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**Project #2017-14**

***Final Report-***  
***Audit of the Mortgage Credit***  
***Certificate Program***

**January 23, 2018**

**SUMMARY**

The Office of Inspector General (OIG) conducts audits of Florida Housing Finance Corporation's (Florida Housing) programs to provide management and other stakeholders with unbiased, timely, and relevant information for use in promoting accountability, stewardship, and efficient operations.

It was noted during the OIG's 2016 Annual Risk Assessment that the Mortgage Credit Certificate (MCC) Program had not been audited internally or externally since its inception in 2012. This, along with the MCC Program staff's request to be audited, resulted in a compliance audit of the MCC Program being included in the OIG's Annual Audit Plan for Fiscal Year 2017.

The audit disclosed that the Florida Housing MCC Program is generally compliant with applicable laws, rules, and regulations; however, it is strongly recommended some of the following key areas be improved:

- compliance with Florida Statutes (FS) regarding the collection of social security numbers of MCC applicants;
- controls for preventing the over-issuance of MCCs;
- timeliness and adequacy of communication to appropriate stakeholders when key events occur within the program;
- compliance with FS regarding filing annual MCC Program activity reports with the State Board of Administration (SBA), Division of Bond Finance (DBF);
- policies and procedures relating to the initiation of a new program, sun-setting of an existing program, creation and dissemination of the Internal Revenue Service (IRS) quarterly<sup>1</sup> and annual<sup>2</sup> reports;
- storage, management, and disposal of MCC Program participant information; and
- information technology (IT) controls for the MCC Reservation System.

Improvements in these areas will help the MCC Program strengthen compliance with applicable authoritative sources and foster improved communication and transparency.

<sup>1</sup> Form 8330, Issuer's Quarterly Information Return for Mortgage Credit Certificates (MCCs). Issuers (states and political subdivisions) of MCCs file this form to provide the IRS with information required by Internal Revenue Code section 25 and Temporary Regulations section 1.25-8T(b).

<sup>2</sup> "Mortgage Credit Certificate Information Report" - The report must be filed for each reporting period in which certificates (other than transferred certificates) are issued under the program.

## OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the audit were to determine compliance with laws, rules, and regulations governing the MCC Program. This was accomplished by determining the adequacy of:

- controls for compliance with authoritative sources that govern the MCC Program;
- the program's existing policies and procedures to ensure effective administration of the MCC program;
- controls for managing and tracking of MCC issuance and related allocation thresholds, and communicating related issues to stakeholders;
- controls for eligibility determination;
- controls for MCC document storage, retention, and management; and
- IT controls for the MCC Reservation System.

The audit scope included MCC Program related controls, processes, and policies and procedures in effect at the time of the audit, for achieving compliance with applicable laws, rules, and regulations.

To achieve the audit objectives, the following were reviewed:

- Code of Federal Regulations (CFR) 1.25-3T - *Qualified mortgage credit certificate*;
- CFR 1.25-4T - *Qualified mortgage credit certificate program*;
- CFR 1.25-6T - *Form of qualified mortgage credit certificate*;
- CFR 1.25-8T - *Reporting requirements*;
- 26 US Code 25 - *Interest on certain home mortgages*;
- 26 US Code 6709 - *Penalties with respect to mortgage credit certificates*;
- Section 159.8075, FS - *Qualified mortgage credit certificates*;
- Rule 67-54.006, Florida Administrative Code (FAC) - *Loan Processing*;
- Rule 67-54.007, FAC - *Eligible Borrowers*;
- Rule 67-54.008, FAC - *Eligible Properties*;
- *Florida Housing Mortgage Credit Certificate Program – Lender Guide*; and
- Florida Housing MCC Program internal policies and procedures.

In addition, a sample of randomly selected applicant files, which were deemed as eligible to receive a MCC, were compared against an eligibility requirements checklist that was developed. This was to determine whether any applicant files did not meet those eligibility requirements. Furthermore, interviews with appropriate Florida Housing staff were conducted, and a review of program documentation was performed to determine what actions were being taken to ensure compliance with those MCC requirements.

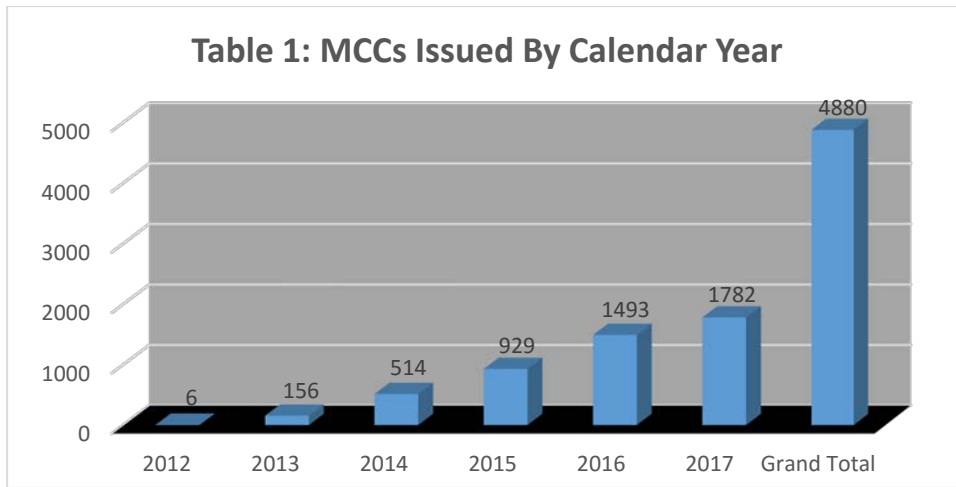
## BACKGROUND

### History of the MCC Program

Mortgage Credit Certificates (MCC) were authorized by Congress in the 1984 Tax Reform Act. A MCC is a non-refundable federal income tax credit that provides a homeownership incentive by reducing a

participant's federal tax liability. Florida Housing's first MCC Program began in 2012 with subsequent programs in 2014, 2016, and 2017.<sup>3</sup>

Since its inception, the MCC Program has grown from six MCCs issued during the first year to more than 1700 issued so far in 2017. The following table illustrates the growth of Florida Housing's MCC Program.



### Current MCC Program

The MCC Program is organizationally situated within Homeownership Programs and comprised of two full-time staff members with two levels of management oversight (Director of Homeownership Programs and Homeownership Programs Administrator). Under the MCC Program, which uses private activity bond allocation as its underlying resource, Florida Housing issues MCCs to eligible borrowers who obtain mortgage loans from participating MCC Program lenders. The federal government annually allows an amount equal to \$100.00 per capita tax-exempt private activity bonds<sup>4</sup> (PABs) to be issued in each state. Florida's SBA, DBF is responsible for managing the issuance of PABs for the entire State of Florida. A portion of these PABs are issued to Florida Housing to facilitate development of affordable housing. In January 2017, Florida Housing was initially allocated \$490,935,975 in PABs.

Mortgage Revenue Bonds (MRBs) are a type of private activity bond and the volume that may be issued annually is limited by state volume caps.<sup>5</sup> Section 25 of the Internal Revenue Code (the Code) of 1986 permits Florida Housing to elect to convert a portion or all of its MRB allocation into MCCs to extend the time-frame for using any allocated PABs before they expire. The Code generally allows a four-to-one conversion rate. For example, if Florida Housing elects to convert \$1 million in MRBs, it may issue \$250,000 in MCCs.

<sup>3</sup> MCC Programs: are not necessarily implemented by calendar year; can run up to three years; and can run concurrently with another MCC Program. There were no MCC Programs implemented in 2013 or 2015.

<sup>4</sup> Tax-exempt bonds issued by or on behalf of local or state government for the purpose of providing special financing benefits for qualified projects. The financing is most often for projects of a private user.

<sup>5</sup> Volume cap is the federally authorized dollar limit of tax-exempt bond financing States can issue for affordable housing (single-family homes and multifamily apartments).

To utilize those MCCs and provide additional affordable housing opportunities to qualified homebuyers,<sup>6</sup> Florida Housing offers an MCC with up to a 50% tax credit amount, depending on the loan amount. Homeowners with the tax credit can use up to 50% of the annual mortgage interest (up to a maximum of \$2,000) as a direct federal tax credit, resulting in a dollar-for-dollar reduction of their annual federal income tax liability. The remainder of the homeowners' annual mortgage interest will continue to qualify as an itemized tax deduction for federal income tax purposes. The example in the table below illustrates the benefit of an MCC credit.

**Table 2: MCC credit example**

Mortgage Amount:	\$150,000.00
Annual Percentage Rate:	4.50%
Total Interest Paid First year:	\$6,750.00
Mortgage Credit Certificate Rate@ 40%:	X .40
Tax Credit Amount: (\$2,000 maximum credit)	\$2,700.00

### Allocation and Carryforward Processes

On January 1 of each year, Florida's PAB allocation is dispersed through separate pools. One such pool is the Florida Housing Finance Corporation Pool. Florida Housing can use any portion of this allocation as needed, for single family and multifamily housing bonds, until June 30<sup>th</sup>. On July 1<sup>st</sup>, any remaining allocation in the Florida Housing Finance Corporation Pool is reallocated to the Florida First Business Bond Pool.<sup>7</sup> PAB allocation is then dispersed throughout Florida to appropriate entities on a first-come, first-serve basis. At the end of the year, any remaining unused PAB allocation is allocated back to Florida Housing as a Carryforward Allocation. Florida Housing must split and specifically designate the Carryforward Allocation as single family or multifamily allocation. Once the split is submitted to the SBA, it cannot be changed. Florida Housing must use its Carryforward Allocation before any current year allocation can be used. The Carryforward Allocation is good for three years; however, if it is not used within that period, it expires.

## OBSERVATIONS AND RECOMMENDATIONS

### Observation #1: Over-issuance of MCCs and resulting penalty

During the 2014 program year, the MCC Program staff did not have internal policies and procedures to document the process for the review, analysis, and monitoring of MCC issuance data. This resulted in the over-issuance of MCCs and thus exceeding the limitation on the aggregate amount of mortgage credit certificates that could be issued.

In early September 2016, MCC Program staff discovered they had exceeded their \$125,000,000 MCC issuance authority for the 2014 MCC Program, which was subsequently ending on December 31, 2016. In a letter to the SBA informing them of the issue, Florida Housing's Bond Counsel stated that, as of December 2016, Florida Housing:

<sup>6</sup> The MCC Program is for first time homebuyers purchasing a home, non-first-time homebuyers purchasing a home in targeted areas in Florida or for eligible veterans purchasing a home anywhere in Florida. The MCC can be issued with any participating lender's fixed rate first mortgage loan. It cannot be used with Florida Housing's First Time Homebuyer (bond loan) Program or local housing agency bond loans. The MCC Program has income and purchase price limits. These limits differ from county to county as well as by household size.

<sup>7</sup> Florida First Business Bond Pool – Reserves 20% of Florida's total annual private activity bond allocation for large industrial projects making significant contributions to Florida's economy.

*had issued MCCs in connection with approximately \$363,000,000 in aggregate principal amount of mortgage loans, and by year-end it expects the aggregate principal amount of mortgage loans against which MCCs have been issued to equal approximately \$380,000,000. With a 50% credit rate, FHFC will have issued MCCs under the 2014 Program in an aggregate credit amount of approximately \$190,000,000. As noted above, the permissible credit amount under the 2014 Program was \$125,000,000; therefore, FHFC will have exceeded the permissible amount by approximately \$65,000,000. Such over-issuance was inadvertent and not intentional. Nonetheless, FHFC acknowledges that the 2014 Program exceeded its permissible credit amount.*

It should be noted that the above numbers were approximations. The MCC Program staff provided the initial final amounts as follows:

Florida Housing issued MCCs in connection with \$336,350,542<sup>8</sup> in aggregate principal amount of mortgage loans, with a 50% credit rate, FHFC issued MCCs under the 2014 Program in an aggregate credit amount of \$209,087,635. The permissible credit amount under the 2014 Program was \$125,000,000; therefore, FHFC exceeded the permissible amount by \$84,087,635.

In documentation provided to the OIG, MCC Program staff stated that there were two primary causes that led to the error:

*“The first was that staff misinterpreted the reported data. The second was a breakdown in our review P&P (policies and procedures). All Program reporting that is sent to the IRS is prepared by staff, sent to Bond Counsel for review and sign-off and then further reviewed by the Program’s Manager, Administrator and then by the Director of Homeownership before being sent to the Corporation’s Executive Director for final signature. When the reporting duties were transitioned from” [one staff member to another], “the review by Bond Counsel was inadvertently dropped from our processes. Had Bond Counsel been in the loop they would have advised us that we were fast approaching the limit of our issuance authority at which point we would have initiated a new Program to avoid this mistake.*

*Actions taken to correct error: When the error was discovered, we immediately contacted Bond Counsel, had them review what had occurred and then provide guidance as to how to correct our mistake. . .*

*Controls that have been put in place to prevent the recurrence of over issuance of MCC’s: The first step was to bring Bond Counsel back into the review process as our P&P require. After the IRS reports are completed, Bond Counsel is now the first to review them before being reviewed by management. Staff has also been educated to the fact that the issuance amount provided on the quarterly IRS reports reflects the MCC Credit Issuance, not the dollar amount of loans that the credit will allow. Lastly, we now have a staff wide MCC Program meeting on Fridays. With the rapid and continued growth of the Program this meeting is helping us more closely monitor issuance volume and address other MCC specific issues that may arise. These steps should be sufficient to prevent such an error being made again in the future.*

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<sup>8</sup> The amount of \$336,350,542 was provided in error by MCC Program staff to the OIG. The corrected amount is “Florida Housing issued MCCs in connection with \$418,175,270 in aggregate principal amount of mortgage loans, with a 50% credit rate, FHFC issued MCCs under the 2014 Program in an aggregate credit amount of \$209,087,635.

*As an added control, we also requested an internal audit of our processes to see if there are other areas of risk or potential error that staff needs to be aware of. The audit is currently underway.”*

It is **recommended** that the MCC Program develop written policies and procedures to document the controls that have since been put in place to prevent another over-issuance of MCCs.

The Code provides that when an issuer of MCCs exceeds its issuance authority, with respect to a particular MCC program, all MCCs issued under that program remain valid under the Code and the Regulations. However, the Code also provides for a penalty in the form of reduced volume cap as stated below in Section 25:

*If for any calendar year any mortgage credit certificate program which satisfies procedural requirements with respect to volume limitations prescribed by the Secretary fails to meet the requirements of paragraph (2) of subsection (d), such requirements shall be treated as satisfied with respect to any certified indebtedness of such program, but the applicable State ceiling under subsection (d) of section 146 for the State in which such program operates shall be reduced by 1.25 times the correction amount with respect to such failure. Such reduction shall be applied to such State ceiling for the calendar year following the calendar year in which the Secretary determines the correction amount with respect to such failure.*

In summary, the penalty for exceeding MCC issuance authority is a reduction in initial statewide volume cap for the year following the year in which the over-issuance occurs. Therefore, based on the amounts initially provided by MCC Program staff, an additional \$336,350,542 of 2017 volume cap was determined as the correction amount. In addition, a volume cap penalty of \$84,087,635 was imposed. Pursuant to the Code, both amounts, totaling \$420,438,178 are subtracted from Florida Housing’s 2017 initial volume cap of \$490,935,975, leaving an initial balance of \$70,497,797.

However, during the OIG’s review of the amount of total MCCs issued, which was used to determine the correction amount for the 2017 volume cap reduction (shown in the previous paragraph), an error in the data reported by the MCC Reservation System was noted. Subsequent discussions with MCC Program staff resulted in their performing a further review and analysis of the data and the data reporting functions in the MCC Reservation System. As part of this review, the MCC Program staff consulted with Florida Housing’s Information Technology Services (ITS), who developed the MCC Reservation System. ITS and MCC Program staff have identified the following as the root causes for the data reporting errors:

- Some MCC test records appeared in the production MCC Reservation System and then on subsequent quarterly reports.
- Revoked MCC reservations were not included in quarterly reports.
- Some MCC records were reported twice, once when originally issued and again when re-issued.
- A group of reservations that were identified as belonging to one MCC Program year, but were issued during another program year.

As a result of Florida Housing staff’s review and identification of the root causes for the data reporting errors, it was determined a correction to the initial reduction in volume cap was necessary. Instead of a reduction of \$420,438,175, initially reported to SBA, the corrected amount should be reduced by

\$2,954,607, resulting in a final reduction amount of \$417,483,567. This correction will increase Florida Housing's remaining balance of 2017 volume cap from \$70,497,797 to \$73,452,404.

It is also **recommended** that the MCC Program staff, in conjunction with ITS staff, implement controls within the MCC Reservation System to ensure that reported MCC issuance data is accurate. At a minimum, any controls put in place should address the root causes stated above.

Finally, it is **recommended** that the MCC Program staff develop a process to validate the accuracy of the data used in any future quarterly and annual reports remitted to the IRS and document the process through the development of written procedures. Additionally, MCC Program staff should review all previously submitted quarterly and annual reports to validate the accuracy of the data.

### **Observation #2: Communication of over-issuance of MCCs**

Florida Housing's Board of Directors (Board), among other duties, is responsible for assuring that Florida Housing resources and the reporting of the usage of those resources are handled with integrity, are controlled for accuracy and completeness, and in compliance with laws, rules, and regulations.

Historically, Florida Housing's Homeownership Program sought the Board's approval for MCC Program decisions, including the conversion of MRBs to MCCs, the startup of a new program or shut down of an old one. However, in the previously mentioned over-issuance of MCCs, Florida Housing's Executive Director (at the time)<sup>9</sup> was notified by the Director of Homeownership Programs; however, there was no communication to the Board, Chief Financial Officer (CFO), or General Counsel that the MCC Program had exceeded the \$125,000,000 issuance authority under the 2014 Program by \$84,087,635. In consultation with Florida Housing Executive Leadership,<sup>10</sup> communication of this issue to certain stakeholders and the Board should have taken place reasonably soon after the MCC Program staff discovered they had exceeded their MCC issuance authority.

Exceeding the limitation on the aggregate amount of MCCs issued resulted in a penalty under the Code. The prescribed correction amount and penalty resulted in a reduction of \$420,438,178 to the current year (2017) initial volume cap to offset the over-issuance. In addition, the over-issuance caused the MCC Program to exceed the terms of the Board Resolution for the 2014 Program.<sup>11</sup> Lastly, with Florida Housing failing to inform the Board of the over-issuance, the Board cannot fully discharge its responsibility to ensure "Florida Housing complies with laws, rules, regulations and program contracts and documents" if such major events are not communicated to them.

It is **recommended** that Florida Housing communicate to the Florida Housing Board and Executive Leadership any substantial issues with or changes to the previously approved Board Resolution, at the first available opportunity. This is critical when issues or changes to the MCC Program may incur a penalty from the IRS that affect Florida Housing's allocation of PABs.

### **Observation #3: Annual MCC activity reports filed with SBA**

Section 159.8075 (4), F.S. requires that "each qualified issuer of mortgage credit certificates shall, for each year in which it issues mortgage credit certificates, or for each year in which it had the ability to issue mortgage credit certificates under the Code and this part, file with the division<sup>12</sup> annual activity

<sup>9</sup> Former Executive Director Steve Auger

<sup>10</sup> Consists of the Florida Housing Executive Director, CFO, and General Counsel.

<sup>11</sup> A Board Resolution is a way of documenting a decision made by a Corporation's Board of Directors or Shareholders on behalf of the Corporation. This resolution stated that "the total credit authority available under the Program is \$125,000,000."

<sup>12</sup> Florida's State Board of Administration, Division of Bond Finance

reports by December 29 stating the face amount of mortgage credit certificates issued during the then-current calendar year and such other information as the division reasonably requests.”

As the issuer of mortgage credit certificates, the MCC Program staff was required to, but did not, file annual activity reports with the SBA by December 29 for each year in which it had issued MCCs. In discussions with MCC Program management, it was stated that they were unaware of this requirement. Failure to provide these annual reports results in non-compliance with Section 159.8075 (4), F.S.

It is **recommended** that the MCC Program staff contact the SBA and inquire as to what type of report will satisfy this annual statutory requirement. Once that is determined, the MCC Program staff should update their policies and procedures to document their requirement to perform this annual task.

This observation was communicated to MCC Program staff during the course of the audit fieldwork, and they are currently in the process of implementing the recommended corrective actions.

#### **Observation #4: MCC Program policies and procedures**

Best practices consider up-to-date written policies and procedures to be essential operating tools for an organization. As such, effective policies, procedures, and processes are viewed as evidence of a company’s current operational status and its commitment to effective risk management and compliance. If written policies and procedures do not exist, are inaccurate, incomplete, outdated, irrelevant, not written plainly, and/or not communicated, the following may result:

- inconsistent practices among employees and/or departments;
- processing errors due to a lack of knowledge; and/or
- inability to enforce employee accountability.

During the course of this audit, it was determined MCC Program policies and procedures were inadequate and did not clearly communicate the essential elements for an effective operation, which contributed to the over-issuance of MCCs. MCC Program staff stated that they were in the process of updating existing policies and procedures to address these inadequacies.

It is **recommended** that the MCC Program staff develop written policies and procedures and/or improve existing policies and procedures in the following areas:

- initiation of a new MCC Program (requirements that must be followed and procedures for communication to the Board and other stakeholders as appropriate);
- substantial changes that affect the approved MCC Program parameters;
- sun-setting of an existing MCC Program (requirements that must be followed and procedures for communication to the Board and other stakeholders as appropriate); and
- procedures regarding creation and dissemination of the IRS reports quarterly and annually including procedural language that addresses the controls MCC Program staff stated that have been put in place to prevent another over-issuance of MCCs.



#### **Observation #5: Storage, management, and disposal of hard copy MCC applicant files**

Federal and state law and Florida Housing internal policies require that customer information containing personally identifiable information (PII) and/or Federal taxpayer information (FTI) be protected to ensure their confidentiality, availability, and integrity.

Currently MCC applicant files are stored in boxes in a locked room, as opposed to locked file cabinets. In addition, the room is accessed by Florida Housing employees who are not associated with the MCC Program.

As shown in Table 1, Florida Housing began the MCC Program in 2012 and it has grown from six MCCs issued the first year to more than 1700 issued so far in 2017. MCC Program staff stated that rapid growth during the 5-year life of the program, and resulting resource issues have delayed development of a plan to move to an electronic solution for storage, management, and disposal of hard copy MCC lender files.

Failure to implement adequate controls to safeguard PII and FTI in the possession of Florida Housing may result in a loss of confidentiality, integrity, availability of the information, and non-compliance with Federal and State law. This could potentially result in legal action, fines, and a loss of public confidence in Florida Housing.

It is **recommended** that the MCC Program develop a plan and implement policies and procedures for securely storing and managing their current hard copy MCC lender files. It is further **recommended** MCC Program staff explore the feasibility of an electronic storage solution for those files.

This observation was communicated to MCC Program staff during the course of the audit fieldwork, and they are currently in the process of implementing the recommended corrective actions.

#### **Observation #6: Access controls for the MCC Reservation System<sup>13</sup> need improvement**

74-2.003 (1), FAC requires entities to manage identities and credentials for authorized devices and users to ensure that access to IT resources is limited to authorized users, processes, or devices, and to authorized activities and transactions.

MCC Program staff indicated that approximately half of the MCC Program participating lenders (out of 137 active participating MCC Program lenders) are not consistently responding to quarterly requests from MCC Program staff to provide a list of their employees that have access to the web-based MCC Reservation System, but have left the company.

In the worst-case scenario, a participating lender employee with access to the lender portal could have access indefinitely after separating from employment. This could occur if the participating lender repeatedly failed to respond to the requests to provide the MCC Program staff the names of employee(s) who have separated from employment and the employee logged into the system at least once before the 6-month lockout of the system due to inactivity is invoked. This risk could impact the confidentiality, integrity and/or availability of data in the MCC Reservation System.

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<sup>13</sup> The MCC Reservation System is a web-based portal. The system permits approved Florida Housing MCC Program lending partners to create MCC reservations, certify loan data pertaining to program requirements and generate all applicable closing and compliance documents for issuance of a MCC.

It is **recommended** that the MCC Program staff add language to the lender agreement that states, to the effect, that participating lenders respond timely to each request from MCC Program staff for the names of their employees that have separated employment and failure to do so may result in suspension of access to the system. Furthermore, MCC Program staff should require new and existing participating lenders to sign the updated lender agreements. It is also **recommended** that a warning banner be developed and added to the lender portal which states, to the effect:

that by clicking off the banner to login, the user is agreeing to abide by the terms of the agreement and any other applicable authoritative source, and has a legitimate business need to access the system or face suspension of access to the system.

This observation was communicated to MCC Program staff during the course of the audit fieldwork, and they are currently in the process of implementing the recommended corrective actions.

### ACKNOWLEDGEMENT

The Office of Inspector General would like to extend their appreciation to the management and staff of Florida Housing for their assistance and cooperation during this audit.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors. The audit was conducted by David Merck, Systems Auditor, CIA, CISA, CISSP-ISSMP, CAP, CPM under the supervision of Justin Evans, Director of Auditing, CIA, CFE, CIGA.

## APPENDIX A-RESPONSE FROM MANAGEMENT

### **Observation 1: Over-issuance of MCCs and resulting penalty**

**Recommendation 1** – It is recommended that the MCC Program develop written policies and procedures to document the controls that have since been put in place to prevent another over-issuance of MCCs.

**Response 1 - We concur with the recommendation and have taken the following steps to implement the recommendation.**

MCC Staff have fully revised policies and procedures to document the additional controls that have been put in place. These include the following:

1. Procedures now include a thorough review and acknowledgement by Bond Counsel of all required reporting. Having this outside review made by Bond Counsel will ensure reporting is viewed and interpreted correctly.
2. MCC Program Staff now conducts weekly meetings to review the MCC pipeline, file intake, issuance volume, compliance issues and all aspects of program utilization by Participating Lenders. These meetings ensure that staff is aware of how quickly MCC Credit Authority is being depleted and will use this information in determining when to launch a new MCC Program and/or Sunset an existing program. The minutes of these meetings are then reduced to writing and reviewed weekly with the Director of Homeownership Programs.

While the 2016 Program should have been launched earlier, 990 additional first-time homebuyers were assisted with the additional private activity bond (PAB) allocation used in the 2014 Program. As of January 19, 2018, Florida Housing has over \$2 Billion (\$2,130,557,511) in unused PAB allocation. At the January 26, 2018 meeting, MCC Program staff will ask Florida Housing's Board of Directors for permission to use approximately \$300 million of this unused PAB allocation to begin a 2018 Program to continue assisting first-time homebuyers.

Between the years 2012-15, before the full implementation of the MCC Program, over \$2 Billion (\$2,437,359,189) in PAB allocation was lost to the State of Florida because it went unused by all the different entities authorized to issue these bonds in Florida. The MCC Program will continue to do its part to help make sure that no additional PAB allocation is forfeited due to being unused in the permitted timeframes.

MCC Program staff were pleased with the result of the OIG audit related to eligibility determinations. OIG staff found that all eligibility determinations in their sample were conducted properly and that all homebuyers who received a MCC were eligible.

**Recommendation 2** – It is also recommended that the MCC Program staff, in conjunction with ITS staff, implement controls within the MCC Reservation System to ensure that reported MCC issuance data is accurate. At a minimum, any controls put in place should address the root causes stated above.

**Response 2 - We concur with the recommendation and have taken the following steps to implement the recommendation.**

IT Staff have identified the following classes of data that were incorrectly generated by the reservation and reporting system into various reports:

- Test data;
- Revoked MCCs;
- Reissued MCCs; and
- Canceled MCCs.

IT Staff has made programming modifications to the reservation system to prevent such reporting errors from occurring in future reports.

**Recommendation 3** – Finally, it is recommended that the MCC Program staff develop a process to validate the accuracy of the data used in any future quarterly and annual reports remitted to the IRS and document the process through the development of written procedures. Additionally, MCC Program staff should review all previously submitted quarterly and annual reports to validate the accuracy of the data.

**Response 3 - We concur with the recommendation and have implemented some and taken the following steps to implement other items in the recommendation**

IT staff has discovered and corrected the errors in the system that led to the inaccurate information. MCC staff have reviewed all previously submitted quarterly and annual reports to verify the accuracy of the data. MCC staff has requested that IT staff provide or recommend validation tools that can be used to test the accuracy of data generated by the system for future reports.

**Observation 2: Communication of over-issuance of MCCs**

**Recommendation** – It is recommended that Florida Housing communicate to the Florida Housing Board and Executive Leadership any substantial issues with or changes to the previously approved Board Resolution, at the first available opportunity. This is critical when issues or changes to the MCC Program may incur a penalty from the IRS that affect Florida Housing's allocation of PABs.

## **Response 2 – We concur with the recommendation**

What would have normally been communicated by the Executive Director to the Board Chairman during the normal course of business was overlooked due to the fact that Florida Housing was transitioning between Executive Directors at the time. The current Executive Director, upon being briefed on this issue, promptly communicated the issue to the Board Chairman.

## **Observation 3: Annual MCC activity reports filed with SBA**

**Recommendation** – It is recommended that the MCC Program staff contact the SBA and inquire as to what type of report will satisfy this annual statutory requirement. Once that is determined, the MCC Program staff should update their policies and procedures to document their requirement to perform this annual task.

## **Response 3 - We concur with the recommendation and have implemented the recommendation**

Staff contacted the Division of Bond Finance (DBF) to discuss what information satisfies this reporting requirement, as they had not been receiving these reports from any other issuer of MCC's, either. After consultation, it was agreed that the annual Informational report that is provided to the IRS each July would be acceptable for this purpose, as well. DBF has now implemented this requirement for all MCC issuers in Florida. In addition, all prior years' informational reports were provided to DBF. This reporting requirement has been added to our Policies and Procedures.

## **Observation 4: MCC Program policies and procedures**

**Recommendation** – It is recommended that the MCC Program staff develop written policies and procedures and/or improve existing policies and procedures in the following areas:

- initiation of a new MCC Program (requirements that must be followed and procedures for communication to the Board and other stakeholders as appropriate);
- substantial changes that affect the approved MCC Program parameters;
- sun-setting of an existing MCC Program (requirements that must be followed and procedures for communication to the Board and other stakeholders as appropriate); and
- procedures regarding creation and dissemination of the IRS reports quarterly and annually including procedural language that addresses the controls MCC Program staff stated that have been put in place to prevent another over-issuance of MCCs.

**Response 4 - We concur with the recommendation and have implemented some and taken the following steps to implement other items in the recommendation.**

- MCC Program start-up procedures are fully revised and completed;
- Procedures for reporting substantial changes to MCC Program parameters are fully completed;
- Procedures for sun-setting active MCC Programs are fully completed;
- Procedures for all reporting requirements are fully revised and completed.

**Observation 5: Storage, management, and disposal of hard copy MCC applicant files**

**Recommendation 1**– It is recommended that the MCC Program develop a plan and implement policies and procedures for securely storing and managing their current hard copy MCC lender files.

**Response 1 - We concur with the recommendation and have taken the following steps to implement the recommendation.**

The MCC Program has securely stored all files containing PII and FTI in locked rooms to protect the sensitive information. It is not feasible from either a space or cost perspective to further secure these files in individual filing cabinets.

Therefore, MCC staff have requested that Documents Imaging Staff scan and store the files electronically. The paper files will be properly and securely destroyed once they are scanned.

**Recommendation 2**– It is further recommended MCC Program staff explore the feasibility of an electronic storage solution for those files.

**Response 2 - We concur with the recommendation and have implemented the recommendation.**

Documents Imaging staff at Florida Housing are currently in the process of scanning and storing the files electronically.

**Observation 6: Access controls for the MCC Reservation System need improvement**

**Recommendation 1**– It is recommended that the MCC Program staff add language to the lender agreement that states, to the effect, that participating lenders respond timely to each request from MCC Program staff for the names of their employees that have separated employment and failure to do so may result in suspension of access to the system. Furthermore, MCC Program staff should require new and existing participating lenders to sign the updated lender agreements.

**Response 1 - We concur with the recommendation and have implemented the recommendation.**

The only information in the MCC system that lenders can access is information that the lenders have input themselves and have received from their individual borrowers. Lenders cannot access information input by other lenders. Staff have added the language suggested into our lender agreements.

**Recommendation 2**– It is also recommended that a warning banner be developed and added to the lender portal which states, to the effect, that by clicking off the banner to login, the user is agreeing to abide by the terms of the agreement and any other applicable authoritative source, and has a legitimate business need to access the system or face suspension of access to the system.

**Response 2 - We concur with the recommendation and have implemented the recommendation.**

The only information in the MCC system that lenders can access is information that the lenders have input themselves and have received from their individual borrowers. Lenders cannot access information input by other lenders. Staff have added the language suggested to the lender login page.