

FLORIDA HOUSING FINANCE CORPORATION

OFFICE OF INSPECTOR GENERAL

ANNUAL REPORT - FISCAL YEAR 2017

MARCH 28, 2018

CHRIS HIRST
INSPECTOR GENERAL

ENHANCING
PUBLIC TRUST
IN FLORIDA'S
AFFORDABLE
HOUSING

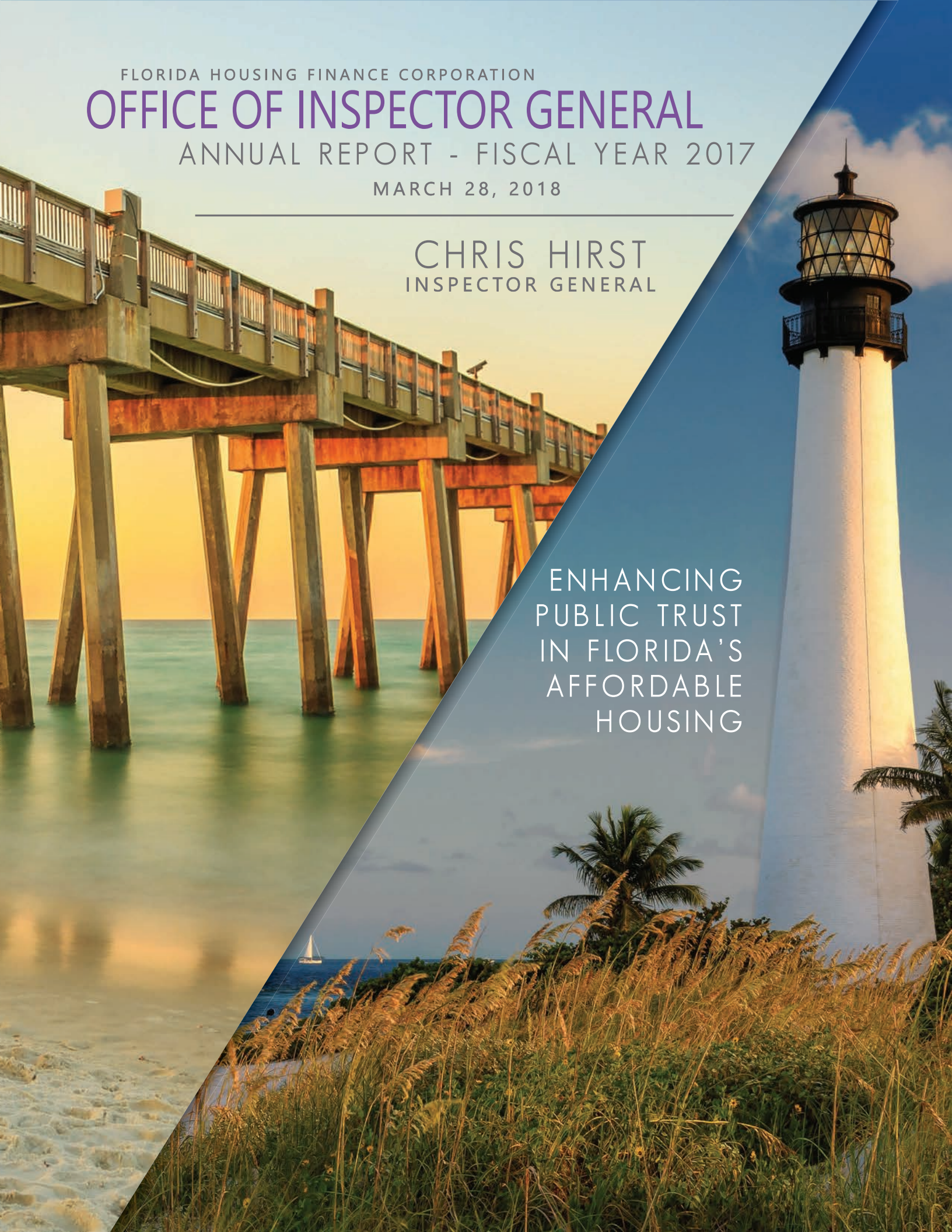






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INTRODUCTION

Section 20.055, Florida Statutes, requires each Inspector General to submit an annual report summarizing its activities during the preceding fiscal year. This report includes, but is not limited to:

- A summary of each audit and investigation completed during the reporting period;
- A description of significant abuses and deficiencies relating to the administration of programs and operations of the agency disclosed by investigations, audits, reviews, or other activities during the reporting period; and
- A description of recommendations for corrective action made by the Office of Inspector General (OIG) during the reporting period with respect to significant problems, abuses, or deficiencies identified.

This annual report summarizes the OIG's activities and accomplishments for FY 2017 (January 1 – December 31).

BACKGROUND

Florida Housing Finance Corporation (Florida Housing) was created by the Florida Legislature more than 25 years ago, to help Floridians obtain safe, decent affordable housing that might otherwise be unavailable to them. Florida Housing is a public corporation of the State of Florida and is considered to be a financial institution. Additionally, Florida Housing is not a department of the executive branch of state government, but is an instrumentality of the State.

Today, Florida Housing continues its mission by increasing affordable housing opportunities and ensuring that its programs are well matched to the needs of those served. As such, Florida Housing continues to work with federal, state and local governments, non-profits, elected officials, and others to help spread the importance of affordable housing in Florida's communities.

In 2000, Florida Housing re-established the internal audit function and in 2011, Sections 20.055 and 420.506, Florida Statutes, were amended to create the OIG within Florida Housing.

OFFICE OF INSPECTOR GENERAL

The OIG is an essential component of Florida Housing providing independent, objective assurance and consulting services designed to add value and improve operations.

The OIG serves as a central point of coordination and is responsible for activities that provide accountability, integrity, and efficiency. This is accomplished by the OIG conducting independent audits, investigations, and other accountability activities. The OIG's purpose is to promote economy and efficiency and to prevent and detect fraud, waste, and abuse in programs and operations carried out or financed by Florida Housing.

The OIG ensures effective coordination and cooperation between the Florida Auditor General, the Office of Program Policy Analysis and Government Accountability (OPPAGA), federal auditors, and other governmental bodies to ensure efficiency and avoid duplication of services.

Pursuant to statute, the OIG has full, free, and unrestricted access to all Florida Housing activities, records, data, and property, and may request any other information deemed necessary to carry out audit assignments or investigative needs. The unrestricted access ensures audits, investigations, and other activities are independent.

STATUTORY REQUIREMENTS

As outlined in Section 20.055, Florida Statutes, the specific duties and responsibilities of the Inspector General include:

- Providing direction for, supervising, and coordinating audits, investigations, and management reviews relating to the programs and operations of the agency;
- Keeping the agency head [the Board of Directors of Florida Housing] informed of fraud, abuses, and deficiencies relating to programs and operations administered or financed by the agency, recommending corrective actions concerning fraud, abuses, and deficiencies, and reporting on the progress made in implementing corrective action;
- Reviewing the actions taken by the agency to improve program performance and making recommendations for improvement;
- Conducting, supervising, and coordinating activities that promote economy and efficiency and prevent or detect fraud, waste, and abuse;
- Ensuring effective coordination and cooperation between the Auditor General, federal auditors, and other governmental bodies;
- Reviewing rules relating to programs and operations and making recommendations regarding impact;
- Assessing the reliability and validity of information provided on performance measures and standards and making recommendations as needed; and
- Ensuring an appropriate balance between audit, investigative, and other accountability activities.



PROFESSIONAL STANDARDS

Pursuant to Section 20.055, Florida Statute, the OIG is required to:

- Comply with the *General Principles and Standards for Offices of Inspector General* as published and revised by the Association of Inspectors General.
- Conduct audits in accordance with the current *International Standards for the Professional Practice of Internal Auditing* as published by the Institute of Internal Auditors, Inc., or, where appropriate, in accordance with *Generally Accepted Governmental Auditing Standards*.

Since receiving initial accreditation in February, the OIG is also following the Commission for Florida Law Enforcement Accreditation's, *The Florida Inspectors General Standards Manual for the investigative section*.

PROFESSIONAL CERTIFICATIONS

Current staff members hold the following certifications:

- Certified Authorization Professional (1)
- Certified Fraud Examiner (3)
- Certified Government Audit Professional (1)
- Certified Government Financial Manager (1)
- Certified Information Systems Auditor (1)
- Certified Information Systems Security Professional - Information Systems Security Management Professional (1)
- Certified Inspector General (2)
- Certified Inspector General Auditor (3)
- Certified Inspector General Investigator (2)
- Certified Internal Auditor (2)
- Certified Public Manager (2)
- Notary Public (4)



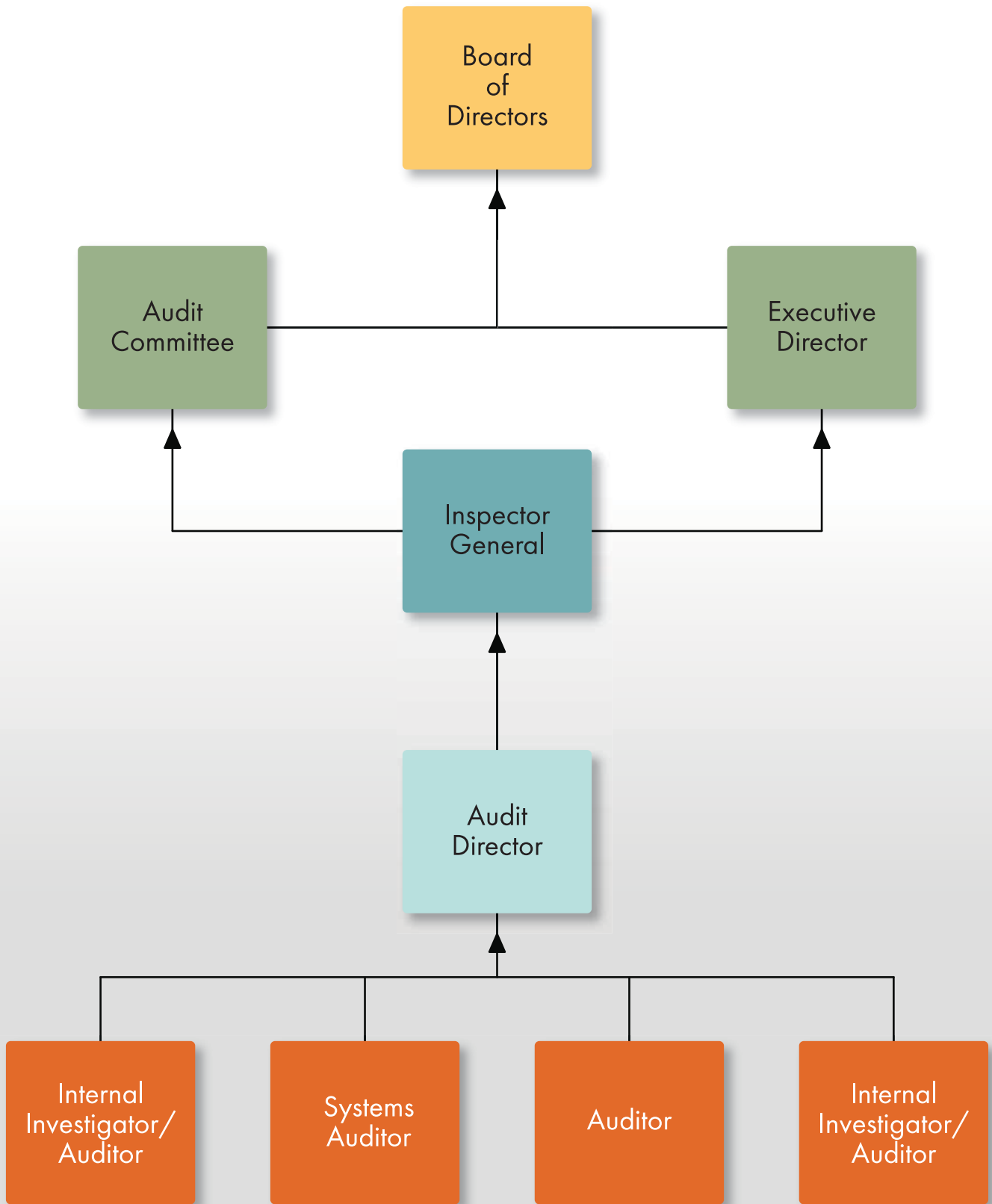
PROFESSIONAL ORGANIZATIONS

Current staff members belong to the following organizations:

- Association of Certified Fraud Examiners (ACFE)
- Association of Government Accountants (AGA)
- Association of Inspectors General (AIG)
- Federal Bureau of Investigation National Academy (FBINA)
- Institute of Internal Auditors (IIA)
- Information Systems Audit and Control Association (ISACA)
- International Information Systems Security Certification Consortium ((ISC)²)
- State Law Enforcement Chiefs' Association (SLECA)
- InfraGard (A partnership between the FBI and the private sector dedicated to improving national security.)



ORGANIZATIONAL CHART



INVESTIGATIONS

INVESTIGATIVE SECTION

The Investigative Section's primary responsibility is initiating, conducting and coordinating investigations that are designed to detect, deter, prevent and eradicate fraud, waste, abuse, mismanagement, misconduct and other abuses within Florida Housing and the contracted entities of Florida Housing.

The OIG typically receives complaints or requests for assistance from the Office of the Chief Inspector General, Florida Housing or Contracted Agency employees, and the general public via website complaint form submission, telephone, letter, fax, or email. The OIG received a total of 127 complaints or requests for assistance during 2017. Complaints received by the OIG are reviewed and either resolved, referred, or investigated.

Of the total number of complaints or requests for assistance reviewed¹:

- 30 were resolved by the OIG;
- 23 were non-jurisdictional and were referred to the appropriate entity;
- 58 were referred to Florida Housing management for resolution as deemed appropriate; and
- 16 were opened for investigative or management review or investigation.

Staff initiate investigative or management reviews and investigations when violations of rule, statute, policy and/or contract requirements are alleged, including those filed under the Whistle-blower's Act.² While investigations are administrative in nature, criminal violations are often discovered during the investigative process. When a determination is made that a potential criminal violation has occurred, the investigation is coordinated with the Florida Department of Law Enforcement (FDLE), the applicable State Attorney's Office, or other appropriate law enforcement agency for criminal prosecution.

Of the complaints received which resulted in an investigative or management review or investigation:

- 8 complaints were opened for either investigative or management review;
- 8 complaints were opened for investigation;
- 11 investigative or management reviews were completed, including 5 files from 2016;
- 5 investigations were referred to the appropriate law enforcement agency; and
- 5 investigations were completed.

FINAL INVESTIGATIVE REPORTS

Final investigative reports are distributed to the Audit Committee, the Executive Director, and others as needed for review, resolution, and any needed actions. Final investigative reports are also distributed to program leadership responsible for the employee or program investigated for appropriate personnel actions or recommended policy changes. Additionally, the final investigative reports are posted on the Florida Housing website. <http://www.floridahousing.org/contact-us/inspector-general/investigations>

RECOMMENDED CORRECTIVE ACTIONS

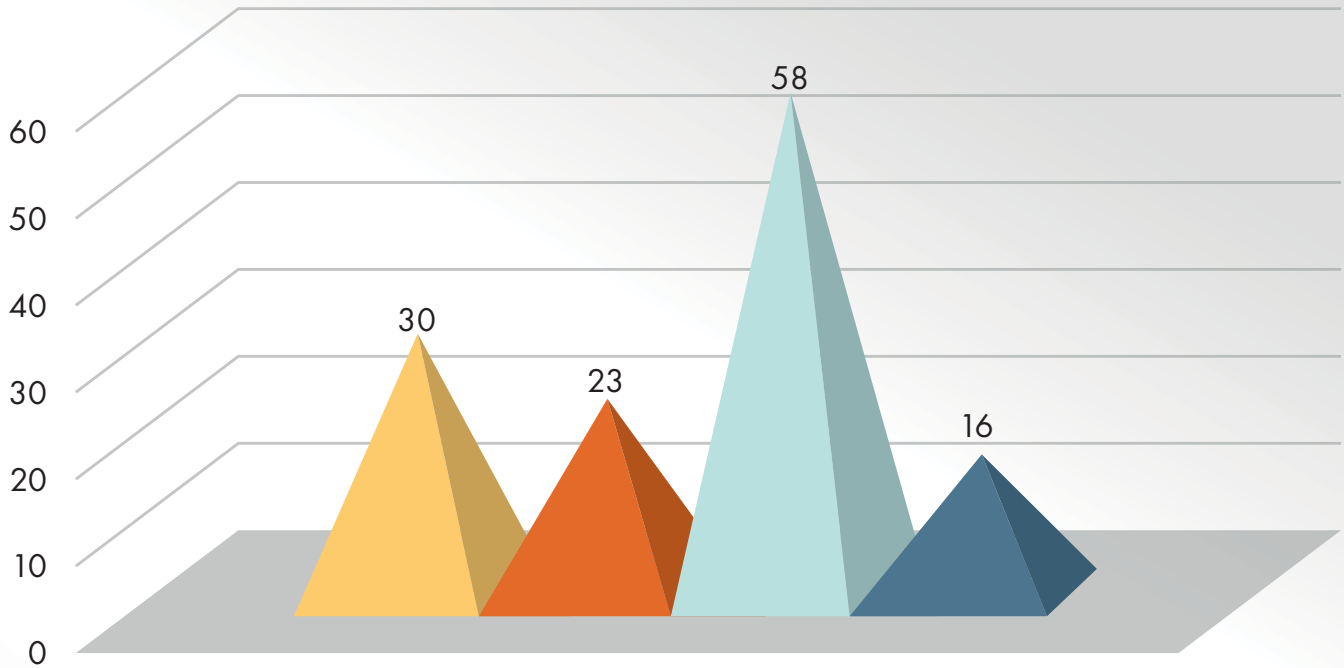
Based on the investigative findings, the OIG may make recommendations in the form of a corrective action. The recommendations are for the purpose of process improvement and are made to Florida Housing management or contracted providers. The recommendations are tracked by the OIG.

¹ The total number of reviews also includes complaints or requests for assistance received in previous fiscal years.

² The Whistle-blower's Act, § 112.3187-112.31895, F.S., is intended to protect current employees, former employees, or applicants for employment with state agencies or independent contractors from retaliatory action. Whistle-blower designation is determined by the OIG in consultation with the Governor's Chief Inspector General's office. If a complaint meets whistle-blower criteria, the whistle-blower's identity is protected from release and an investigation is conducted pursuant to § 112.3189, F.S.

The following chart provides a comparative analysis of the disposition of complaints handled by the OIG during Fiscal Year 2017.

Complaint Disposition



- Resolved by the OIG
- Referral to appropriate entity
- Referral to management
- Investigative Review, Management Review or Investigation



SUMMARY OF MANAGEMENT REVIEWS AND INVESTIGATIVE REVIEWS COMPLETED DURING FY 2017

160711-01

On July 7, 2016, the Florida Housing Finance Corporation (Florida Housing) Office of Inspector General (OIG) received a complaint alleging the subject, a HOME Ownership Pool (HOP) recipient, was no longer residing at their former home as required by their participation in the assistance program. The OIG conducted a review and determined that the program office would be the most appropriate to handle the issue. Therefore, the OIG closed the matter.

160929-01

On September 29, 2016, the Office of Inspector General (OIG) received a complaint via the Report Fraud, Waste, and Abuse web form regarding a Hardest Hit Fund (HHF) Program Down Payment Assistance (DPA) recipient. Specifically, the recipient was living with someone and may have omitted the income for that person when filling out the HHF DPA Program paperwork. OIG staff obtained relevant information, conducted an interview with the recipient, and provided the information to HHF Program management, who stated the information would not have disqualified the borrower. Therefore, OIG staff closed the matter.

161018-01

On October 18, 2016, Florida Housing Finance Corporation (Florida Housing), Office of Inspector General (OIG) was contacted by a Special Agent for the Florida Department of Law Enforcement (FDLE), who voiced concerns about a possible conflict of interest involving a Hardest Hit Fund (HHF) Program Advisor, and particular HHF Program recipients. OIG staff obtained relevant information, conducted an interview with the subject, and determined that it does not appear that the potential conflict of interest was intentional. Therefore, OIG staff closed the matter.

161114-01

On November 14, 2016, the Homeownership Programs Administrator, Florida Housing Finance Corporation (Florida Housing), notified the Office of Inspector General (OIG) that a Hardest Hit Fund (HHF) Down Payment Assistance (DPA) applicant, was suspected of attempting to commit HHF DPA fraud. Specifically, they were attempting to use Florida Housing HHF DPA to purchase two homes at the same time. OIG staff obtained relevant information, conducted an interview with the applicant, and provided the updated information to the HHF Program management for their review and action deemed appropriate. Therefore, the OIG closed the matter.

161207-01

On December 7, 2016, a Hardest Hit Fund (HHF) Program Analyst forwarded a complaint to the Office of Inspector General (OIG) from a HHF Program Advisor. The HHF Program Advisor stated they received a complaint regarding a HHF Program applicant, who allegedly (paraphrased): filed a fraudulent tax return; lost a recent job through misconduct; and rented rooms in his home to his own children. OIG staff members reviewed pertinent information and coordinated this investigative review with the HHF Program Manager and Analyst. Based on the information obtained during the review, HHF Program Management determined the allegations did not affect their qualification for HHF Program benefits. Therefore, the OIG closed the matter.

170216-01

On February 16, 2017, the Hardest Hit Fund (HHF) Analyst notified the Office of Inspector General (OIG) about a possible issue related to a recent HHF Program application submitted by a previous HHF Program recipient. According to the HHF Analyst, an underwriter determined that the applicant received HHF Program funds in 2012, but started reapplying in 2015 under a social security number (SSN) that was one number off from the SSN listed on the original application. OIG staff obtained relevant information, conducted an interview with the applicant, and provided the HHF Advisor and HHF Program management with an update for their continued review of the file due to the additional Mortgage Loan Reinstatement Payment (MLRP) funds available to the applicant under the HHF Program. Therefore, the OIG closed the matter.

170217-01

On February 17, 2017, the Florida Housing Finance Corporation (Florida Housing) Office of Inspector General (OIG) received a complaint regarding a potential hostile work environment. OIG staff, in conjunction with Human Resources (HR), conducted a review of the matter, which included document reviews and interviews. After the interview and a review of the employee's written statement, the employee did not include any information regarding a hostile work environment. Based on this information, OIG considered the matter to be a grievance, which is not within its purview. Therefore, this matter was referred for additional review and action deemed appropriate by HR and the program office.

170220-01

On February 20, 2017, the Executive Office of the Governor provided Bernard Smith, Chairman of the Board of Directors, Florida Housing Finance Corporation (Florida Housing), with a copy of an anonymous letter dated January 25, 2017. The anonymous complainant expressed concerns about the employment practices of the Interim Executive Director. Chairman Smith provided the letter to the Office of Inspector General (OIG) for review and action deemed appropriate. OIG staff, in conjunction with Human Resources (HR), conducted a review of the matter, which included document reviews and interviews. Based on the results of this review, the allegations were not supported. Therefore, the OIG considered the allegations to be grievances, not within its purview. This matter was referred for additional review and action deemed appropriate by HR and the program office.

170814-02

On August 14, 2017, the Florida Housing Finance Corporation (Florida Housing) Office of Inspector General (OIG) received a letter, which was a copy of an anonymous complaint submitted on a Florida Housing Report Waste, Fraud, and Abuse form, which alleged, the recipient "Has supplemental mortgage with Florida Housing Finance corp [sic]-no longer residing in home or in the state of Florida. It has been rented out to an unknown tenant in the beginning of August 2017." After various searches, it was determined that the recipient had received a \$36,000 subordinate mortgage under the Home Investment Partnership (HOME) Program in July 2007. OIG staff obtained relevant information, conducted an interview with the recipient, and determined that it does not appear that they provided any false certifications on the residency affidavit. Due to the enforcement of the terms of subordinate mortgages under the HOME Program not being within the purview of the OIG, this matter was referred to Florida Housing Home Program Management.





170814-03

On August 14, 2017, Florida Housing Finance Corporation (Florida Housing), Office of Inspector General (OIG) received a complaint via the Hardest Hit Fund (HHF) Report Fraud Website regarding a HHF Program recipient. Specifically, the recipient was not living in the home as the primary residence as directed by the terms of the HHF loan. OIG staff obtained relevant information, conducted an interview with the recipient, and determined that the recipient is in default of the terms of the HHF Program Loan documents because they failed to notify the HHF advisor that the property had been leased during a portion of the HHF Program funding time period. OIG staff referred this matter to HHF Program Management, Legal, and Loan Servicing staff to coordinate the collection of these HHF Program funds. Therefore, OIG staff closed this matter.

170929-01

On September 29, 2017, the Florida Housing Finance Corporation (Florida Housing) Office of Inspector General (OIG) received an anonymous letter and supporting documents, which asked the question of "Can you receive down payment and closing assistance with your agency while owning property?" OIG staff determined that the subject of the complaint was married to a recipient of Hardest Hit Fund (HHF) Down Payment Assistance (DPA) Program funds. OIG staff obtained relevant information, conducted an interview with the subject, and determined that it does not appear that the subject intended to conceal ownership of the other property in order to qualify for the HHF DPA Program benefits. The Homeownership Program Administrator confirmed that the spouse of the subject was the one who qualified for the HHF DPA Program Funds, not the subject of the complaint. Therefore, OIG staff closed the matter.

SUMMARY OF INVESTIGATIONS AND CORRECTIVE ACTIONS COMPLETED DURING FY 2017

140108-02

Allegation: A Hardest Hit Fund (HHF) Program recipient failed to report rental income while receiving financial assistance through the program committed fraud by failing to notify their HHF advisor that they had leased their primary residence, during a time period of receiving HHF Program funds. The 2011 HHF Advisor Guide and the HHF Program loan documents require applicants to occupy the property indicated on their HHF application as their primary residence.

Finding: Supported

Corrective Action: The investigation was coordinated with the Florida Department of Law Enforcement. FDLE advised that the State Attorney's Office will not file criminal charges based on the following:

At this time, we are declining to file charges in the investigation. While it is our opinion that there is a viable prosecution that can be pursued, it is not the type of case our office normally handles. Unfortunately, the statute of limitations lapsed on filing fraud charges that we initially hoped to file. Moreover, there is a weak multi-circuit jurisdictional nexus.

The OIG recommended that HHF program management require the recipient to return the HHF Program funds their lender received on their behalf totaling **\$8,488.46** that they were provided in assistance. The OIG forwarded the investigative report to the U.S. Treasury in accordance with HHF procedures.

160122-02

Allegation: A Hardest Hit Fund (HHF) Program recipient committed fraud because he did not occupy his residence during the required time period of HHF Program funding. The 2013 HHF Advisor Guide and the HHF Program loan documents require applicants to occupy the property indicated on their HHF application as their primary residence.

Finding: Supported

Corrective Action: The investigation was coordinated with the Florida Department of Law Enforcement. FDLE advised that they would not initiate a criminal investigation and stated:

On October 27, 2016, SA Sarney and Resident Agent in Charge Greg Monk reviewed the case and determined that no further leads exist, and that there is insufficient evidence or testimony to present the case to a prosecutor. No further investigative action will be taken, and the case is closed.

The OIG recommended that HHF Program management require the subject to return the HHF Program funds their lender received on their behalf totaling **\$31,389.02**. However, as reported above, the lender has foreclosed on the subject's home; and his HHF Program mortgage will be written off after the Certificate of Title (COT) is received by Florida Housing. The investigative report was forwarded to the U.S. Treasury in accordance with HHF procedures.

161130-01

Allegation: A Hardest Hit Funds (HHF) Program recipient committed fraud by failing to notify his HHF advisor that he had leased his primary residence, during a time period of receiving HHF Program funds. The 2011 HHF Advisor Guide and the HHF Program loan documents require applicants to occupy the property indicated on their HHF application as their primary residence.

Finding: Supported

Corrective Action: The investigation was coordinated with the Florida Department of Law Enforcement. However, since coordinating this investigation, the subject has sold his home and on March 28, 2017, repaid the HHF Program **\$6,956.68** which he attained fraudulently. As such, Florida Housing has decided not to press charges against the subject since he repaid the funds. FDLE advised that they would not initiate a criminal investigation and stated:

"since they [Florida Housing] are the victim and do not wish to press charges, we will be closing the case."

With the repayment of the HHF Program funds, the OIG does not have any additional comments or recommendations. The investigative report was forwarded to the U.S. Treasury in accordance with HHF procedures.

161207-01

Allegation: A Hardest Hit Fund (HHF) Program applicant provided falsified documents and made false statements/certifications on her HHF Program application about circumstances surrounding her termination of employment in order to be found eligible to receive payments from HHF Program funds.

Finding: Supported

Corrective Action: The investigation was coordinated with the Florida Department of Law Enforcement. FDLE advised that they would not initiate a criminal investigation and stated:

After a review of the information and consulting with the Office of the State Attorney, 10th Judicial Circuit, it has been determined that the case does not meet the FDLE's investigative strategy; therefore, the FDLE will not be opening a criminal investigation.

The OIG does not have any additional comments or recommendations. The investigative report was forwarded to the U.S. Treasury in accordance with HHF procedures.

170222-01

Allegation: A Hardest Hit Fund (HHF) Program applicant provided falsified documents and made false statements/certifications on his HHF Program application about circumstances surrounding his termination of employment in order to be found eligible to receive payments from HHF Program funds.

Finding: Supported

Corrective Action: The investigation was coordinated with the Florida Department of Law Enforcement. FDLE advised that they would not initiate a criminal investigation and stated:

Based upon the facts as presented by OIG in this matter coupled with the fact that [the subject] did not provide a statement to FDLE, it was determined that FDLE would not be pursuing criminal charges.

The OIG does not have any additional comments or recommendations. The investigative report was forwarded to the U.S. Treasury in accordance with HHF procedures.



INTERNAL AUDIT

INTERNAL AUDIT SECTION

The Internal Audit Section's primary responsibility is to assist Florida Housing management in determining whether adequate controls exist and risks are mitigated to ensure the orderly and efficient conduct of business. In addition, Section 20.055(2)(a) and (b), F.S., requires a description of activities related to the development, assessment, and validation of performance measures. These activities are integrated into the audit process.

The Internal Audit Section conducted an audit, which included ten recommendations for improvement; five management reviews; and one consulting engagements. Coordination and/or follow-up on three external audits and one internal audit projects were completed. The final internal audit report and advisory are posted on the Florida Housing website.

<http://www.floridahousing.org/contact-us/inspector-general/audits>

As of December 31, 2017, the following corrective actions, for significant recommendations described in previous annual reports, were still outstanding:

2016-19 – Audit of the IT Disaster Recovery Process

Internal Audit follows guidance provided by Section 282.318, F.S., providing that findings related to IT security should be considered confidential information and exempt from public disclosure.³ Therefore, the outstanding recommendations are as follows:

- For recommendation 1 – Not Completed/In Progress
- For recommendation 2 – Completed
- For recommendation 2 - Completed

³ Section 282.318(4)(g) Ensure that periodic internal audits and evaluations of the agency's information technology security program for the data, information, and information technology resources of the agency are conducted. The results of such audits and evaluations are confidential information and exempt from s. 119.07(1), except that such information shall be available to the Auditor General, the Cybercrime Office of the Department of Law Enforcement, the Agency for State Technology, and, for agencies under the jurisdiction of the Governor, the Chief Inspector General.





ASSURANCE ENGAGEMENTS

Assurance engagements are conducted to provide an independent assessment on governance, risk management, and control processes for Florida Housing. The nature and scope of the assurance engagements are determined by the OIG Internal Audit staff and are performed in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) published by the Institute of Internal Auditors (IIA).

The assurance engagements result in a written report of observations and recommendations, including any response by management. The reports are distributed to the Audit Committee, Executive Director, affected program managers, the Executive Office of the Governor's Chief Inspector General, and the Office of the Auditor General.

CONSULTING ENGAGEMENTS

Consulting engagements provide assistance to Florida Housing management or staff with the intention of improving specific program operations and/or processes. Consulting engagements are usually performed at the request of management, in which the OIG Internal Audit staff agree upon the nature and scope and management. The engagements are performed in accordance with the Standards. The written reports are issued to the affected program management.

MANAGEMENT REVIEWS

Management Reviews are reviews of programs or processes that do not require a complete audit. These reviews may include compliance reviews of Florida Housing contractors or entities under Florida Housing's oversight. Management reviews result in a written report or a letter of observations and recommendations, including responses by management. The Standards are not cited. These reports are typically distributed to the Audit Committee, Executive Director and affected program management. Additionally, certain reports may be sent to the Executive Office of the Governor's Chief Inspector General and to the Office of the Auditor General.



SUMMARY OF INTERNAL AUDIT REPORTS COMPLETED DURING FY 2017

2017-14 - Audit of Mortgage Credit Certificate Program

In accordance with the OIG's Annual Audit Plan for Fiscal Year 2017, an Audit of the Mortgage Credit Certificate Program (MCC) was conducted. The objectives of the audit were to determine compliance with laws, rules, and regulations governing the MCC Program. The audit disclosed that the Florida Housing MCC Program is generally compliant with applicable laws, rules, and regulations; however, it was strongly recommended some of the following key areas be improved:

- 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 web based MCC Reservation System.

As such, the following recommendations were made:

- The OIG **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 OIG **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.
- The OIG **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.
- The OIG **recommended** MCC Program staff should review all previously submitted quarterly and annual reports to validate the accuracy of the data.
- The OIG **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.

- The OIG **recommended** that the MCC Program staff contact the State Board of Administration (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.
- 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.
- The OIG **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.
- The OIG **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.
- The OIG **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.



SUMMARY OF REVIEWS COMPLETED DURING FY 2017

2017-05 – Review of 2016 4th Quarter Performance Measures Review

2017-13 – Review of 2017 1st Quarter Performance Measures Review

2017-17 – Review of 2017 2nd Quarter Performance Measures Review

2017-18 – Review of 2017 3rd Quarter Performance Measures Review

Section 20.055, Florida Statutes, requires that the OIG perform a validity and reliability assessment of the agency performance measures and, if needed, make recommendations for improvements. The Florida Housing Performance Measures Reports, prepared pursuant to the Affordable Housing Services Contract with the Department of Economic Opportunity (DEO), are reviewed quarterly. These reports contain data pertaining to the performance measures and targets established by Section 420.511 (1)(a) through (e), Florida Statutes. The OIG reviewed the performance measure data to ensure its accuracy prior to submission of the report to the DEO Executive Director. Each of the OIG's reviews determined that the reports were accurate and supported by the appropriate documentation.

2016-23 – Management Review of the Low-Income Housing Tax Credit Program's Internal Controls

The OIG conducted a management review of the events pertaining to the Carlisle Development Group (CDG)/Biscayne Housing Group (BHG) conspiracy. The objectives of this review were to:

1. Document the historical events surrounding the CDG/BHG cases;
2. Document the outcome of the Government's case against the conspirators;
3. Identify process changes that have been implemented by Florida Housing's Multifamily Programs (MFP) to address any identified control deficiencies;
4. Identify new and recommend enhancements to existing controls to further strengthen the process; and
5. Document the Assistant United States Attorney's (AUSA) and OIG's recommendations of additional controls that should be considered to detect and deter fraudulent activity.

The review determined that Florida Housing has implemented additional controls in their final cost certification⁴ review process to strengthen detection measures for the prevention of fraudulent activities, like the ones that resulted in the CDG and BHG conspiracy. The OIG concluded that alongside the measures currently being implemented, additional steps could be taken to strengthen controls in the final cost certification process. The AUSA provided Florida Housing with the following observations and recommendations for consideration to add new or enhance existing controls to further detect and deter fraudulent activity:

- Credit underwriters should be required to provide Florida Housing with copies of proposed development executive summaries such as the Plan and Cost Analysis Report, Market Feasibility Analysis Report, and Appraisal Report. These summaries should be submitted with the underwriting report to provide all parties with the same information upon which to make decisions.
- Florida Housing should be copied on all emails transmitted between the credit underwriter, the developer, and the general contractor to provide additional transparency between parties.
- Florida Housing should consider designating an individual within the MFP to review each development to make sure everything is done correctly. This position may need to be a dedicated position and the individual should have experience in construction cost certification and credit underwriting.

⁴ The purpose of the final cost certification process is to establish the total actual costs incurred by the developer in the delivery of a low-income housing tax credit development. This assists Florida Housing in determining certain development costs and the amount of subsidy to be allocated to the low-income housing tax credit development.

- Federal law and US Department of Housing and Urban Development (HUD) entrust Florida Housing with monitoring affordable housing funding and the associated risks. During the meeting, AUSA staff stated that relationships between some credit underwriters and developers appeared to be too “relaxed” as opposed to a more formal business relationship. They also stated that the judge found it troubling that developers were paying credit underwriters directly and felt this could lead to problems. Therefore, the AUSA recommended that all payments for services to credit underwriters should go through Florida Housing as a neutral party.
- Florida Housing should receive copies of all general contractors’ Schedule F. This schedule lists subcontract amounts by trade and cost (e.g. estimated plumbing cost: \$75,000.00, estimated electrical cost \$100,000.00, etc.). Florida Housing should also request the general contractor provide a listing of all the subcontractors working on the project. With these two pieces of information, Florida Housing could perform random “spot checks”⁵ to validate that the listed contractors are performing work for the general contractor and that the work completed is reasonably close to the estimated price. This would then help Florida Housing to compare the contract amounts to the final construction cost certification and inquire about any significant discrepancies. It will also affirm to the developers, general contractors, and sub- contractors, that Florida Housing will confirm and ensure the listed subcontractors are performing the work and are reasonably close to the estimated price listed in the Schedule F.
- Florida Housing should require the implementation of a “Failure to Disclose” agreement, signed by the developers, contractors, and sub-contractors. It should provide for penalties for nondisclosure to Florida Housing of consulting engagements, side-letter agreements, etc. Compliance will work only if the monetary penalties are substantial enough to impact them. Legislative reform may be needed to facilitate implementation of this control.
- Florida Housing should conduct analysis and perform cost comparisons on developments based on geographic region; and then, if needed, on the population served (i.e. the elderly, low-income, minority, migrants, etc.). This can help to identify cost anomalies between similar developments that may require further scrutiny.



⁵ The AUSA recommended random checks via phone call.

In addition to the recommendations provided by the AUSA, the following recommendations were made:

- The OIG recommended that Florida Housing develop and implement a process whereby Florida Housing establishes an approved pool of Certified Professional Accountant (CPA) firms to conduct final cost certifications for all Low-Income Housing Tax Credit (LIHTC) deals.
- The OIG recommended that Florida Housing continue to implement and refine, as necessary, the review process of the final cost certifications for compliance with the new requirements. The OIG also recommends instituting a secondary random review process to ensure staff are accurate and consistent in their reviews. The OIG recommended that appropriate Florida Housing staff continue providing support and periodic training to staff relating to the new final cost certification review process until such a time that MFP staff demonstrates proficiency and their confidence levels mature.
- The OIG recommended that Florida Housing consider additional staff dedicated to performing specialized reviews related to LIHTC developments, such as construction audit services.
- The OIG recommended that Florida Housing continue its proactive approach in reviewing and determining rules that require enhancement, to prevent similar situations moving forward.

2017-07 – ITS Security Frameworks

At the request of Florida Housing’s Chief Information Officer (CIO), a consulting engagement was conducted to review Florida Housing’s Information Technology (IT) security framework. Florida Housing has a responsibility to safeguard the release of information in a public document that might expose potential IT security vulnerabilities. Internal Audit follows guidance provided by Section 282.318, F.S., providing that findings related to IT security should be considered confidential information and exempt from public disclosure.⁶

COORDINATED EXTERNAL AUDIT REPORTS DURING FY 2017

Auditor General’s 2017 Quality Assurance Review (QAR) of the Florida Housing Finance Corporation’s Internal Audit Function, Report #2017-135

Ernst & Young’s Audit of Florida Housing’s 2016 Financial Statements

U.S. Treasury Follow-up on HHF Compliance Review

FOLLOW-UP REVIEWS COMPLETED DURING FY 2017

Project No. 2017-12 – Follow-up Status Report of Corrective Actions Taken for the Auditor General’s 2016 Operational Audit

Project No. 2017-15 – Follow-up on OIG Audit of IT Disaster Recovery

⁶ Section 282.318(4)(g) Ensure that periodic internal audits and evaluations of the agency’s information technology security program for the data, information, and information technology resources of the agency are conducted. The results of such audits and evaluations are confidential information and exempt from s. 119.07(1), except that such information shall be available to the Auditor General, the Cybercrime Office of the Department of Law Enforcement, the Agency for State Technology, and, for agencies under the jurisdiction of the Governor, the Chief Inspector General.



SPECIAL PROJECTS AND OTHER PROJECTS

Services other than assurance engagements, consulting engagements, and management reviews performed by OIG staff members for Florida Housing management or entities outside of Florida Housing, are considered special projects. Special projects may include things such as participation in intra-agency reviews and/or workgroups; or assisting the Governor's office or the Legislature. Special projects may also include atypical activities that are completed within the OIG such as self-assessments or policy revisions. Three examples of special projects are listed below.

Lottery Number Assignments

Lottery Number Assignment for RFA 2016-112
Lottery Number Assignment for RFA 2016-113
Lottery Number Assignment for RFA 2016-115
Lottery Number Assignment for RFA 2016-116
Lottery Number Assignment for RFA 2017-101
Lottery Number Assignment for RFA 2017-102
Lottery Number Assignment for RFA 2017-103
Lottery Number Assignment for RFA 2017-105

Lottery Number Assignment for RFP 2017-106
Lottery Number Assignment for RFP 2017-107
Lottery Number Assignment for RFA 2017-108
Lottery Number Assignment for RFA 2017-109
Lottery Number Assignment for RFA 2017-111
Lottery Number Assignment for RFA 2017-112
Lottery Number Assignment for RFA 2017-114

The instructions for various Florida Housing competitive funding programs provide that each request for funding will receive a random lottery number at or prior to the issuance of final scores or ranking. Florida Housing's OIG has a process to assign "lottery numbers" using random numbers generated in Microsoft Excel.

Enterprise Risk Assessment and Mitigation

Background

Florida Housing's Strategic Plan includes the following goal: "Establish an environment in which risk assessment and mitigation is integrated into all business practices and decisions." Currently, Florida Housing does not have a defined, documented process for assessing, identifying, and mitigating risk. While the management and assessment of risk is the primary responsibility of each business unit, the project team is tasked with creating a policy and the related process that will help integrate enterprise risk management into business processes, ultimately creating the "environment" (i.e. corporate culture) sought in the Strategic Plan.

As part of the 2017 risk assessment, which was used to develop the 2018 Audit Plan, the OIG began utilizing the enterprise risk assessment process developed by the Enterprise Risk Assessment and Mitigation project team. To implement the new risk assessment process, the OIG staff first met with each member of the Florida Housing management team to provide an introductory overview of the new process. Management then provided the risk assessment feedback in the new risk matrix format, which was combined into a comprehensive risk summary, listing each auditable entity identified within Florida Housing from highest to lowest risk score assigned by the respective business unit. As this risk assessment process matures, additional auditable entities will be identified and assessed in order to provide management and the Board with a comprehensive assessment of where risks are the highest.



Auditor General Report #2017-135, Quality Assurance Review (QAR) of the OIG

In 2017, the OIG underwent a statutorily mandated QAR performed by the Auditor General's Office. The results of the QAR were as follows:

Pursuant to Section 11.45(2)(i), Florida Statutes, we have reviewed the quality assurance program for the Office of Inspector General's internal audit activity in effect for the period January 2016 through December 2016. We also reviewed compliance with specific provisions of Section 20.055, Florida Statutes, governing the operation of offices of inspectors general internal audit activities.

A quality assurance program for the Office of Inspector General's internal audit activity encompasses the charter, organizational environment, and policies and procedures established to provide management with reasonable assurance that the internal audit activity operates in conformity with applicable auditing standards. The design of the quality assurance program and compliance with it are the responsibility of the Office of Inspector General.

In conducting our review, we obtained an understanding of the quality assurance program and performed such tests and other procedures as we considered necessary. Because of inherent limitations in any quality assurance program, departures from the program may occur and not be detected. Also, projection of any evaluation of the quality assurance program to future periods is subject to the risk that the program may become inadequate because of changes in conditions, or that compliance with policies and procedures may deteriorate.

In our opinion, the quality assurance program related to the Office of Inspector General's internal audit activity was adequately designed and complied with during the review period to provide reasonable assurance of conformance to applicable professional auditing standards. Also, the Office of Inspector General generally complied with those provisions of Section 20.055, Florida Statutes, governing the operation of offices of inspectors general internal audit activities.

RISK ASSESSMENT AND DEVELOPMENT OF ANNUAL AUDIT PLAN

In accordance with Section 20.055, F.S., the OIG performed a risk assessment of Florida Housing's programs and activities to assist in the development of the Annual Audit Plan. The risk assessment process included identifying programs and activities performed by Florida Housing; interviewing managers to gather their perspectives on Florida Housing's current risks and exposures; addressing concerns of the Audit Committee members; identifying applicable risk factors (such as compliance risk, financial risk, reputational risk, etc.); and determining the risk ranking for selected programs and activities. The risk ranking of each program and activity was reviewed and evaluated by the OIG and used to develop the Annual Audit Plan.

The 2017 Annual Audit Plan identified the programs and activities to be audited or reviewed. The plan established the priorities of the Internal Audit staff while optimizing the use of internal audit resources and allowing the OIG to add value to Florida Housing. The plan also included audit issues that may be addressed in FY 2018 and FY 2019. The Audit Committee and Board approved the audit plan.

OFFICE OF INSPECTOR GENERAL FY 2017 INTERNAL AUDIT PROJECTS

Project Number	Project Type	Project Name	Final Report Issued
2016-13	Special Project	Assist EOG-CIG: Opa-locka Financial Emergency Oversight Board	Closed 1/1/2017
2016-21	Special Project	2016 Risk Assessment & Development of 2017 Audit Plan	Plan Issued 2/24/2017
2016-22	Special Project	Coordinate response to SIGTARP request	Closed 1/15/2017
2016-23	Management Review	Management Review of the Low-Income Housing Tax Credit Program's Internal Controls	Report Issued 5/23/2017
2017-01	Special Project	OIG Admin (staff meetings; P&P reviews; Annual Report; etc.)	Closed 12/29/2017
2017-02	Special Project	Random Number Generation for RFA's	Closed 12/29/2017
2017-03	Special Project	Non-HHF Investigative Assistance	Closed 12/29/2017
2017-04	Special Project	Assist EOG-CIG: Opa-locka Financial Emergency Oversight Board	Closed 12/29/2017
2017-05	Management Review	Review of 2016 4th Quarter Performance Measures Report	Memo Issued 1/27/2017
2017-06	Special Project	Auditor General QAR	AG Audit Report Issued 3/29/2017
2017-07	Consulting Engagement	ITS Security Framework Review	Report Completed
2017-08	Special Project	Coordinate E&Y Financial Statement Audit	E & Y Audit Report Issued 6/7/2017
2017-09	Special Project	Assistance Re: SHIP	Closed 12/29/2017
2017-10	Special Project	Tracking Legislation	Closed 12/29/2017
2017-11	Management Review	Review of Compliance with the Florida Single Audit Act	In Progress
2017-12	Management Review	Follow-up on the AG Operational Audit	Memo Issued 5/25/2017
2017-13	Management Review	Review of 2017 1st Quarter Performance Measures Report	Memo Issued 4/28/2017
2017-14	Audit	Audit of Mortgage Credit Certificate Program	Report Completed
2017-15	Management Review	Follow-up on the Audit of IT Disaster Recovery (2016-19)	Memo Issued 6/26/2017
2017-16	Special Project	Implementation of the Revised Internal Auditing Standards	In Progress
2017-17	Management Review	Review of 2017 2nd Quarter Performance Measures Report	Memo Issued 7/25/2017
2017-18	Management Review	Review of 2017 3rd Quarter Performance Measures Report	Memo Issued 10/25/2017
2017-19	Special Project	Advisory on Follow-up on Monitoring Observations	In Progress
2017-20	Special Project	2017 Risk Assessment and Development of 2018 Audit Plan	Pending Audit Committee Approval
2017-21	Management Review	2nd Follow-up on AG Operational Audit	Report Completed

OIG INITIATIVES

Since the start of the 2017 fiscal year, the OIG has begun several projects to improve the efficiency and effectiveness of the office. The OIG is working diligently to meet its statutory mandates and fulfill its mission of “Enhancing Public Trust in Florida’s Affordable Housing.” These projects include:

- The OIG, in collaboration with the Office of General Counsel, conducted several training sessions on Fraud and Ethics for all Florida Housing staff members.
- At the Spring 2017 Florida Police Accreditation Coalition (FLA-PAC) conference in February 2017, the OIG went before the Commission for Florida Law Enforcement Accreditation (Commission) Board. The Team Leader for the on-site assessment gave a favorable review and recommendation to the board who subsequently approved the recommendation and granted the OIG their initial accreditation. In two years, the OIG will apply for reaccreditation.
- The OIG will continue to act as the liaison for follow-ups to the Auditor General’s 2016 Operational Audit of Florida Housing.
- The OIG will continue to work with the Governance Committee to monitor the implementation and effectiveness of the Enterprise Risk Management process.
- Due to the Governor’s mandate on sexual harassment and trainings, Executive Order 17-319 Preventing Sexual Harassment in State Agencies, the OIG has been working with the Human Resources office, to review, revise, and implement training for Florida Housing’s Sexual Harassment Policy, 2.11.





This report was prepared by the Office of Inspector General at the Florida Housing Finance Corporation, in compliance with Section 20.055(8)(b), Florida Statutes, which states: The inspector general of the Florida Housing Finance Corporation shall, not later than 90 days after the end of each fiscal year, prepare an annual report summarizing the activities of the office of inspector general during the immediately preceding fiscal year.





we make housing affordable™

Florida Housing

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