



"The Capital City of the Palm Beaches"

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TO: Honorable Mayor
and
Members of the City Commission

FROM: Commissioner Ray Liberti, Audit Committee Chairperson

DATE: January 20, 2006

SUBJECT: Transmittal of Internal Audit Report No. 2006-001
AUDIT OF FLORIDA HOUSING CORPORATION'S
GOVERNANCE AND MANAGEMENT

Attached is the report on **Audit of Florida Housing Corporation's Governance and Management**, approved by the Audit Committee at its regular meeting held today. Florida Housing Corporation is a subrecipient of Federal grant funds awarded to the City for the Housing Opportunities for Persons With AIDS (HOPWA) program.

The audit found that corporate governance needed improvement, financial reporting did not meet standards, and management controls were weak in several areas. Florida Housing Corporation accepted the audit recommendations and initiated a plan for corrective actions in a timely manner. The Economic and Community Development Department will monitor the implementation of the plan and report on progress at April's Audit Committee Meeting.



Ray Liberti, Commissioner, Audit Committee Chairperson

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In March 2005, we met with Mr. Joseph Glucksman, President of Florida Housing Corporation, at the Palm Beach Assisted Living Facility (PBALF) to open the audit. We were welcomed by Mr. Glucksman and senior staff members, toured the facility, and were assured their full cooperation. This opening session focused on discussing what records we wanted to review and identifying the personnel we wanted to interview.

CONCLUSIONS AND SUMMARY OF FINDINGS

Florida Housing Corporation provides value to the community in serving persons living with HIV/AIDS. This segment of the population requires special care that Florida Housing Corporation is able to provide through its knowledgeable, experienced, and dedicated staff. PBALF offers residents a safe, clean, and pleasant environment.

Our audit focused on corporate governance, financial reporting, management controls, and contract compliance. Our review of costs associated with the HOPWA program grant was limited to analytical tests designed to assess overall reasonableness. The results of these analyses did not disclose any material improprieties with the use of grant funds.

In the broader perspective, the audit did identify a number of conditions that, if left unaddressed, could lead to serious problems and jeopardize future HOPWA grant funding. We identified a broad spectrum of weaknesses that we condensed into four findings. In our opinion, by following the recommendations included under each of the findings, Florida Housing Corporation, with the help of ECD, can effectively correct the weaknesses.

The following is a summary of our findings which are discussed in detail, along with our recommendations and ECD responses, in the section titled: **Findings, Recommendations, and Responses.**

- **Finding No. 1: Corporate Governance Needs Strengthening** points out weaknesses in the corporate by-laws and structure of the board of directors.
- **Finding No. 2: Audited Financial Statements Need to Comply with GAAP** gives numerous examples of items in the financial statements that did not adhere to generally accepted accounting principles.
- **Finding No. 3: System of Management Controls Needs Improvement** identifies several serious control weaknesses, not brought out by the independent audit, that require management attention.

- **Finding No. 4: City's HOPWA Agreement with Florida Housing Corporation Needs to be Revised** discusses inconsistencies between requirements in the grant agreement and actual practices.

We discussed a draft of our findings and recommendations with Mr. Glucksman, who was very receptive to the changes proposed by our recommendations. In his written reply to our recommendations, Mr. Glucksman identified corrective action plans consistent with the recommendations and steps have already been taken to implement many of the changes.

We appreciate the assistance and cooperation extended by Mr. Glucksman and the staff at Florida Housing Corporation. We also thank you and the ECD staff for their help.

Ken Nielson, CPA, CIA, Senior Assistant Internal Auditor, performed the audit with the assistance of Scott Craig, CIA, Senior Assistant Internal Auditor.

SCOPE AND METHODOLOGY

Florida Housing Corporation's fiscal reporting is on a calendar year basis. The scope of our audit focused initially on calendar years 2003 and 2004 but was subsequently expanded to include selected events and activities over the whole period that Florida Housing Corporation received HOPWA grant funds from the City.

We reviewed the financial statements and tax reports (Form 990s) of Florida Housing Corporation for the period 1998 through 2004 and made inquiries to management and the independent auditor about unusual items appearing on the statements and in the tax reports. We interviewed administrative staff at Florida Housing Corporation regarding operations and management controls.

Additionally, we reviewed ECD files of HOPWA grant activity pertaining to Florida Housing Corporation. We met with the ECD HOPWA coordinator and staff and discussed their observations of operations at Florida Housing Corporation.

The audit was performed in accordance with generally accepted government auditing standards and included various audit activities as follows:

- Obtained and reviewed the City's grant agreements with Florida Housing Corporation for fiscal years 2003-04 and 2004-05.

- Reviewed Part 574 of 24 CFR (Code of Federal Regulations) that pertains to HOPWA grant regulations.
- Reviewed Corporation Annual Reports filed with the State of Florida for Florida Housing Corporation and related corporations.
- Reviewed Florida Housing Corporation's responses to City's RFPs.
- Researched accounting standards and regulatory requirements on not-for-profit reporting.
- Reviewed U.S. Office of Management and Budget Circulars:
 - A-87 Cost Principles for State, Local, and Indian Tribal Governments;
 - A-102 Grants and Cooperative Agreements with State and Local Governments;
 - A-110 Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations;
 - A-122 Cost Principles for Non-Profit Organizations; and
 - A-133 Audits of States, Local Governments, and Non-Profit Organizations.
- Obtained and reviewed annual financial statements of Florida Housing Corporation for years 1998 through 2004 and the related auditor's reports.
- Queried the independent auditor (CPA) who performed the audits of Florida Housing Corporation's financial statements on items of concern with respect to the statements and Form 990 tax reports.
- Researched the Palm Beach County Property Appraiser's records for property purchases and sales by Florida Housing Corporation and related parties.
- Researched Palm Beach County Clerk of the Court's records of real estate and debt transactions of Florida Housing Corporation and related parties.
- Interviewed key staff members at Florida Housing Corporation with respect to operations and activities.
- Reviewed pertinent ECD HOPWA monitoring reports.
- Reviewed grant reimbursement requests from Florida Housing Corporation.
- Applied such other procedures we deemed necessary during the audit.

BACKGROUND

Florida Housing Corporation financial statements for years 2003 and 2004 reported revenues and expenses for PBALF, as follows:

	<u>2003</u>	<u>2004</u>
Total Revenues	\$3,048,046	\$3,051,999
Total Expenses before		
Depreciation and Amortization	<u>2,844,144</u>	<u>2,926,304</u>
Earnings before Depreciation and		
Amortization	\$ 203,902	\$ 125,695
Less Depreciation and Amortization	<u>283,376</u>	<u>274,511</u>
Profit (Loss)	<u>\$ (79,474)</u>	<u>\$ (148,816)</u>

Florida Housing Corporation is a HOPWA grant subrecipient that has received Federal funds from the City since 1998. For the City's fiscal years 2003-04 and 2004-05, Florida Housing Corporation was awarded maximum grants of \$640,411 and \$625,500, respectively. Under its agreement with the City, Florida Housing Corporation was to provide housing for forty-five HIV/AIDS infected individuals on a daily basis throughout the annual periods covered by the agreements.

In addition to meeting the basic housing needs for the HOPWA residents, Florida Housing Corporation provides meals, personal care, medications management, coordination of medical care, laundry facilities, organized social activities, and limited transportation. Some funds for health care services to the HOPWA residents are also provided through the County from the Ryan White Title I program.

Florida Housing Corporation is a not-for-profit, tax-exempt corporation under IRS Code Section 501(c)(3). It was incorporated in 1997 and purchased the Datura Street facility from South Florida Affordable Housing Corporation (SFAHC), a related party, in 1998. At the time of the purchase, SFAHC had an agreement with the City to provide housing under the HOPWA program.

Florida Housing Corporation operates PBALF which is registered with the State of Florida as an assisted living facility licensed to house up to 206 residents. At the start of the audit, the facility had 193 total residents including 45 in the HOPWA program. From May 2001 to May 2005, Florida Housing Corporation operated a second assisted living facility, doing business as the Boynton Beach Assisted Living Facility, under an arrangement with Boynton Beach Assisted Living Facility, Inc. (BBALF, Inc.), a related party. The Boynton Beach Assisted Living Facility did not provide housing under the HOPWA program.

Mr. Joseph Glucksman, now President of Florida Housing Corporation, was previously responsible for the operations of South Florida Affordable Housing Corporation. Florida Housing Corporation has a five-member board of directors.

The board includes a physician, a resident of the Datura Street facility, a senior citizen from the community, and a businesswoman who is Mr. Glucksman's sister-in-law. There is one vacancy on the board. Mr. Glucksman is not a director.

The Datura Street facility employed a full-time equivalent staff of approximately 55 for fiscal year 2003-04. The HOPWA grant paid for the full-time equivalent of nine program attendants, one program director, one-half medications manager, and one-quarter administrator.

In addition to the grants awarded to Florida Housing Corporation by the HOPWA program, the City's Community Redevelopment Agency loaned Florida Housing Corporation \$158,800 in 2004 to develop a storefront and commercial space for doctors' offices and a pharmacy on the side of the Datura Street facility that faces Rosemary Avenue. Construction was completed in mid-2005.

FINDINGS, RECOMMENDATIONS, AND RESPONSES

FINDING NO. 1: Corporate Governance Needs Strengthening

Florida Housing Corporation's Board of Directors did not demonstrate requisite skills and/or the independence needed to oversee management's role in carrying out Florida Housing Corporation's mission and responsibilities in the community. From all indications, Mr. Glucksman directs the activities of Florida Housing Corporation at will with little or no effective oversight by the Board of Directors.

Board of Directors

Corporate directors and officers have the fiduciary duties of care and loyalty. The "duty of loyalty" has two aspects: good faith and fairness. Good faith requires that directors and officers act in the best interest of the corporation. When a director serves on boards of different corporations doing business with each other there can be a conflict of interests. Also, if a director has a personal stake in action to be taken by the board, or has a relative with a personal stake in action to be taken by the board, that may result in conflicting interests.

One member of Florida Housing Corporation's Board is the sister-in-law of Mr. Glucksman, President of Florida Housing Corporation. She is also on boards of directors for other corporations, both for-profit and not-for-profit, that are doing business with Florida Housing Corporation. She shares board membership with the mother of Mr. Glucksman for a corporation that is for-profit and a creditor of Florida Housing Corporation.

Another member of the Board is a PBALF resident, as required by the City. While residents need to have their concerns voiced to the Board, voting members of the Board have a fiduciary responsibility to act in the best interest of the corporation as a whole. The interests of residents served by the corporation, may at times, conflict with overall interest of the corporation in serving the greater community, leaving the resident board member to compromise his or her fiduciary duties.

In 2003 and 2004, three Board members of Florida Housing Corporation were also board members of another not-for-profit corporation (BBALF, Inc.), that had business arrangements with Florida Housing Corporation. Additionally, BBALF, Inc. had assumed debts of Medford Management Company, a for-profit corporation controlled by Mr. Glucksman and his mother and sister-in-law.

None of the above related party business dealings were disclosed in the Management Representation letters to the external auditor signed by Mr. Glucksman.

Corporate By-Laws

Florida Housing Corporation's By-Laws, ARTICLE III, item 2, state: "...at each Annual Meeting of Members, the membership shall elect directors to hold office until the next Annual Meeting." However, ARTICLE II states: "There are no members of this corporation." Mr. Glucksman was signer of the by-laws as President of Florida Housing Corporation.

Florida Housing Corporation's meeting minutes show that annually a proposed slate of directors was voted in by themselves. Mr. Glucksman advised that this was not a violation of the by-laws since Article III, item 4, states: "...newly created directorships or vacancies in the Board of directors may be filled by a vote of the majority of the Board of Directors then in office..." We take exception to this reasoning on the basis that the proposed slate did not fill "...newly created directorships or vacancies..." on the Board. This action by the Board was self serving and did not comply with the Corporate By-Laws.

After a director resigned at the July 27, 2004 Board of Directors meeting, Mr. Glucksman filed an amended Annual Report with the Florida Secretary of State on August 25, 2004 designating his sister-in-law, Karen Rosen, to the vacancy. It was not until two months later at the October 29, 2004 Board of Directors meeting that: "The Board voted unanimously to approve Karen Rosen's membership on the Board of Directors effective immediately." While in this case the Board had the authority under the By-Laws to fill the vacancy on the Board of Directors, Mr. Glucksman, who is not a director, took the opportunity to fill the vacancy in

advance. This indicates that Mr. Glucksman operates at will with only a perfunctory oversight by the Board of Directors.

Ethical Practices

Article V, item 6, of the corporate By-Laws states: “The President or Vice President of the Corporation is authorized to execute Deeds, Mortgages and other instruments of conveyance and/or mortgaging of property owned by the Corporation.”

Mr. Glucksman’s wife signed a corporate resolution claiming to be Vice President of Florida Housing Corporation in documents presented to the bank for obtaining loans to Florida Housing Corporation. The records show that at the time the loan was obtained Karen Rosen, a board member, was the Vice President of Florida Housing Corporation. Mr. Glucksman advised us he was aware that she had signed the loan documents but the action was taken to expedite closing on the loan; his wife was not a corporate officer of Florida Housing Corporation at that time. Mr. Glucksman also pointed out that he and his wife had to personally guarantee the loan.

Regardless of the circumstances, it is a breach of ethics for an employee to misrepresent themselves as a corporate officer with the authority to exercise rights reserved in the By-Laws for the officer.

During our review of official documents of the Corporation, we noted a number of documents including Board meeting minutes, Conflict of Interest Affidavits, a CRA loan agreement, etc. with signatures of Board members that did not appear to be the legal signature for those persons. We asked Mr. Glucksman if someone else might have signed for the persons whose name appeared on the documents. Mr. Glucksman advised that on occasion when the persons were not readily available they were contacted by telephone to obtain permission for someone else to sign their name. There were no initials of the actual signer or other indication to show that the signatures were not the true signatures of the persons whose names appeared. To represent that a signature is true when it is not is unethical.

Conclusion

If the City is to continue allocating HOPWA grant funds to Florida Housing Corporation, a new Board of Directors needs to be installed that is acceptable to the City. A meaningful and involved Board of Directors needs to assume a serious fiduciary role in overseeing Florida Housing Corporation’s management functions. New Board members need to have the skills, talents, and experience necessary to oversee and contribute to the effective operation of a housing facility for special-

needs residents. The present Board includes a medical professional. Adding professionals with legal, accounting, and business experience would greatly enhance the overall skill set of the Board. Avoiding potential conflicts of interests should be a consideration when selecting directors.

This new Board needs to review the Articles of Incorporation and update the By-Laws and should establish a Code of Ethics for Florida Housing Corporation's directors, officers, and employees. The Code of Ethics needs to address issues of nepotism within Florida Housing Corporation and related party activities with outside agencies.

After we reviewed the above findings with Mr. Glucksman, he advised the following actions were being taken to correct the deficiencies:

- Installation of a reconstituted Board of Directors with suitable skills, talents, and experience to provide effective oversight and guidance.
- Review and approval of all policies and procedures for financial management activities by the Board of Directors.
- Review of the Articles of Incorporation and By-laws and adoption by the Board of Directors.
- Review of the Code of Conduct (Code of Ethics) by the Board of Directors, consistent with 24 CFR 84.42, Uniform Administrative Requirements for Grants & Agreements, that was adopted by Florida Housing Corporation effective January 1, 2005, with scheduled training for all management staff.

Mr. Glucksman advised that these actions will be completed by March 31, 2006.

Recommendations

We recommend the ECD Director monitor Florida Housing Corporation's progress in completing the above actions and keep us advised. Additionally, we recommend future HOPWA grant funding be contingent on satisfactory implementation of these actions.

Response

The ECD Director agrees to ensure that the Department will monitor the Agency's progress in completing the actions prescribed to address this issue and will inform the Internal Auditor's Office of such progress.

FINDING NO. 2: Audited Financial Statements Need to Comply with GAAP

Our review of the independent auditor's report and the audited financial statements for December 2003 identified several areas of noncompliance with accounting and auditing standards, as follows:

Related Party Transactions Not Disclosed

The extent of undisclosed related party dealings involving Florida Housing Corporation is disturbing.

The audited financial statements for the year ended December 31, 2003 do not disclose a number of related party transactions involving Mr. Glucksman's mother as required by GAAP (generally accepted accounting principles). Long-term liabilities shown on the Balance Sheet include \$300,000 owed to Medford Management and \$80,718.80 owed to Dina Schwartz. Dina Schwartz is the mother of Joseph Glucksman and the President of Medford Management, Inc. as well as the company's Registered Agent. Karen Rosen, Mr. Glucksman's sister-in-law and a director on the board of Florida Housing Corporation, is the Vice President, Secretary and Treasurer of Medford Management, Inc.

Karen Rosen is also the President, Secretary, Treasurer, and sole director of Palm Beach Adult Congregate Living Facility, Inc., a for-profit corporation that receives management fees from Florida Housing Corporation. Mr. Glucksman is the Registered Agent for Palm Beach Adult Congregate Living Facility, Inc.

In one of the notes to the financial statements, it is stated that Florida Housing Corporation "...entered into a five year lease/option to buy arrangement with Boynton Beach Assisted Living Facility (501(c)(3) tax-exempt organization), an unrelated entity..." Corporate filings with the State of Florida show the BBALF, Inc. Board of Directors to include three of the same directors that serve on Florida Housing Corporation's Board. Additionally, Karen Rosen, sister-in-law of Mr. Glucksman, is a director as well as the Vice President, Secretary and Treasurer of BBALF, Inc. Three Board members on each of the Boards was a majority voting interest and controlling financial interest in each case. Furthermore, while Mr. Glucksman was not a director of either of the corporate entities, he was the President of both. Thus, both entities were under common management and Florida Housing Corporation had a controlling financial interest in BBALF, Inc.

According to FAS-94, in the case of commonly-controlled entities combined financial statements are recommended. The assets and liabilities of BBALF, Inc. were not consolidated on the Balance Sheet of Florida Housing Corporation for

the year ended December 31, 2003, although the income and expenses were included in the Statement of Activities.

Mr. Glucksman advised that, while prior to the 2004 audit, financial statements did not disclose related party transactions, steps have since been taken to include these disclosures. Additionally, he stated that Karen Rosen recently resigned from Florida Housing Corporation's Board of Directors and that Palm Beach Adult Congregate Living Facility, Inc was dissolved. Furthermore, as of May 21, 2005 BBALF, Inc. had been sold to an unrelated entity.

Debts Not Confirmed

We asked the CPA that audited Florida Housing Corporation's 2003 Financial Statements for copies of the debt confirmations. His letter of reply stated: "The fact is well known that [a] confirmation request is often ignored; consequently, the only request answered was GMAC." With the exception of the auto loans which were verified "...by comparing the payments to the amortization schedules." alternative procedures were not used to verify debt balances. In fact, the CPA stated that in cases where payments were not required no confirmation requests were made. Mr. Glucksman took exception to the CPA's claim that no confirmation requests were made.

We reviewed tax filings for one creditor, SFAHC, and found that their 2003 Balance Sheet showed no receivable or debt due from Florida Housing Corporation. We also spoke with the President of SFAHC who advised he was not aware of any financial obligation to SFAHC from Florida Housing Corporation. Florida Housing Corporation's Financial Statements show an obligation to SFAHC of nearly \$1,000,000 in principal and accrued interest. Mr. Glucksman stated on August 18, 2005, the loan from SFAHC had not been repaid and was still due. This is a very significant discrepancy.

In a discussion with Mr. Glucksman about Florida Housing Corporation's debt, he mentioned a plan to consolidate all the debts of Florida Housing Corporation in a single loan that would be insured by HUD. The loan amount applied for was \$9,500,000. He stated that all current loans including those from Medford Management, Dina Schwartz, and SFAHC would be repaid with the new financing.

Subsequently, we noted in the 2004 financial statements a Note titled "Subsequent Events" states proceeds from the sale of the BBALF, Inc. in May 2005 were used to retire Florida Housing Corporation's loans from Medford Management and Dina Schwartz, as well as a loan from Mr. Glucksman. We question if it is proper to use proceeds from the sale of one not-for-profit corporation (BBALF, Inc.) to

pay the debts belonging to another not-for-profit corporation (Florida Housing Corporation).

Auditor's Opinion Stated in Notes to the Financial Statements

Under the Notes to the Financial Statements, note number 17 Supplementary Information states the following:

“Florida Housing Corporation operates two asset facilities, one located at 534 Datura Street, West Palm Beach, and the other located at 1708 NE 4th Street, Boynton Beach, Florida. As required by OMB-133 and AICPA, this audit covers both of these entities.

Consequently, to enable users of this audit to determine the expenses associated with each of these entities, a statement of activities, detail schedule of expenses and statement of functional expenses are included. This supplementary information was subject to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.”

We asked the CPA that performed the audit if this note was prepared by him and if the opinion stated was his opinion. He replied that he did prepare the note and that the opinion was his. Furthermore, he confirmed that he had prepared all of the notes to the financial statements.

While it is not unusual for auditors to assist clients with preparing notes to the financial statements, the notes are the responsibility of the party under audit as stated in the auditor's report. But, clearly the opinion of the auditor does not belong in the notes.

Goodwill Improperly Recorded

The Balance Sheet shows Goodwill as an intangible asset in the amount of \$1,831,485 before accumulated amortization. An accompanying note, number 6, Intangibles states:

“The difference between the fair market value of the assets purchased and the contract price of the purchase led to a difference of approximately 1.8 million dollars which is recognized as goodwill. This goodwill is amortized over the life of 20 years, which is the life of the note.”

We reviewed the sale and purchase of assets and determined the transaction to be between related parties and the difference as explained above was improperly recorded as goodwill.

HOPWA Program Expenses Not Separately Presented

While not required by established accounting standards, guidance offered in accounting literature and OMB Circular A-133 encourages separate disclosure of program-specific costs in a supporting schedule of functional expenses. The Form 990 Return requires reporting of total expenses for each of the four largest service programs. Audited Financial Statements for Florida Housing Corporation list functional expenses in total. To enable the City to effectively monitor expenses paid with the HOPWA funds, Florida Housing Corporation needs to present HOPWA and other major program costs separately.

American Express Charges Not Properly Classified

The Statement of Activities for the period ended December 31, 2003 includes an expense item called "Credit Cards" in the amount of \$14,399. We asked what this represented and were advised by the Comptroller that both Mr. and Mrs. Glucksman have corporate credit cards issued by American Express for business purposes.

Classifying expenses as "Credit Cards" is not a proper cost classification and provides no indication of the business purpose for the expenses incurred. Charges to a credit card account should be classified by the goods or services paid for with the credit card. The independent auditor should have advised Florida Housing Corporation on proper classification of costs when auditing this Statement.

In his written reply to this item, Mr. Glucksman stated that: "Since December 31, 2003, all credit card debt has been itemized and properly posted to the appropriate line item." We reviewed the 2004 audited financial statements and noted in the Statement of Activities Detail Schedule a single line item for "American Express" in the amount of \$15,107.97.

Conclusion

The importance of audited financial statements to the monitoring process cannot be overstated. The City has a financial exposure when expenses paid with Federal funds are determined to be improper. Accurate, reliable, informative financial information is vital to the City's role in administering Federal programs. Sound reporting practices and compliance with all applicable reporting standards according to GAAP can mitigate the risk of financial exposure to the City.

To correct the conditions noted in this finding, Mr. Glucksman committed to the following actions:

- Engage a new independent auditor for the 2005 annual audit with sufficient experience and credentials to perform the work required. The name of the firm and their resumes will be provided to ECD for comment prior to formal engagement.
- The new auditor will be instructed to break out HOPWA and other federal program income and expenses in accordance with GAAP and guiding regulations.
- The new auditor will be requested to review the audited financial statements for years 2003 and 2004 to identify any improprieties that need to be corrected.

Recommendations

We recommend the ECD Director monitor Florida Housing Corporation progress in completing the above actions and keep us advised.

Response

The ECD Director agrees to monitor the Agency's progress in completing the prescribed corrective actions. More specifically, those actions that have been established to disclose accurate, reliable and informative financial information; thereby minimizing and/or eliminating the City's financial exposure through the use of federal HOPWA grant dollars.

FINDING NO. 3: System of Management Controls Needs Improvement

The independent auditor is responsible, when performing the annual audit, to test internal controls and report any material weaknesses found. In the 2003 Independent Auditor's Report on Internal Control Structure Used in Administering Federal Awards, it was stated: "We have noted no matters involving the internal control structure and its operation that should have been reported..."

We performed a limited evaluation of internal controls at Florida Housing Corporation and identified a number of weaknesses we considered material. The following relates to the weaknesses we noted.

Check Signing

We were advised by the Bookkeeper, Lisa Glucksman (Mr. Glucksman's wife), that she and Mr. Glucksman were the only ones with check signing authority. The Bookkeeper is responsible for Accounts Payable including preparation of checks for bill paying. Having the person performing the Accounts Payable duties also authorized to sign checks is a serious weakness in management controls.

Additionally, we were advised that to expedite the processing of payments, Mr. Glucksman on occasion signs blank checks which are stored in a locked cabinet accessible only to the Bookkeeper. This practice precludes the review process by the signer which is a control over improper payments. We consider this a material weakness.

Spreadsheet Preparation and Review

Florida Housing Corporation submits monthly invoices to the City for reimbursement of costs covered by the grant. We reviewed a sample of these invoices submitted in the City's fiscal year 2003-04 and found errors on spreadsheets supporting personnel costs. The preparer of these spreadsheets advised that he had used an earlier spreadsheet as a template when preparing spreadsheets for later invoices and had not brought the information current. We did not identify any over billings as a result of these shortcomings.

The Executive Assistant who prepares the invoices to the City advised that the gross incomes from HOPWA residents reported on the Monthly Progress Report (spreadsheets) also contained errors in some cases. Program income for the HOPWA program is used to offset budgeted costs.

There was no evidence of review of the spreadsheets by management or the Comptroller. Errors in spreadsheets are a common occurrence when spreadsheets are used as templates because the underlying formulas and data are frequently not examined or re-entered. Review of completed spreadsheets by someone other than the preparer is a control over the type of errors noted here.

While ECD does review submitted invoices for accuracy prior to payment, the errors in the spreadsheets noted above went undetected during that process as well. Training for ECD staff responsible for reviewing invoices, to strengthen the review procedures, would help to timely identify the problem for remediation by Florida Housing Corporation.

Cash Disbursements

We reviewed copies of canceled checks included with the December 2003 invoice support documents submitted by Florida Housing Corporation covering disbursements from the operating account for that month. The bank does not return the canceled checks but includes copies of the faces of the checks that have cleared the account precluding us from examining the endorsements. We noted six checks payable to "Cash" totaling \$13,423 and two checks payable to the Bookkeeper, who prepares the checks, totaling \$373.28.

Making a check payable to "Cash" is a bad practice since anyone can tender the check for payment. Furthermore, with a check payable to "Cash" use of the funds is not always traceable. Both situations are serious control weaknesses.

Making a check payable to the person preparing the check can raise questions when the preparer is also an authorized check signer. Reimbursement of expenses incurred (as purported in the two instances we observed) sometimes necessitates issuing a check to the preparer. However, some oversight review needs to take place before the check is signed and presented to the person the check is made payable to. Otherwise, normal controls become ineffective.

In reviewing disbursements, we noted several instances where Mrs. Glucksman, who is the Bookkeeper, made purchases for Florida Housing Corporation. Having the Bookkeeper, who is responsible for accounts payable, also perform purchasing duties is a control weakness. We recognize that in organizations having limited staff, sometimes it is necessary to assign duties, incompatible from a controls perspective, to one individual. However, this situation should be avoided when possible. We believe a better assignment of duties is achievable.

Procurement Procedures

Florida Housing Corporation does not have formal procurement procedures. OMB Circular A-110 contains a set of Procurement Standards for subrecipients to use in preparing formal procurement procedures. Formal procurement procedures are an important control over the procurement process that need to be established.

Conclusion

The number of control weaknesses identified above was based on our limited assessment of the control environment which is to be tested by the independent auditor. Overall, we concluded that the system of management controls is deficient.

In response to the items brought out in this finding, Mr. Glucksman advised that he had taken immediate corrective actions, as follows;

- Reassigned check signing authority to exclude anyone from the bookkeeping and comptroller's office.
- Developed and introduced a new policy and procedure for payables effective September 2005.
- Discontinued the practice of signing blank checks.
- Added a process for document review by the President of all public sector invoices for reimbursement, including HOPWA-related invoices and reports.
- Discontinued practice of making checks payable to "Cash."
- Separated procurement responsibilities from the bookkeeper and comptroller's office.

Recommendations

We recommend the ECD Director review Florida Housing Corporation's implementation of the corrective actions mentioned above and advise us on the status. Also, in conjunction with the recommendations under Finding No. 2, the new independent auditor needs to be informed of the control weaknesses cited above and requested to re-assess these conditions as well as the overall control environment.

Response

The ECD Director agrees to the responsibility of reviewing Florida Housing Corporation's implementation of the prescribed corrective actions, to apprise the Internal Auditor's Office of its progress and to ensure that the new independent auditor is made aware of the control weaknesses cited in the Report. The ECD Director also agrees to re-assess those conditions as well as the overall control environment.

Further, albeit a review of the errors on the spreadsheets did not identify any over billings to the HOPWA Program, the Department desires to meet with the Internal Auditor's Office to address the nature of the errors so as to strengthen the staff's technical skills.

FINDING NO. 4: City's HOPWA Agreement with Florida Housing Corporation Needs to be Revised

In reviewing the HOPWA grant agreements between the City and Florida Housing Corporation for fiscal years 2003-04 and 2004-05, we noted a number of requirements that were inaccurate, inadequate, inconsistent, or impractical. Some of the requirements in the agreement are hard to enforce or confusing and were not adhered to, as explained below:

Method of Payments

Part IV Compensation, Time of Performance, Method, and Conditions of Payment, paragraph A. Maximum Compensation, includes the provision: "The Agency shall be reimbursed for Eligible Costs described in the Budget attached..." The "Eligible Costs" as defined in Part I of the agreement: "...means costs actually incurred or costs encumbered by an approved invoice for purchase, which are necessary to perform Eligible Activities."

In Part IV, under paragraph D. Method of Payment is specified: "Supporting documentation shall include but not be limited to expenditures, original invoices, receipts, front and back copies of checks, executed conflict of interest forms, (Exhibit "F" and "G") time sheets and monthly reports." For the most part, the level of detail required by this provision was not being provided and some items charged were based on an allocation of the budgeted amount rather than actual costs.

In reviewing the invoices and supporting documentation submitted by Florida Housing Corporation with requests for reimbursement under the HOPWA grant agreement, we noted the following items submitted as supporting documentation:

- A listing of residents covered under the grant, the number of days each resided at the facility, and the monthly charges based on a standard rate of \$19.46 a day per resident.
- A listing of staff assigned to the HOPWA program with gross earnings and payroll loading factors.
- Copies of invoices for certain administrative services and assets with copies of the checks to be rendered for the respective payments due and in some cases canceled checks.
- A listing of bank account transactions from the bank showing transfers in, deposits received, and checks paid.

Actual costs of housing HOPWA residents was not evidenced by the supporting documentation submitted. We were advised by Mr. Rory Glucksman, Executive

Assistant, the standard rate of \$19.46 used for room and board was set by dividing the budgeted annual amount (\$319,612) for housing by 365 days for the year times 45 residents, as follows:

$$\$319,612 / (365 \text{ days} \times 45 \text{ residents}) = \$19.46$$

The original invoices and time sheets called for in the agreement were not part of the supporting documentation.

While the agreement specifies reimbursements are to be based on actual costs and requires detailed supporting documentation, it was not being submitted nor was it noted by City staff as missing or required for the reimbursement requests submitted. Furthermore, we question the practicality and cost effectiveness of staff having to review and substantiate such a sizeable volume of detail. A more reasonable approach might be to establish a unit cost agreeable to both parties based on prior experience and reimburse recurring non-administrative expenses using a unit-cost method.

Bed Hold Policy

Florida Housing Corporation is required under terms of its agreement with residents to hold a bed for a period of time when a resident "...is temporarily admitted to a nursing home, other health facility, or another institution accepted by the Administrator (detox unit, jail, etc.)." The City's agreement with Florida Housing Corporation is mute regarding payment for beds held for residents temporarily at another facility for special care or treatment. Under the City's current practice, Florida Housing Corporation is not reimbursed for a bed held for a HOPWA resident when the resident is temporarily admitted to another facility acceptable to the Administrator. Holding a bed for a HOPWA resident who is temporarily away from the facility for medical reasons results in revenue loss or unreimbursed cost of providing services to Florida Housing Corporation.

The City needs to consider compensating Florida Housing Corporation under the HOPWA grant for a bed held when the proper care of the resident would be compromised if not admitted to an acceptable health care facility or other institution.

Conflict of Interest Affidavits

As mentioned above, Part IV, paragraph D, of the agreement requires "executed conflict of interest forms" be included with supporting documentation. We found signed Conflict of Interest Affidavits from the President and board members attached to the monthly invoices from Florida Housing Corporation.

We asked if the Conflict of Interest Affidavits were always signed by the person whose name appeared on the forms and were told in some instances Florida Housing Corporation staff signed the person's name after obtaining permission by telephone. The practice of signing another person's name to a legal document is not an acceptable practice even after obtaining permission. More so, we question the necessity for the officers and board members to sign new Conflict of Interest Affidavits each month. Consideration should be given to having signed affidavits included with the agreement when it is executed and new ones added during the year only when there is a change of officers or board members.

Benchmark Performance

Part IV, paragraph B. Benchmark Performance states: "Benchmarks are performance standards. These standards will be used as a method to support continuous improvement in performance by the Agency. The Agency shall meet, on a quarterly basis, each benchmark as described in Exhibit 'E'." This requirement is confusing because it states the purpose is to "support continuous improvement" and then goes on to require the same "benchmark" to be met each quarter. How does this "support continuous improvement"?

Some benchmarks shown as performance measures in Exhibit "E" were inconsistent with requirements and in some cases lowered requirements of the agreements. Examples are:

1. Part IV, paragraph D. Method of Payment requires: "The City must receive payment requests by the 5th day of each month."

The performance measure shown in Exhibit "E" is: "Submission of monthly invoices by the 10th working day of each month."

2. Also, in Part IV, paragraph D, Florida Housing Corporation is required to: "...submit 1/12 of its budget for reimbursement for October, 2/12 for November, 3/12 for December, etc."

The performance measure is: "Twenty-five percent (25%) of budgeted funds expended each quarter. Due to fluctuations in expenditures, a variance of five percent (5%) is acceptable."

3. The Scope of Services defined in Exhibit "A" of the 2004-05 agreement states: "Florida Housing Corporation (Palm Beach Assisted Living Facility) anticipates providing enhanced services to approximately forty-five (45) HOPWA participants monthly throughout the program year."

The performance measure in Exhibit “E” is: “Serve 90 unduplicated clients with provider based housing services.

- a. 1st Quarter: 45 unduplicated clients served
- b. 2nd Quarter: 15 additional unduplicated clients served
- c. 3rd Quarter: 15 additional unduplicated clients served
- d. 4th Quarter: 15 additional unduplicated clients served”

Having performance measures inconsistent with or lower than requirements of the agreement make no sense. The normal purpose for performance measurement is to manage functions and tasks with the goal of improving results. Benchmarking is a methodology used to identify characteristics of superior performance.

An example of a benchmark that focuses on improving performance could set an average time period for a resident to become self-sufficient and leave the facility.

Program Income

The agreement defines Program Income as: “...all Program generated income earned by the Agency for activities of the Agency financed in whole or part by HOPWA funds. Program Income includes, but is not limited to, income from service fees, sale of commodities, rental and usage fees, Medicaid or insurance reimbursements, donations, grants, and program income including fees paid for services.” Under Part V Program Income, the agreement states: “The Agency shall report all Program Income to the City. The Agency shall prepare a plan for the use of Program Income. Such plan shall require the prior written approval of the City.”

Each month, with its request for reimbursement, Florida Housing Corporation submits a list of HOPWA residents (by ID code) showing their outside incomes; however, Florida Housing Corporation did not provide a plan showing how the money was to be used. In its annual proposal applying for the HOPWA grant, Florida Housing Corporation did show program income as an offset to costs of resident care.

A plan showing specifics of how the program income is to be spent is needed to help monitor the effective use of these funds.

Conclusion

The agreement between the City and Florida Housing Corporation contains a number of terms and requirements that are not met due to a variety of reasons.

These terms and requirements need to be enforced or revised to reflect their true intent.

Mr. Glucksman advised that he is willing to work with ECD on the language of the agreement to improve and correct both parties understanding of the expectations for the grant. ECD has advised that some clarification of expectations will be introduced in the grant agreement for fiscal year 2005-06.

Recommendations

We recommend the ECD Director initiate a complete review of the agreement between the City and Florida Housing Corporation to address those conditions noted above and to identify other areas of possible confusion or where changes are needed. Representatives of Florida Housing Corporation should be included in the review process and encouraged to make suggestions where the agreement might be improved.

Response

The Economic and Community Development Department (Department) concurs that the City's program year 2004-05 HOPWA Agreement with its project sponsors, including Florida Housing Corporation, required revisions to address those certain conditions noted in the Internal Auditor's Office's Report and other areas as warranted.

For the 2005-06 program year, the Department focused on those areas of the Agreement that have been noted as needing revision. In an effort to ensure that the compilation of the Agreement for the 2005-06 program year spanned several levels of expertise, the Department involved the review and input of personnel from the City's Internal Auditor's Office and the Law Department. Consequently, material changes were made to the Agreement, which included those areas mentioned in the Internal Auditor's Report (Method of Payment, Conflict of Interest, Conflict of Interest Affidavits, Benchmark Performance and Program Income). The language of these sections of the Agreement was changed, deleted and/or clarified.

Additionally, the Department encourages the input of project sponsors in the development of the Agreement. Prior to the agencies executing the Agreement with the City, they are allowed to review its contents and their comments are taken into consideration prior to execution.