengthy complex spreadsheets that are difficult to follow and not well understood by department personnel. 	4
2	<p>Opportunities exist to ensure grant loans are properly tracked and filed in a timely manner.</p> <ul style="list-style-type: none"> • The calculations for receivables and the manual journal entry recorded were accurate. • Discrepancies were observed in 53% of the contracts tested (16 of 30). • Multi-family property contracts that have terms related to making payments to the County have not been tracked on a regular basis. 	7

OPINION

The overall control environment relative to the grant accounting and accounts receivable processes is at an informal level. Controls are fragmented and there is a lack of documented procedures over the journal entry process. This will require management to develop new procedures and controls for managing the accounting practices within the Department. The Audit Team was unable to verify the accuracy of the supporting documents for all of the journal entries tested. Additionally, there were multiple occurrences where contract data was inaccurately maintained within the Department's records and/or with what has been filed and maintained with the Clerk of Court & Comptroller, Official Records. The control weaknesses identified are compounded by the recent turnover in several key positions within the department. Working to address the opportunities

outlined in this Report will enhance the control environment and provide additional assurance that accounting records are complete and accurate.

The exit conference was held on June 14, 2019.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Heidi Pinner, CIA, CISA, CFE, CRMA, Director of County Audit

Ben Everett, CPA, CIA, CFE, Audit Manager

Matthew Demler, Internal Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

Opportunities exist to improve the process for allocating employee time to grants.

The objective was to determine whether or not the Department has adequate controls to ensure that manual journal entries are properly calculated, properly recorded and that there was a legitimate business purpose for the entry. The Audit Team reviewed the FY 2018 ending balances for Oracle fund numbers related to affordable housing grants and found several funds had a cash equity balance other than \$0.00. Ideally, the balances for federal grants should be \$0.00 because funds spent are reimbursed shortly thereafter. An exception to this is State Housing Initiatives Partnership (SHIP) funds, which will normally have non-zero balances because the state pays grant funds at different times than when the funds are spent by the County.

Manual Journal Entry Testing

The Audit Team judgmentally selected a sample of five (5) manual journal entries from funds that had a non-zero balance and reviewed supporting documentation for appropriateness and mathematical accuracy.

Three of the manual journal entries were recorded to adjust employee's quarterly salaries. The County's payroll system, Kronos, is set up to automatically allocate the Department's employee payroll expenses to an assigned grant. However, this automated entry is not always representative of the actual hours worked by each employee. A manual adjustment is therefore required to ensure that salaries are accurately allocated to the actual grants worked. Employees keep track of how many hours they work on each grant using an Excel spreadsheet.

The remaining sample items included one journal entry related to the close out of a demolition lien that had used grant funds and an adjustment to record a salary expense to a fund that was being finalized so that the grant could be closed out.

Results of Testing

All journal entries tested had an appropriate business purpose and were tracked by the Department to avoid duplicating reimbursement requests. However, several discrepancies were identified in the manual entries reviewed.

- *Insufficient Supporting Documentation:* One journal entry did not have any supporting documents saved in the County's document imaging system. The other four journal entries had incomplete supporting documentation recorded. The Department did subsequently gather and provide complete supporting documents once requested by the Audit Team.
- *Inconsistent evidence of review and approval:* Three of the five journal entries reviewed did not have evidence of review by the preparer or approver.

- *Data Entry Error:* One of the journal entries had an incorrect account number recorded where a digit was swapped in error. This error was identified by the external audit process and subsequently corrected by the Department.
- *Untimely Updates:* The quarterly salary entry for quarter 3 of FY 2017 was not recorded until the first quarter of FY 2018.

In addition to the discrepancies described above, the Audit Team also observed several control weaknesses in the process related to the quarterly salary entries.

- Each quarterly salary journal entry has a lengthy series of Excel files that are complex and difficult to follow. The Department's current accounting staff are unsure of how the quarterly salary journal entries are prepared due to the complexity of the supporting data and Excel files that are used in the calculations.
- The Audit Team could not completely verify the accuracy and origin of the Kronos source data based on initial inquiries with managers and staff (who have since resigned from the Department).
- There is no process or procedure documentation to explain how the entries are prepared.
- Some employees were behind in updating their hours worked in the Excel files, which is needed to prepare the quarterly salary journal entries.
- The Department has been unable to continue recording the manual salary entries for FY2019; however, they are implementing a new process to record salary expenses to grants, including FY2019.

Based on exceptions and control weaknesses identified in the audit sample, it is reasonable to assume that similar inconsistencies and lacking support would be present in other manual journal entries processed by the Department. This is especially true of the quarterly payroll adjusting entries that need to be booked to record employee time to the actual grants worked. The risk relative to these inconsistencies varies based on the significance of the entry and the root cause of the exceptions. At the time of audit testing, the Audit Team could not fully confirm the accuracy of the journal entries reviewed and did not have sufficient information to determine the root cause of all exceptions.

RECOMMENDATION

To ensure that manual journal entries are complete and accurate and that employee time is properly charged to the appropriate grants, management should:

1. Develop new controls and procedures for ensuring that manual journal entries have supporting documentation and can be clearly followed and verified.
2. Determine whether or not the current process should continue to be used for adjusting employee time quarterly, or if a simpler more automated process could be implemented. Management may wish to explore the availability of a more sophisticated and efficient software tool to manage this process and minimize the need for manual journal entries.

3. Implement a process to periodically identify and reconcile funds with non-zero cash equity balances.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

Effective October 1, 2018, the process for allocating employee time to grants that was reviewed in this audit is no longer being used. During the planning phase, management will provide job assignments for each employee based on the specific grants that they are assigned to and assign job responsibilities and workloads accordingly. The Fiscal Team will submit position allocations to Budget and submit an IIO request to ensure that staff is charged to the appropriate grants. Position allocations will be reviewed quarterly and changes will be made when necessary. This will ensure that staff's time is automatically charged to the appropriate grant. Therefore, manual journal entries will not be needed.

In regards to backup documentation and approval of Journal Entries, all Journal Entries will be approved by management prior to being uploaded in the document imaging system. As part of the approval process, management will ensure that backup documentation is attached.

Currently, staff is required to reconcile each grant fund monthly and submit Journal Entries, Miscellaneous Batches, and Account Corrections when needed. An additional requirement will be to run a Trial Balance and reconcile federal grant funds with non-zero equity balances.

TARGET COMPLETION DATE

7/01/2019

AUDIT COMMENT 2**Opportunities exist to ensure grant loans are properly tracked and filed in a timely manner.**

The objective was to determine whether or not there are adequate controls in place to ensure that accounts receivable for grant related loans are being properly calculated and recorded each quarter.

Loan Amortization and Contract Testing

There are five housing programs with loan receivables for families or apartment complexes that received assistance:

- First-Time Home Buyers (FTHB)
- Homesavers
- Neighborhood Stabilization Program (NSP)
- Rehabilitation for existing homes in need of repair
- Multifamily loans (apartment complexes)

The Department maintains a separate Excel file for each of these programs that lists all of the loans with formulas to calculate the receivable amounts. When a loan is granted, the Department executes a contract between the County and the grantee with the loan amount, closing date when the loan starts being amortized, term of contract (the number of years of the loan), and the type of loan being given. The contracts, once executed, are filed with Official Records and are tracked in the Excel files. The Audit Team:

- Reviewed the Excel files to ensure mathematical accuracy and to determine whether or not the calculated receivable amounts were properly carried forward to calculate the adjusting journal entries recorded for quarter 3 FY 2018.
- Selected a sample of 30 loans to reconcile loan information to the supporting contract documents on file in Official Records.

Results of Testing

Formulas within the Excel files appeared to be mathematically accurate. No errors were found in the calculation of the ending receivables balances for quarter 3 FY 2018. The total amounts summed for loans and dollar amounts used to prepare the quarterly receivable journal entry appeared to be accurate and the entry was recorded properly with proper approval.

For the sample of 30 contract documents tested from Official Records, the Audit Team identified the following:

- The loan amounts in all 30 contracts matched the amounts in the Excel files.
- Sixteen contracts (53%) had one or more discrepancies.

- Ten (10) contracts had a different close date than what was in the Excel file. Nine (9) of these were a difference of less than a month which represents an immaterial risk. However, one of the contracts had a closing date that was 245 days later than what was in the Excel file.
- Four (4) contracts were recorded in Official Records in excess of 30 days after closing.
- Two (2) contracts with a term of 30 years were incorrectly entered and amortized as 15 year loans in the Excel file.
- One contract could not be located in Official Records.
- One contract with a term of 20 years was incorrectly entered in the Excel file as 35 years.
- One contract had the wrong person's name (the borrower) typed in the contract.
- Certain multi-family property contracts (usually apartments) have clauses which require the entity to pay the County an annual amount if they are profitable. Documentation was not available to support whether or not the Department has performed reviews of these entities consistently.

RECOMMENDATION

To ensure that loans are being properly amortized and recorded, management should:

1. Implement new processes and controls to ensure contract documents are prepared with accuracy and that the amortization data in Excel matches the contract terms.
2. Consider reviewing all the other contracts listed in Excel spreadsheets against the Official Records documents for accuracy.
3. Record any necessary adjusting journal entries to ensure the amortization and receivable amounts in the general ledger are complete and accurate.
4. For multi-family property loans, determine if the entity has been profitable and whether or not any payments are owed to the County.
5. Consider implementing contract management software that can automate the tracking and calculation of loan receivables.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

Effective 01/01/19, staff is required to provide proof the loans and/or liens have been filed in the Official Records of the Hillsborough County Clerk of Courts when requesting a requisition for a purchase order. Once documentation is provided, Fiscal Staff will enter the client's information in the appropriate Excel Spreadsheets. A manager will review the entries to verify that they have been entered correctly.

In April 2019, the vacant Accountant position was filled, and the employee has been successful in obtaining all of the Financial Statements for the multi-family property contracts. The Multi-Family Spreadsheet has been updated accordingly. A tracking spreadsheet has been created and will be updated quarterly to ensure that Financial Statements are submitted in a timely manner. The Financial Statements will be reviewed to determine if the entity has been profitable and whether or not any payments are made to the County.

A temporary employee (Accounting Clerk) joined the Fiscal Team in May 2019 and has been reviewing and verifying all contracts listed in the Excel spreadsheet against the Official Records for accuracy. When discrepancies are found, corrections are made.

In addition, management is in the process of obtaining contract management software that will track the loans/liens and calculate the loan receivables, which would minimize many of the errors that have been made in the Excel spreadsheets.

TARGET COMPLETION DATE

10/1/2019