

May 31, 2013

Mr. Steve Auger
Executive Director
Florida Housing Finance Corporation

Re: OIG Report #130429-05, Status of Corrective Actions: Auditor General Report No. 2013-047: Audit Performed Pursuant to Chapter 2012-127, Laws of Florida

Dear Director Auger:

In accordance with Section 20.055 (5)(h), Florida Statutes, we asked the responsible managers for the current status of each finding identified in the report.

The findings, recommendations, and the May 2013 status of corrective actions are attached. We have reviewed these and believe the actions taken are acceptable.

We are available to answer any questions.

Sincerely,



Marvin Doyal
Interim Inspector General

cc: Joint Legislative Audit Committee
Auditor General

Rick Scott, Governor

Board of Directors: Leonard Tylka, Chairman
Mary L. Demetree • John David Hawthorne Jr. • Brian Katz • Natacha Munilla • Bernard "Barney" Smith
Executive Director: Stephen P. Auger

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AUDITOR GENERAL FINDING	AUDITOR GENERAL RECOMMENDATION	STATUS AS OF MAY 2013
<p>No. 1: Annual Compliance Audit: Although required by State law the Corporation did not submit to the Governor and the presiding officers of each house of the Legislature annual compliance audits for all of its programs.</p>	<p>We recommend that the Corporation ensure future compliance with the statutory requirement related to an annual compliance audit of the Corporation's programs. In addition, we recommend that the Legislature consider revising Section 420.511(4), Florida Statutes (F.S.), to identify those Corporation programs that should be subject to an annual compliance audit.</p>	<p>HB 437 was passed by the Legislature and the Governor signed the bill into law on May 30, 2013. Section 420.511 (4), Florida Statutes, revisions are included in HB 437 addressing this finding.</p>
<p>No. 2: Internal Audit Activity: Improvements are needed in the Corporation's internal audit activity to better ensure compliance with applicable State laws and internal auditing standards and promote accountability, integrity, and efficiency in Corporation operations.</p>	<p>To provide a reliable method for planning projects and measuring productivity, we recommend that the Office of Inspector General (OIG) implement a process to track staff time by project and activity. In addition, the OIG should work with the Board and Corporation management to ensure that an appropriate balance is maintained between audits and other OIG activities. We also recommend that the OIG timely submit risk-based work plans and annual reports to Corporation management and the Board.</p>	<p>The OIG developed and implemented a process to track staff time by project and activity in April 2013. The OIG is currently working on a risk assessment that will include the Board and Corporation management to help ensure an appropriate balance between audits and other OIG activities. The OIG submitted a report for the Quality Assurance Audit of HHF Compliance Monitoring in February 2013, and is currently working on two other audits. Once the risk assessment is completed, a risk-based work plan will be submitted to Board and Corporation management. Although there is no required due date for the risk assessment and work plan, the OIG plans to submit the information by August 30, 2013. The OIG submitted the 2012 Annual Report to the Board and Corporation Management on March 29, 2013, as required by Florida Statutes.</p>

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<p>No. 3: Transparency of Operating Fund Unrestricted Net Assets: The Corporation's reporting of Unrestricted Net Assets should be enhanced to provide greater transparency related to the Corporation's planned use of unrestricted resources.</p>	<p>We recommend that the Corporation disclose in the notes to its annual financial statements the amount of unrestricted net assets designated for each described purpose. In addition, the Corporation should ensure that the Board meeting minutes documented the Board's authorization of the designations.</p>	<p>The Board approved the designated unrestricted net assets for 2012 at the April 26, 2013 Board meeting. The 2012 financial statements, including the footnote with the detail of the approved designated unrestricted net assets, will be presented to the Board at the June 21, 2013 meeting.</p>
<p>No. 4: Monitoring of Externally Managed Investments: To better ensure that timely and appropriate decisions will be made in response to changing market and economic conditions, the Corporation should establish procedures for monitoring Corporation investments that are managed by external investment management companies.</p>	<p>We recommend that the Corporation adopt written procedures for monitoring investment compliance with Corporation investment guidelines. Such procedures should require that, when investments experience a downgrade below the limits established in the investment guidelines, applicable Corporation management be alerted so that appropriate responses can be determined.</p>	<p>The Corporation's process for handling downgraded investments has been formalized and incorporated into its written investment guidelines. The guidelines were approved by the Audit Committee and ratified by the Board April 26, 2013.</p>
<p>No. 5: Public Deposits Program Compliance: The Corporation did not comply with the requirements of the State's Public Deposits Program. As a result, the Corporations' deposits may not have been protected by the Program in the event of a depository's default.</p>	<p>To ensure that the Corporation's deposits are adequately safeguarded from loss, we recommend that the Corporation comply with the Public Deposits Program requirements.</p>	<p>The required reporting related to the Public Deposits program was completed in 2012. The Public Depositor Annual Report was submitted on November 15, 2012. The Public Deposit Identification and Acknowledgement for the Wells Fargo accounts was submitted on September 11, 2012.</p>

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<p>No. 6: Hardest-Hit-Fund (HHF) Program Review: The U.S. Department of the Treasury disclosed numerous observations of Corporation noncompliance in its June 2012 Hardest Hit Program Compliance Review report.</p>	<p>We recommend that the Corporation continue its efforts to address the observations of HHF Program noncompliance noted in the Treasury Review report.</p>	<p>The U.S. Treasury performed a Follow-Up Review of the HHF Program in December of 2012 and corrective actions provided in response to the June 2012 report were verified. Effective March 26, 2013, all items in the June 2012 report have been fully addressed.</p>
<p>No. 7: HHF Program Recipient Eligibility: The Corporation's oversight of its advisor agencies was not sufficient to ensure that the agencies obtained the required documentation for the Hardest Funds Program eligibility determination or timely properly notified applicants of their Program ineligibility.</p>	<p>We recommend that the Corporation ensure that Program advisor agencies obtain and maintain sufficient documentation to evidence that eligibility determinations were made in accordance with Program guidelines and that individuals who were determined ineligible were properly notified in accordance with the Corporation's HHF Program Procedures Manual.</p>	<p>As of March 26, 2013, the Corporation began conducting a review for accuracy of 100% of the HHF files, including both eligible and ineligible files. All applications processed and exported (via the CounselorDirect Underwriting portal) by advisor agencies are reviewed prior to payment for services rendered. In the event that a submitted application lacks any required documentation at the time of review, the advisor agency will not receive payment for a) ineligible applicants or b) eligible applicants until the missing documents have been uploaded, reviewed, and determined eligible by an underwriter.</p>
<p>No. 8: Cost Allocation: The Corporation's cost allocation methodology was not adequate to ensure that costs were allocated to Federal awards programs in an appropriate and equitable manner.</p>	<p>We recommend that the Corporation revise its cost allocation methodology to include only those costs that are allowable according to OMB Circular A-87. In addition, the Corporation should ensure that the allocation methodology results in an appropriate and equitable distribution of costs to its Federal awards</p>	<p>The Corporation will continue to ensure that only allowable costs are charged to Federal programs. As discussed with the Office of the Auditor General, the Corporation's practice is to perform a final review of each year's costs after completion of the annual audit to ensure</p>

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	programs.	<p>that costs are consistent with A87. Any adjustments to the previous year's allocation are identified at that time, and are applied to the current year's draws.</p> <p>The Corporation has also implemented a process to document actual employee activity in each federal program, and now makes monthly adjustments to salaries based on this documentation. The new procedure for timecards was implemented in July 2012.</p>
<p>No. 9: Board Member Conflicts of Interest: The Corporation should improve its procedure to ensure that Board member conflict of interest statement are properly retained and incorporated in the applicable Board meeting minutes.</p>	<p>We recommend that the Corporation revise its Personnel Policies and Procedures Handbook to specify a time period within which a written conflict of interest disclosure must be provided. In addition, the Corporation should ensure that written conflict of interest disclosures are timely filed and incorporated into the applicable Board meeting minutes.</p>	<p>The Corporation revised its internal procedures to include the time period within which a written conflict of interest disclosure must be provided. Disclosures will be filed timely and incorporated into applicable Board meeting minutes.</p> <p>These procedures will be incorporated in the Personnel Policies and Procedures Handbook by June of 2013.</p>
<p>No. 10: Purchasing Guidelines and Contracts: The Corporation's purchasing guidelines need enhancing to better protect the interests of the Corporation and the State and to ensure compliance with applicable State law.</p>	<p>We recommend that the Corporation:</p> <ul style="list-style-type: none"> • Amend its single source procurement policy to require Board approval of single source contracts with estimated costs in excess of \$25,000. • Ensure that contracts include a clear description of deliverables. • Ensure that contract files contain explanations for 	<p>The Corporation has drafted a Procedures Manual for Solicitations to include the following:</p> <ul style="list-style-type: none"> • Board approval is required on single-source contracts with estimated costs in excess of \$25,000, in any twelve (12)

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	<p>significant changes in contract amounts.</p> <ul style="list-style-type: none"> • To protect the interests of the Corporation and the State, ensure that its contract documents specify the contract effective dates and the contract's total maximum amount payable. • Ensure compliance with the statutory contract reporting requirements. • Establish a means for tracking contract payments for each contract. <p><i>In response to this finding, the Corporation indicated that it did not agree with our recommendation that contracts should specify the contract maximum amount payable and described difficulties associated with specifying maximum contract amounts for long-term contracts for services related to affordable housing development transactions. We agree that there may be instances in which it may not always be practical to specify a maximum contract amount; however, for the majority of the contracts referenced in the finding, such as those related to payroll services, technical assistance, public relations and media buying services, and capital needs assessment services, the Corporation could reasonably specify a maximum contract amount and thereby provide a basis for controlling, monitoring, and reporting Corporation contracts.</i></p>	<p>month period.</p> <ul style="list-style-type: none"> • The requirement to include clear descriptions of deliverables in solicitation documents and contracts. • The requirement to ensure that explanations are added to the contract file for any significant changes in the contract. Staff will be required to provide in writing explanations for significant changes to any contract amounts. • A checklist to help ensure compliance with the statutory contract reporting requirements. <p>The Procedures Manual for Solicitations will take effect by July of 2013.</p> <p>When applicable, effective dates and maximum amounts will be included in the contracts.</p> <p>As noted in the original response, the Corporation tracks payments by vendor and expenses are controlled through its operating budget process. Since many contracts are not subject to maximum amounts, Corporation management believes the payments tracking processes in place for these contracts are sufficient.</p>

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<p>No. 11: Service Organization Controls: The Corporation contracted with service organizations to perform credit underwriting, construction and permanent loan servicing, and compliance monitoring services. However, the Corporation did not have adequate procedures in place to ensure the effectiveness of service organization controls relevant to the work performed for the Corporation.</p>	<p>We recommend that the Corporation work with its service organizations to ensure that the service organizations obtain and timely submit to the Corporation the contractually required SSAE 16 SOC 1 Type II reports. The Corporation should consider the information provided by these reports when monitoring and evaluating the performance of its service organizations.</p>	<p>In April 2013, the Corporation initiated the review of SSAE 16 reports received in accordance with contractual requirements for service organizations. User control considerations are noted during the review.</p>
<p>No. 12: Employee Background Screenings: The Corporation had not designated positions of special trust or required background screenings prior to employment or as a condition of continued employment. As a result, many employees, including most of the Corporation's senior management, had not been subjected to background screenings.</p>	<p>We recommend that the Corporation identify those positions that should be subjected to a background screening. For the positions identified, the Corporation should ensure the timely conduct of background screenings and that any matters disclosed by the screenings be appropriately considered and acted upon.</p>	<p>Corporation management has determined that all Corporation employees meet the criteria for special trust designation. Human Resources (HR) requested authorization from Florida Department of Law Enforcement (FDLE) to conduct fingerprint records checks of our current and new employees. FDLE approved at the state level and submitted our request to the Federal Bureau Investigation (FBI) in December 2012. HR is awaiting approval from the FBI. Once approved, implementation will occur immediately.</p>
<p>No. 13: Verification of Education and Work Experience: The Corporation did not always maintain documentation in its personnel records to evidence timely verification of prospective employees'</p>	<p>We recommend that the Corporation enhance its procedures to ensure that the education and work experience of prospective employees are verified prior to employment and that appropriate documentation is be retained in employee personnel files.</p>	<p>Human Resources (HR) instituted a checklist that documents completion of each required step in the hiring process. This includes obtaining documentation of education and work experience prior to employment and</p>

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<p>education and work experience.</p>		<p>maintaining the information in the personnel file. HR requires documentation of education prior to hiring and has implemented a more detailed work reference form and all documentation is kept in the employee personnel file. This change was implemented prior to the end of 2012.</p>
<p>No. 14: Travel Expenses: The Corporation's travel policy did not conform to the requirements of State law. Therefore, many of the travel costs incurred by the Corporation's employees, contractors, and Board members exceeded the amounts allowed by State Law. In addition, traveler reimbursement requests were not always supported by the documentation required by the Corporation's travel policy.</p>	<p>We recommend that the Corporation amend its travel policy to conform with the requirements of State law. In addition, we recommend that, prior to reimbursing travel related to conference attendance, the Corporation ensure that the traveler has provided the conference agenda.</p>	<p>The Corporation revised the travel policy effective April 1, 2013, to ensure travel incurred by Corporation employees and authorized persons is in accordance with Section 112.061(6) and (7), Florida Statutes.</p> <p>Additionally, HB 437 provides for Section 112.061(6) and (7), Florida Statutes, reimbursement amounts to be applicable to Corporation travel.</p>
<p>No. 15: Operating Expenses: The Corporation did not always ensure that expenses served an authorized public purpose and were clearly necessary to the performance of the Corporation's statutory duties. In addition, bonuses were paid to Corporation employees absent adequate documentation of the justification.</p>	<p>We recommend that the Corporation ensure that documentation for any future employee bonuses be supported by appropriate justification. We also recommend that the Corporation ensure that its expenses always serve an authorized public purpose and are clearly necessary to the performance of the Corporation's statutory duties.</p>	<p>The Corporation has historically required justification for bonuses, but this support was not always written and attached to the payment documentation. On September 28, 2012, the Corporation adopted policy number 5300, Discretionary Lump Sum Bonuses. This policy requires appropriate documentation accompany the request for and payment of bonuses.</p>

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<p>No. 16: Tangible Personal Property: The Corporation's procedures for tangible personal property did not provide for the assignment of property custodians, address separation of duties during the conduct of physical inventories, require that portable and attractive items costing less than \$5,000 be added to the property records and included in the annual physical inventory process, or ensure that a physical verification of all property items was conducted at least once every year.</p>	<p>We recommend that the Corporation amend its Capital Assets Procedures to include the assignment of property custodians, address separation of duties during the conduct of physical inventories, require that portable and attractive items costing less than \$5,000 be added to the property records and included in the annual physical inventory process, and ensure that a physical verification of all property items is conducted at least once every year.</p>	<p>The Corporation has drafted an amended policy related to Capital Assets document property custodians and to ensure inventories are taken annually. The policy requires that portable and attractive items be added to the property database and inventoried accordingly. The policy should be finalized by August of 2013.</p> <p>The Corporation completed inventories of its Capital Assets and IT equipment for 2013. The inventories included capitalized furniture and equipment as well as portable and attractive items. The Corporation is making further improvements related to the property database to ensure that custodians are assigned and that portable and attractive items are properly tracked and verified.</p>