
January 9, 2009

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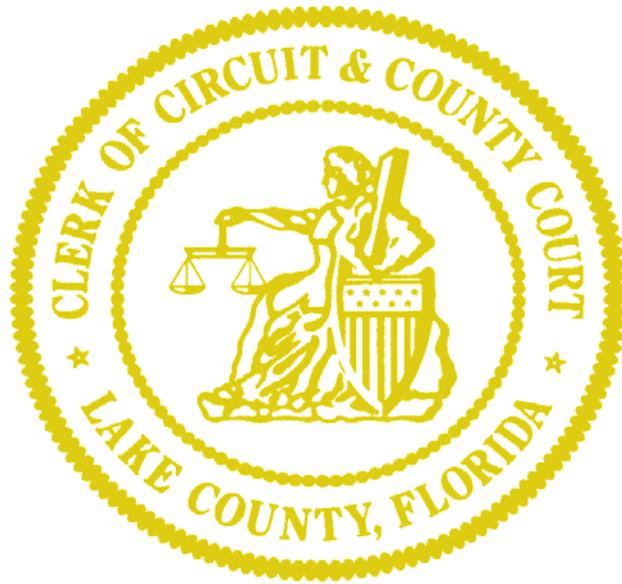
We have concluded an internal audit of State Housing Initiative Partnership (SHIP) program, Community Development Division, Community Services Department of the Lake County Board of County Commissioners as requested.

We appreciate the cooperation and assistance provided by the SHIP personnel, contractors of the program and clients and also other local county and governmental entities contacted during the course of this internal audit.

Sincerely,

Dennis Grey
Internal Audit Director

DG/CM



**Internal Audit Department
Final Internal Audit Report
of
Board SHIP Program
Lake County Board of County Commissioners
January 9, 2009**

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OVERVIEW

The SHIP program receives State of Florida grant funding for operations which includes costs of administration and funding for the Home Repair Program. In addition, Lake County receives State grant funding for tornado and hurricane recovery activities. While the eligibility requirements for the different programs are different, once a recipient is deemed eligible, Lake County's Local Housing Assistance Plan (LHAP) is the plan used to administer and manage the programs. The SHIP program may partner with other available funding sources/programs in order to meet the needs of individual recipients.

The State of Florida through the Florida Housing Financial Corporation sets general guidelines for program administration. However, each entity granted funding must establish more specific guidelines for their local environment. There is no one formula for administering funds granted but each entity receiving program funds must have a functioning program patterned after the State guidelines as adapted to the local area. The LHAP is Lake County's adapted program. The State of Florida does provide training for local entities and most of what is used in training comes from the Federal Housing & Urban Development program (HUD) requirements, Chapters 3 & 5. Lake County's latest version of the LHAP was Revised/Updated September 2005.

Lake County has been receiving SHIP grant funding for several years. In more recent years, Lake County has received additional grant funding for Hurricane Recovery and Tornado Recovery programs. Each of these programs has different waiting lists to which applicants may apply. The lists are different because the eligibility requirements are different for each program. However, once an applicant is deemed eligible and based on funding levels, SHIP and LHAP guidelines provide the framework used to determine the scope of work allowed and authorized for each applicant based upon needs. SHIP funds are supposed to be used to rehabilitate nonstandard/unsafe housing of very low, low, elderly and disabled homeowners. The documents used in the qualifying, contracting, tracking, and construction phases of a project are the same for the SHIP, Hurricane or Tornado programs. The forms used in the SHIP program are essentially the same forms used in all three programs.

SCOPE: Based on several complaints received through the County Manager's office, Internal Audit services were requested to review SHIP Program operations and determine the validity of complaints received.

The following Internal Audit Comments are provided to assist management in improvement of SHIP related programs and provide feedback concerning specific complaints received from recipients, contractors, and personnel involved in the differing programs offered and reviewed.

OVERALL AUDIT OPINION:

While the SHIP, Tornado, and Hurricane programs serve a much needed and useful purpose, it is the overall opinion of the internal auditors that there are several weaknesses in administration of SHIP programs. The SHIP program documents, policies and procedures makeup the backbone for all of the different programs administered through the SHIP Section of the Department of Community Services. There are specific differences between the programs and using a cookie cutter approach to documentation and administration increases the risk that differences may be missed.

In the samples of documents and files Internal Audit examined, no discoveries were made of funds being misapplied or misused. All payments for services were properly documented and authorized. There were, however, some questions which arose during the audit process concerning the scope of the work authorized on certain projects.

Overall the SHIP and related programs administered by this section of Community Services provides a much needed, useful, and well received function by the recipients of SHIP funds provided to Lake County. The State

of Florida can be assured that funds granted to Lake County are used for their intended purpose and are properly accounted for.

Many of the concerns raised by contractors, recipients, and personnel involved in SHIP administered programs which were raised prior to this internal audit were determined to be unsubstantiated. However, there were some issues or concerns that deserve management action and clarifications in the processes and procedures used to administer the overall programs.

ISSUES AND RECOMMENDATIONS

High Risk or High Priority Issues:

#: 1

Specifications too open and deviations from scope of work

Issue: Specifications too open and deviations in scope of work allowed.

Discussion and Background: While it is true that staff has tightened the specifications over time, the specifications are still deemed too open to interpretation resulting in deviations between the scope of work as written and the work performed. By not establishing and enforcing the same specs for all contractors and accepting different levels of work from the different contractors for the bid price, actual contractor performance varies. Therefore, the playing field is not level. In viewing the finished work performed by different contractors and comparing the level of work performed to the bids submitted, it was apparent that some contractors provide additional or more costly services than the bid and specs called for while other contractors either minimally meet bid specs or cut corners. A lack of recurrent inspections reduces the likelihood that substandard work would be caught.

Recommendation: Recommend that specifications be made more stringent and those specs enforced. If a bid and spec calls for installation of Formica countertops, the choice the homeowner should have is what color of Formica is to be installed. A contractor should not be allowed to deviate from the spec and install tile countertops with a back splash even if they are willing to only charge the bid amount. Frequent inspections during the construction period would provide adequate review of bids, materials used and quality of work performed.

Issue Risk: High

Issue Type: Process Ineffective

Management Comments: Due to the very nature of the SHIP Home Repair Program material specifications should always be under review to stay current with the various materials and products that are on the market. The Construction Contract Specs/Standards very clearly identify the types of

materials to be used in projects as well as the steps that should be taken when the contractor does not comply with these. In the case identified in this report the enforcement aspect of the SHIP Home Repair Program was ineffective. We have identified several program areas, including the SHIP Home Repair program within the Division of Housing & Community Development which would benefit from a restructuring effort and are in the process of implementation of changes that will address this issue.

#: 2

SHIP Program Wait List Management Duties Not Segregated

Issue: SHIP program Wait List management duties are not segregated.

Discussion and Background: Over the past several years the SHIP Wait List has been managed directly by the SHIP Program Administrator. This was primarily due to the small size of the program and the number of personnel available to properly segregate duties. The SHIP Wait List is a dynamic document in that only one list exists and changes are made to the list by the Program Administrator as the needs of the program change and people are added/deleted or priorities change from the Wait List. By having the Program Administrator control the Wait List so closely and all decisions concerning changes/additions/deletions/prioritizations of those clients on the List, this process allows for the possibility of preferential treatment.

Recommendation: Recommend that the function of Wait List Management be removed from the SHIP Program Administrator position. Recommend that Wait List Management duties be performed by a committee of personnel from the SHIP, Section 8, and CDBG program personnel. The wait list management function should include duties such as deciding who gets placed on what list, the priority of placement on the list, what project is chosen from the list as next to receive assistance, etc. Also recommend all Wait Lists be managed in the open and transparently by placing the lists on the intranet/internet, etc. Therefore, all SHIP employees and others needing access can see the number of projects on the list, their priority, and expected date of start.

Issue Risk: High

Issue Type: Process Ineffective

Management Comments: The management of the SHIP Program Waiting List will be shifted to management by a team of staff from the CDBG, Section 8 Program and SHIP staff. Although there is no evidence that would suggest any preferential treatment has ever occurred, management by this team will eliminate any suggestion that favoritism was involved in any applicant's case. We will be implementing this as soon as possible. To provide an even greater transparency, a system similar to the process utilized by the Section 8 Housing Voucher Program will be created. This system utilizes a list that is available to applicants who have submitted applications so they can at any time check their status by going to the County web page to see what position they are in. This will also be available for staff in the event an applicant calls for their status.

#: 3

Claims of Preferential Treatment

Issue: Potential Conflict of Interest

Discussion and Background: In reviewing a sample of SHIP, Tornado, and Hurricane project files, in interviewing SHIP/Tornado program personnel, and from interviews with contractors and homeowners, claims of preferential treatment to relatives or close friends by SHIP Staff in prioritization of a project, the scope of work authorized, or the services rendered is not able to be determined. Project files do not show any preferential treatment. In fact, when a close relationship is determined, letters are in the program files that show that SHIP Staff recuse themselves from the process and notify senior management. Two possible areas are noted where preferential treatment may be given but not detected under the current processes. These areas are identified in other findings. They are in the areas of wait list management and project management.

One is already mentioned in this report that being in how the SHIP Wait List is managed. A second concern is that once a person recuse's themselves, particularly the SHIP Program Administrator, the person assigned by directive is the CDC who reports directly to the SHI Program Administrator. Therefore, by naming the CDC as responsible for approval for the scope of work, monitoring the project, approving of change orders, etc., the CDC may be unduly influenced because there is not enough separation in the organization. Again, even if no preferential treatment is found, the presumption may be attached to both parties.

Recommendation: Recommend that someone outside the lower chain of command be assigned as the reviewer, manager, approval authority, etc. for all projects where a conflict of interest or close relationship may exists between SHIP program personnel and the client or contractor or vendor.

If changes of how the Wait List is managed to include more openness and by a committee and the assignment of the reviewer of projects where a potential conflict of interest exists are changed to a more distant third party, then the potential for and presumed conflict are greatly reduced if not eliminated.

Issue Risk: High

Issue Type: Process Ineffective

Management Comments: Disclosure by staff of a project that involves a relative or close friend has always been a priority issue of all programs in the Division of Housing & Community Development. Evidence of this are in fact the letters in the program files that show SHIP Staff recuse themselves from the process and notify senior management. While this is a Departmental rule, any behavior of this nature would certainly be a violation of numerous County Policies and Practices and would result in disciplinary action up to and including termination of employment. However, while this is known to staff, applicants and other individuals who are not familiar with internal policies and procedures may believe that preferential treatment is being given. We need make sure we take the appropriate steps necessary that will safeguard against this. The recommendation in this issue will address this issue. We are taking steps to implement changes in the Waiting List management as well as project management. Additionally we will provide each employee, not only within the Division of Housing & Community Development but the Department of Community Services as a whole, with instructions regarding the avoidance of preferential treatment to anyone.

#: 4

Lack of Effective Project Monitoring

Issue: Lack of Effective and Adequate Construction Project Management.

Discussion and Background: A review of project files and discussions with a sample of clients and contractors indicates that there is inadequate communication and coordination between the interested players during a construction project. Instances were found where problems and/or differences between the parties involved should have been discovered and resolved much earlier in the process. Therefore, problems were allowed to carry forward, making resolution more difficult and corrections more difficult or not correctable at all.

Staff was generally allowed to perform inspections or visit property owners on Tuesday and Thursday of each week. And some of the Tuesday time is filled with staff meetings. This amount of time allotted to inspecting and communicating face to face with homeowners and contractors is not sufficient to adequately monitor the construction process and work with the homeowners on specific issues during pre-construction events (finding temp storage, temp quarters, etc.) and post construction events (moving in, final inspections, punch list completion, etc.).

Also by not being on the job site as frequently as may be required, staff can not perform inspections and observe/check licenses of subcontractors, etc. and require corrective actions for violations or corrections to substandard work/materials.

Construction project's work pace ebbs and flows as does the process. A detail-minded, hands on, and more consistent presence on the job site are requirements for successful completion of a project with minimal problems, completed within budget, and delivery of a quality outcome. Thus, project managers' schedules for each construction job need to be flexible. PM's need to be available and observant as the jobs progress, and performing inspections as the job progresses and milestones are achieved.

Recommendation: Recommend that CDC and CDS's work schedule be made more flexible and they be made responsible and accountable for monitoring and the progress of their assigned construction jobs. CDC and CDS's main job should be as project managers. Recommend they not be involved as deeply in financial or determining the eligibility aspects of a project.

Issue Risk: High

Issue Type: Process Inefficient

Management Comments: The process of the SHIP Home Repair Program Construction Project Management was evaluated by staff of the Department of Growth Management who specializes in this field. As stated previously a restructuring of the Division of Housing & Community Development is imminent and a major aspect of this is "outsourcing" the Construction Project Management task to the Department of Growth Management Building Division. Building Inspectors are fully licensed, certified, and have the necessary experience to maintain a high level of control over the contractors

and construction being done on the projects. Building Inspectors will be able to provide much more "on-site" monitoring and will eliminate some of the problems that have occurred due to staff not being on the job site as frequently as required. The Community Development Specialist will then be able to focus on the more "administratively intense" aspects of the SHIP Home Repair Program.

#: 5

Licenses and Permits not Adequately Monitored

Issue: Licenses and permits required for job duties are not adequately monitored by Staff.

Discussion and Background: The primary responsibility for requiring and ensuring work is performed by a licensed subcontractor is the contractor's responsibility. However, this is a shared responsibility between the contractor and SHIP staff. The SHIP program includes the requirement that contractors provide a listing of all subcontractors that will be used on a project. SHIP staff may require proof of subcontractor licensing. In reviewing a sample of SHIP/Tornado project files, interviews with staff and contractors and visits to job sites, it is apparent that staff is not making sure that all required permits are pulled expeditiously nor that subcontractors working for a contractor had a license to perform the work. Certain processes in a construction project are required to be performed by a licensed professional - electrical work, plumbing, roofing, etc. If staff is not making frequent site inspections at the time the work is taking place, they can not determine if the work performed is per requirements nor exercise their right to inspect licenses of subcontractors, if desired. Therefore, substandard work may be performed, project costs may become inflated, and serious safety issues may remain after the work is completed and a problem goes undiscovered.

Recommendation: Recommend that CDC and CDS's work schedules be more flexible and they be made responsible and accountable for the projects assigned to them. Site visits should be frequent, unannounced, and progress tracked and workers monitored according to project contract.

Issue Risk: High

Issue Type: Unorganized

Management Comments: The process of the SHIP Home Repair Program Construction Project Management, of which the monitoring of licenses and permits is an important part, was evaluated by staff of the Department of Growth Management who specializes in this field. As stated previously a restructuring of the Division of Housing & Community Development is imminent and a major aspect of this is "outsourcing" the Construction Project Management task to the Department of Growth Management Building Division. The Construction Project Management task includes the monitoring of licenses and permits. Building Inspectors are fully licensed, certified, and have the necessary experience to maintain a high level of control over the contractors and construction being done on the projects. Building Inspectors will be able to provide much more "on-site" monitoring and will

eliminate some of the problems that have occurred due to staff not being on the job site as frequently as required. The Community Development Specialist will then be able to focus on the more "administratively intense" aspects of the SHIP Home Repair Program.

#: 6

Incorrect Determination of Tornado Funding Awarded

Issue: TORNADOS normally hit indiscriminately - the disadvantaged as well as the more affluent are affected by a tornado. Therefore, the criteria for receiving assistance should be different and based upon individual needs. Currently the SHIP program criteria is used to determine the level of assistance provided to tornado victims. Therefore, the amount of tornado funding awarded to individual clients was not based upon needs nor was the amounts awarded correctly computed and prioritized.

Discussion and Background: Since tornadoes like hurricanes affect the affluent and disadvantaged alike, each homeowner may be entitled to different funding assistance from several sources. HUD and the State of Florida have established guidelines/requirements for the assessment and application of funding awards made to applicants. If a homeowner has homeowner's insurance, then they must apply and report the amount of funds received before other assistance is applied for and received. Next if FEMA renders assistance in the face of an emergency, those funds received for reconstruction assistance must also be reported by all applicants to other funding sources. FEMA makes up the second priority for funding. And finally if an applicant has more damage than either homeowners insurance or FEMA provides, then other sources of funds may be provided - the last priority.

In reviewing a few of the tornado files receiving assistance through the SHIP office, it was noted that persons who may, and probably did, have homeowner's insurance received SHIP assistance and no adjustment was made to the amount of funds received. No one ever asked the question of the homeowner nor is the question asked on the SHIP application form. It was also noted that certain homeowners who did receive FEMA assistance for reconstruction repairs did report those funds to the SHIP office, but the funds received were not taken into account in the computation or adjustment to the amount of funds received from other funding sources.

Recommendation: Recommend that the SHIP standard application form be amended to include asking the questions if FEMA Assistance or funding was provided and if the homeowner has homeowner's insurance. Also recommend the requirement to provide all documentation from both FEMA and the homeowner's insurance of the amount and purposes for the amounts received. These documents should then be part of the determination and award computation processes. These processes should be spelled out in writing and in the LHAP.

Each funding source - tornado, SHIP, hurricane, etc. - could have its own individual application designed for the specific funding source. This would lessen the problems with trying to make a one-fits-all application.

Issue Risk: High

Issue Type: Procedures not in Place

Management Comments: Funding for the Tornado Assistance Program was outlined in the Disaster Mitigation and Recovery Assistance Strategy. The Disaster Mitigation and Recovery Assistance Strategy was previously approved by the Florida Housing Finance Corporation. The Disaster Mitigation and Recovery Assistance Strategy provides assistance in disaster mitigation, housing rehabilitation/reconstruction and demolition/replacement. The language of the Disaster Mitigation and Recovery Assistance Strategy states SHIP funds shall include, but are not limited to, these activities. This provides flexibility, if funds are available for applicants within the amount specified by the LHAP, to provide repairs to homes that may not necessarily be a direct result of the disaster. This is a benefit to the homeowner as they are not eligible to apply for further SHIP funding for repairs as currently the program provides assistance on a one time basis only.

D. Name of the Strategy: Disaster Mitigation and Recovery Assistance

a. Summary of the Strategy: In the event of a state, federal or local disaster declaration affecting all or part of Lake County, the Director of the Department of Community Services or the SHIP Administrator shall be authorized to request and administer additional state funds or current SHIP funds to assist with disaster mitigation/recovery. Eligible disaster mitigation assistance shall include, but not be limited to:

- Purchase of emergency supplies for eligible households to weatherproof damaged homes,
- Interim repairs to avoid further damage,
- Removal of tree(s) that have fallen on the home,
- Debris removal required to make individual housing units habitable,
- Payment of insurance deductibles for rehabilitation of homes covered under homeowner insurance policies,
- Post disaster assistance with non-insured repairs; and
- Expenses to prevent flooding of homes such as sandbags, sand, pump rentals, etc.

The above activities shall be in the form of a grant not to exceed \$3,000 to certified income eligible households to repair damage to their primary owner occupied residence caused by the abovementioned disaster, and not subject to recapture.

Housing rehabilitation/reconstruction and demolition/replacement are also included in this strategy. Eligible repairs include but are not limited to:

- Restoration of the structural integrity and preservation of the unit as well as correction of deficiencies in support beams, load-bearing walls, and floor joists;
- Restoration of heating, air conditioning, or water heating and conditioning systems;
- Restoration of plumbing, pumps, wells, septic systems and water line repairs to ensure safe drinking water and sanitary sewage;
- Replacement or repair of electrical systems, roofing, siding, broken or inoperable windows, screens, exterior doors, or other structural hazards rendering the dwelling unfit for habitation; and In order to ensure that assistance funds are neither under allocated or over allocated, the County will perform an on-site, pre-application inspection of proposed projects in order to assess the needs of the applicants. A checklist shall be made of needed repairs to provide the basis for the amount of the applicant's award. If the home can be repaired rather than needing replacement, contractors will be selected by applicants in consultation with the County. Repairs will be in accordance with the most recent Florida Building Codes, as published by the Southern Building Code Congress International. To ensure fulfillment of repair contract provisions, an acceptable quality of workmanship, and the protection of disadvantaged consumers, the County will perform interim inspections and a post-completion project inspection for each home repair project. Payment shall only be disbursed to the contractor upon the receipt of a satisfactory inspection report. The maximum award for housing rehabilitation/reconstruction shall be \$60,000. SHIP funds may cover eligible repairs, inspection costs, work write-ups, closing costs,

and relocation expenses not to exceed \$3,000. These funds will be awarded as needed in addition to the total loan amount. This component of the disaster mitigation and recovery strategy will have a contingency amount of \$5,000 to be used for unanticipated repairs that become necessary, but were unforeseen until after rehabilitation was initiated, in order to complete a rehabilitation job. **If** the cost of repairing the home exceeds the cost of constructing a new home on the same site, the home may be demolished with the owner's consent, and a new home constructed on the same site. The maximum award for housing demolition/replacement shall be \$150,000. The award will be in the form of a loan that will be deferred for thirty years provided, the home continues to be the principal residence of the homeowner. During construction, the applicant will be temporarily relocated to a comparable rental unit. The costs of moving and rent during construction will not be added to the original principal of the loan. Applicants will be required to contractually agree to all SHIP program guidelines, mortgage requirements, repayment provisions, and certify that the unit assisted is their principal residence. Assistance shall be limited to applicants directly impacted by the declared disaster. Clients served under the disaster strategy may supercede those on the current waiting list. This strategy will be implemented only in the event of a declared natural disaster that directly impacts Lake County. The Lake County SHIP program parameters as they currently appear in the Local Housing Assistance Plan and related documents shall apply except for the application selection criteria. These funds cannot be used to assist mobile homes or manufactured housing except those with the Department of Community Affairs insignia per Ch. 553, F.S. The disaster mitigation strategy will be advertised annually along with notice of all SHIP strategies and resources.

b. Fiscal Years Covered: FY 2006-06, 2007-08, 2008-09

c. Income Categories to be served: Extremely low, very low, low and moderate income persons will be assisted under this strategy. In the event of a natural disaster, it is sometimes difficult to obtain income information and third party verifications. If this is the case, the form of documentation required of the participant will be determined on a case by case basis depending upon the severity of the damage and the circumstances of each case as approved by the Director of the Department of Community Services or the SHIP Administrator. Lake County will use the most accessible and most accurate documentation available that can help to establish household income eligibility, and at the same time will allow the County to provide immediate assistance.

d. Maximum awards are noted on the Housing Delivery Goals Charts:

e. Terms, Recapture and Default. Include terms of recapture in the event of default (failure to make required payments on a loan secured by a first mortgage which leads to foreclosure and/or loss of property ownership).

Assistance under the disaster mitigation component of this strategy is in the form of a grant to certified income eligible households for emergency disaster assistance for their primary owner/occupied residence and not subject to recapture. However, the housing rehabilitation/reconstruction and demolition/replacement components are subject to the same repayment provisions as the Home Rehabilitation and Replacement strategy, and are found at the end of this section.

f. Recipient Selection Criteria: Assistance will be provided on a first-come, first-served basis following the declaration of the natural disaster depending upon fund availability. The residence must be the primary residence of the applicant at the time of the disaster.

g. Sponsor Selection Criteria: Not applicable.

h. Additional Information: Not applicable.

E. Recapture Provisions

All loans made with SHIP funds are deferred and forgiven over ten years for Home Purchase, five years for Home Rehabilitation, and thirty years for demolition and replacement. If title is transferred, or the home ceases to be the principal residence of the applicant, or the home is refinanced with a cash payout or the home is used for collateral for another loan, the SHIP loan becomes due and payable in full. Payouts will be considered program income. Refinancing for only the principal balance and closing costs, with the purpose of achieving greater

affordability such as by lowering the interest rate or for the addition of bedrooms to relieve overcrowding due to an increase in household size will be exempt from this provision, provided the appraised value plus the cost of the addition does not exceed the purchase price limit. Program income and interest earnings paid back to the County originating from the SHIP program will be deposited and held in the Lake County Affordable Housing Assistance Trust Fund. All such funds shall be redistributed in accordance with Rule 67-37.007, Florida Administrative Code and Chapter 420.907-9079, Florida Statutes, and shall be used to supplement SHIP funds in activities established under this Plan.

E.F. Default Provisions

The following default provisions are included in all loans made with SHIP funds.

If each and every one of the agreements, stipulations, conditions, and covenants of the Note and of this Mortgage are not fully performed, complied with and abided by, then the entire sum mentioned in the Note, and Mortgage, or the entire balance unpaid thereon, shall forthwith or thereafter, at the option of the Mortgagee become due and payable as program income, anything in the Note or Mortgage, to the contrary notwithstanding. Failure by Mortgagee to exercise any of the rights or options herein shall not constitute a waiver of any rights or options under the Note and Mortgage accrued or thereafter accruing.

Provided that, as provided in the Note, no payments shall be required under this Mortgage as long as the mortgaged property remains occupied by Mortgagor as Mortgagor's primary residence, and the mortgaged property is not conveyed, or transferred, leased, rented, subleased. Should the mortgaged property remain owner-occupied, primary residence of Mortgagor, and not conveyed, transferred, rented, leased or subleased for a period of ten(10) years, then this Mortgage shall be forgiven in full and released from the public records. Otherwise the entire amount shall become due and payable as program income.

#: 7

Duplicate Files Maintained

Issue: Many of the financial documents required and collected during the process are maintained in two separate files - one with the Financial Coordinator and the other with the CDS's project manager files. There is no logical reason for these documents to be duplicated and retained in two separate files.

Discussion and Background: CDS's are the assigned project managers for individual construction projects. The files they need are those that contain the documents relative to the construction process. They do perform some of the leg work, interface, between the Financial Coordinator and the homeowner and thereby retrieve some financial documents. However, the CDS's do not need to retain this info in their files. All financial documents have sensitive information of the homeowner, social security numbers, bank account information, etc. and this type of information should not go to the field with the CDS's.

It was noted that during the audit one file maintained by a CDS was found at the local Lowes store. The file evidently was taken to the store when the purchase of a refrigerator/stove was being made and mistakenly left at the store. A point is case for CDS's not retaining financial information in their construction management files.

Recommendation: Recommend all financial documentation relating to a construction project/homeowner be retained in one file under the control of the Financial Section. Recommend that all construction documents be retained in the CDS's construction project files.

Issue Risk: High

Issue Type: Process Ineffective

Management Comments: The practice of having duplicate files is being eliminated. Under the restructure hat will "outsource" the Construction Project Management to the Department of Growth Management. Project status will be maintained on the computer software utilized by the Building Services Building Inspectors and provided to the SHIP Home Repair Program Case Management staff on a daily basis. We arc looking at utilizing electronic case files and copies of documents as much as possible to streamline the operation and make access to information accessible to all staff in order to better serve applicants/clients. One file will be maintained in the Division of Housing & Community Development and the practice of carrying files that contain sensitive client information out of the office has been eliminated.

In the situation in which the file was mistakenly left at the store, the staff at the store recognized that County Staff had left it there by mistake and had already notified the H&CD Office that it was there and being held in a secure location. This situation is being handled internally with the staff responsible for this error.

Medium Risk or Medium Priority Issues:

#: 8

No prior decision made on structural or safety of project

Issue: No determination being made as to structural integrity or safety before a project is undertaken.

Discussion and Background: In discussions both with contractors and certain personnel, it was determined that sometimes a project is accepted for the SHIP program when the amount of resources allowed by the program is not sufficient to bring the house up to par due structural deficiencies and/or safety deficiencies. Therefore, sometimes projects are started and completed that do not correct the underlying deficiencies of the house.

Recommendation: Recommend that as a part of the needs assessment performed on a home before a project is accepted and work commences, an inspection of the home be performed by a certified building inspector to determine the structural integrity and safety of the home and the ability of the SHIP program to be able to correct known deficiencies. This process should not be performed by a contractor or SHIP personnel, but by a third party - a person from Growth Management's Building Inspection Division or through a contract with an outsourced third party would be preferred.

Issue Risk: Medium

Issue Type: Procedures not in Place

Management Comments: There are some **SHIP** Home Repair Program projects that we should, unfortunately, walk away from because the structures cannot be adequately repaired. It is very difficult to tell a person that the house that they have, usually, lived in for many years and that they have raised their children in, and experienced and had many good and sad memories in, isn't worth the money to fix. In previous issues we have described the "outsourcing" of many construction related functions to the Building Division of the Department of Growth Management. We will be implementing a process in which a Building Inspector from Growth Management will conduct an evaluation regarding the structural and safety aspects of every SHIP Home Repair Project. This will provide the SHIP Home Repair Program staff and the homeowner as well with a "3rd party" evaluation. If the Building Inspector determines that the structure is not safe we will not take it on as a repair project. We will instead let the homeowner know of the Home Replacement Program. In this program the homeowner's unsafe house will be demolished and a new one will be built to replace it.

#: 9

Construction Projects not started or completed timely

Issue: Construction projects not started or completed within allotted timeframe.

Discussion and Background: Research of project files show and interviews with personnel, contractors, and clients confirm that there are times when delays are experienced in both the start and completion dates allotted. SOP's indicate that construction is to be completed within 60 calendar days of notice of commencement date. This is not always occurring and clients experience move-in date delays and the projects experience increased costs due to higher temporary quarter and storage costs.

Files reviewed also show that delays in the start-up date of projects are experienced and paperwork (title work, mortgage, etc.) needs to be re-dated and completed by the client due to these delays.

The causes of these delays are due to several factors: Poor planning, poor coordination in finding temp. quarters/storage, missing or incomplete mortgage or other required paperwork, etc.

Recommendation: Recommend separation of the duties in determining financial eligibility/title/mortgage/etc. from the duties of managing the construction process. CDS's and CDC's should be more involved in project management and less involved in determining financial processes. CDS's/CDC's can be the legs for the financial process in helping to collect documents, but main the financial process should be in the financial section.

Recommend more frequent inspections/visits to constructions projects by CDS's & CDC. When a contractor fails to meet the required delivery date, except in extenuating circumstances, the contractor should be issued a cure notice. Appropriate actions should be taken to both punish the contractor for the delay and correct the delay. When differences in the specifications of materials used or substandard work is noted, appropriate cure notices should follow to correct the deficiencies. Without proper monitoring of the project by the CDS/CDC, projects will continue to experience many of the same shortfalls as they now experience. Preventive or on-the-spot and timely notice of a deficiency is easier corrected than after-the-fact claims.

Issue Risk: Medium

Issue Type: Policies Not Enforced

Management Comments: Usually the most common reason for the delay on a project start-up is the permitting process outside the County's Department of Growth Management. The Growth Management Department expedites permitting for the SHIP Home Repair Program routinely. When a delay does occur it quite often creates situation in which documents previously obtained that are "time sensitive" must be collected from the homeowners again. It is very frustrating to everyone involved. There are on occasions, other factors that delay project start-up. As outlined in other responses, the "out-sourcing" of

Construction Project Management to the Building Services Division of Growth Management will allow for the CDS's to focus more closely on the administrative case management. The actual construction monitoring will become less of a delaying factor. If there were any delays in project start-up that occurred because of an internal process, we are confident that the restructure of responsibilities will reduce, if not eliminate this concern,

#: 10

Inconsistent Response to Temp Storage/Quarters Needs

Issue: Inconsistent assessment of and response to client needs and occasional inappropriate services provided.

Discussion and Background: The current program allows that the contractors have 60 calendar days to perform their work - start (NOC) to completion (Notice of Occupancy). The program allows up to \$3000 to be spent for both temporary storage and temporary quarters for the client during the length of the project. There are two aspects of this finding: 1) Temporary storage; 2) Temporary Quarters.

Temp. Storage: A review of a sample of program files shows, and discussions with staff, contractors, and clients confirm, that a variety of sources to meet storage requirements are used. The guiding factor is generally the cost for temp storage. While the majority of projects are handled by providing temp storage at local mini-storage units, sometime pod type storage is provided. Some clients have friends and family that can assist the client in moving their items into storage. Other clients do not have this alternative and therefore, moving companies may be used but usually these companies are expensive and not considered a preferred option. At times Staff tries to find volunteers to provide moving and temp storage services. Volunteer organizations are not usually set-up to render the types of services needed due to individual clients' circumstances.

CDS's at times have trouble arranging for storage and temp quarters due to constrictions placed upon them to stay within budget and the lack of availability. Some clients' needs are not met for the same reasons.

Temp. Quarters: Program policies require clients to completely remove all personal property from their residence before construction can commence. Hence, the clients can not occupy their residence during the construction phase. Therefore, program staff provides temporary quarters for most clients. Some clients have friends or relatives that they can reside with until construction is completed. Most do not.

A review of files and interviews with clients, staff, and contractors show that different methods are used to provide temp quarters to clients in the program. Some local hotels with minor cooking facilities are used by staff. At other times, an apartment/house for short-term rental may be identified and used as temp quarters.

Not all clients have the same needs and therefore require special handling which may require arrangements. The program does not offer latitude to handle exceptions from the norm. The program allots a maximum of \$3,000 for temp storage and temp quarters for the construction period.

It was noted that one client was out of their home for six days and living in their car before temp quarters were found. In another case, a client lost a deposit they paid to reserve sufficient accommodations for her and a good sized dog and commencement of construction was delayed on this project.

Staff is somewhat constrained by the funding limits and availability of quarters to adequately respond to exceptions presented by non-normal clients. The program does not allow for subsistence payment to be made to friends or relatives for allowing clients to reside with them during construction. Most clients are elderly, disabled, and lack finances as do their friends/relatives.

Recommendation: Recommend more stringent guidelines be developed for providing temp storage and temporary quarters to clients. These guideline should take into consideration the needs and abilities of individual clients - elderly, disabled, no family/friends available, the location of the temp storage, etc. all need to be taken into consideration.

If the dollars allotted to temp storage and temp quarters is deemed insufficient, recommend increasing the allotted maximum to allow for better services and decreased frustration at all levels in the process.

Issue Risk: Medium

Issue Type: Process Inefficient

Management Comments: With the restructuring and shifting of Construction Project Management to Growth Management, the Community Development Specialist (CDS) will focus more on actual client/case management. Without the burden of the construction aspect of a project more of the CDS time will bc utilized in project planning, preparation and coordination to ensure that relocation and storage needs are identified and in place. While some clients would prefer to utilize family and friends to move their possessions, others as pointed out, do not have that resources. The SHIP Home Repair Program should have immediate access to vendors who can provide that service. One way to address this issue is to seek the services of several professional moving companies that can assist and provide storage as well. In some cases the clients would also prefer to stay with family, if possible during the construction phase. This is feasible in some situations and in others it is not.

In the Discussion and Background Section of this Issue it is stated, "It was noted that one client was out of their home for six days and living in their car before temp quarters were found." It is not known how this information was obtained or who made this allegation but when questioned about this the client advised our office that this is untrue and is willing to confirm that in writing as well as a personal interview.

Regarding the client who "lost a deposit they paid to reserve sufficient accommodations for her and a good sized dog and commencement of construction was delayed on this project." the client was interviewed and a somewhat different scenario was given by the client. The client did in fact have a large Weimaraner dog. The condominium complex that worked with Lake County to provide temporary relocation to clients did not accept large dogs. The client identified a small travel trailer in a mobile home park that was being rented on a monthly basis and without prior notification to staff, placed a \$150.00 cash deposit down to hold the unit. If staff had been provided prior notice we would have certainly intervened to avoid this charge to the client.

#: 11

Eligibility Requirements not Consistent

Issue: Eligibility requirements established by the LHAP are not consistent for all active programs and eligibility requirements are too open for interpretation.

Discussion and Background: Review of a sample of files shows that the criteria for establishing eligibility for acceptance into the SHIP program is written in such a manner that the criteria is too open to interpretation and appears to be inconsistently applied. The State uses HUD requirements Chapters 3 & 5 to train SHIP program personnel from around the state. A basic element of the HUD requirements is that eligibility is primarily based upon income of the applicants. All properties and income sources of an applicant is to be used to establish the income level of the applicant. One of the elements of income is property owned. Some counties have a maximum amount (dollar amount) of property that may be owned by an applicant in order to be accepted into the program, others do not. Lake County does not have such a criterion. In our search of Lake County records, we found persons who owned as many as eight other properties, and possibly more, with a combined Just Value of over \$250,000 who received assistance from the program. In addition, Lake County's LAHP does not specify which value and from where that value figure originates in order to determine the income level of an applicant. Of the files observed where multiple properties were owned by an applicant, the establishment of a maximum value ceiling of the property owned would have made a difference in accepting or rejecting an applicant. And depending on what value was used in the calculation, the current system may also have produced a different outcome. Defining the terms "Asset owned" and "Value of and Asset" is necessary to have a good, consistent start point on which to make value judgments.

Recommendation: Recommend that the LHAP be revised and the value of property owned by an applicant be more specifically defined. If appraised value, or just value, or assessed value, or other appropriate value is used, that value should be spelled out in the LHAP and applied consistently across all programs to determine eligibility.

Issue Risk: Medium

Issue Type: Process Ineffective

Management Comments: Eligibility requirements are consistent for all programs. We will conduct a thorough review, with the assistance of the Florida Housing Coalition to determine if rules as written could be interpreted or applied inconsistently by staff. We will also request technical assistance once the restructuring of the Division of Housing & Community Development is in place to ensure all staff members are trained in the application process and eligibility standards. Eligibility is based on income and property assessments. Lake County has always used the property appraiser's assessed value for property. The Local Housing Assistance Plan (LHAP) is approved first by the Affordable Housing Advisory Committee, the Lake County Board of County Commissioners, and finally the Florida Housing Finance Corporation. In the LHAP that Lake County currently operates under, it was decided not to place a maximum limit on assets that a family may have. However, all assets owned by a family are always considered in the calculation when determining the annual income of a family, which will determine the eligibility status. As previously stated, this LHAP was approved by the Affordable Housing Advisory Committee, the Board of County Commissioners and the Florida Housing Finance Committee. This being said, it is our intent to bring this issue to the Affordable Housing Committee as well as the Lake County Board of County Commissioners for discussion and direction regarding the maximum amount (dollar amount) of property that may be owned by an applicant in order to be accepted into the program.

The guidelines for calculating and determining annual income are outlined in HUD Handbook 4350.3, Chapter 5. These rules are very descriptive and leave no "open for interpretation" theory. The eligibility for acceptance is per the guidelines as outlined in HUD Handbook 4350.3, Chapter 5, the SHIP Rule as well as the LHAP and is consistently applied. We will request technical assistance from the Florida Housing Coalition to provide training to staff in the very near future to ensure staff is properly trained and skilled in the application and eligibility guidelines.

#: 12

No Threshold Established for Owned Property

Issue: There is no threshold established for determining or limiting the amount of property and its associated dollar value that a property may own and still qualify for assistance under the various programs (SHIP program).

Discussion and Background: It was noted during a review of several sample files that applicants accepted into the SHIP program owned several properties where the property value, or just value per county property records exceeded \$250,000. While the State of Florida and some other counties do not set or require a maximum level on properties owned by an applicant, it would seem common sense that some limits should be in-place. A person who owns over \$250,000, or \$500,000, or \$750,000, etc. in property should not be deemed in need of a zero percent, five year forgivable loan from tax payer money. The local LHAP is the document that sets the boundaries for each locally operated program within state guidelines. It would seem logical that the LHAP should contain both an income eligibility criteria and a maximum dollar value for property owned by an applicant in order to establish eligibility.

Recommendation: Recommend that the LHAP be revised to establish a maximum amount, dollar value, of property that may be owned by an applicant to the various programs (SHIP program).

Issue Risk: Medium

Issue Type: Process Ineffective

Management Comments: This is an approved program policy rather than an ineffective process. The decision to allow assets was not arbitrarily implemented by staff. It was reviewed and approved at some point in time by three different boards or committees. The Affordable Housing Advisory Committee, the Lake County Board of County Commissioners, and the Florida Housing Finance Corporation all reviewed and approved this policy. As outlined in the response regarding Issue #12 the guidelines for calculating income and assets is based on HUD rules and requirements. The specific rule is as follows:

4) Annual income also means amounts derived (during the 12-month period) from assets to which any member of the family has access.

Income based on asset valued is calculated at 2% of the value of the asset annually.

\$250,000 X 2% = \$5,000

\$500,000 X 2% = \$10,000

$$\$750,000 \times 2\% = \$15,000$$

We understand the issue of a homeowner that has significant assets being eligible for assistance under the SHIP Home Repair Program and based on the questions that have been expressed this policy will be reviewed for possible changes by the Affordable Housing Advisory Committee, The Board of County Commissioners and the Florida Housing Finance Corporation.

#: 13

LHAP not Specific in Determining Accountability of Past Assets

Issue: The LAHP contains no specific guidance on how assets owned and recently gotten rid of by applicants in order to meet income qualifications of the various programs (SHIP program) are handled.

Discussion and Background: The LHAP allows for the income qualifications of an applicant to be taken at a snapshot in time - as of a specific day. Per state guidelines as specified in HUD chapter 5, assets that are owned for up to two years past may be counted in the calculations in determining income eligibility for an applicant. This method takes away the potential that applicants can deed over to their relatives, a trust, etc. properties they owned in order to qualify to receive assistance.

Recommendation: Recommend the LHAP be revised to include HUD Chapter 5 requirements for inclusion of all assets owned by an applicant in the past, the timeframe to be determined locally, to be taken into consideration in the computation and eligibility requirements of the various programs (SHIP Program).

Issue Risk: Medium

Issue Type: Process Ineffective

Management Comments: As in the previous several issues this policy/practice will be brought to the Affordable Housing Advisory Committee and the Board of County Commissioners for discussion and direction.

#: 14

Inconsistent Application of BCC Policy

Issue: Not all SHIP program payments exceeding \$35,000 are going to the Board for approval before payment.

Discussion and Background: BCC purchasing policy requires all purchases or contracts or payments that exceed \$35,000 be brought to the Board for approval before payment. Review of a sample of files shows that some contractors do not submit intermittent draw requests during a project. Therefore, they submit one draw request at the conclusion of a project. Such draw requests exceed the \$35,000 payment amount established by the BCC. It is the custom of SHIP Program personnel to divide the total amount of the final draw request into two draws amounts. Therefore effectively negating a BCC review or approval of the total amount. This process is accomplished for the sake of expedience - to get the payment to the contractor faster since BCC approval may add up to two weeks until the final payment could be made.

Sometimes a contractor only puts in for one final draw in hopes that the BCC may ask questions about the project and problems experienced during the project may be discovered. However, this logic does not produce the results hoped for. It only delays the process. At other times a contractor only puts in for a single final draw due to the deep pockets of the particular contractor. These contractors do not want the added inconvenience of submitting more than one draw.

Based on the operational oversight observed and analysis performed, allowing for only one final draw results in a fewer number of inspections during the construction process and increases the potential for undiscovered problems until project completion.

Recommendation: Recommend that the current system of allowing up to four draws be continued but a minimal number of two draws be required. One draw should be mandated at the 50% completed level and the other at the 100% complete level - minimally. IA believes that requiring all four draws and associated inspection periods reduces the risk of hidden flaws and reduces the number of problems at the end of a project.

Issue Risk: Medium

Issue Type: Policies Not Enforced

Management Comments: This was an isolated issue that was created by a contractor who chose not to comply with the four-draw requirement which is outlined in Section 6 of the Construction Work Agreement with the Contractor. The correct process should have been to have this payment request before the Board of County Commissioners for approval. Since this incident the Board has approved the issuance of Administrative Purchase Orders, which was a recommendation of the Clerk's Auditor. Policy still requires the four draw payment system based upon completion of work. The outsourcing of the Project Construction Management will also provide a more effective way to monitor when a draw is required and if the required work has been completed.

#: 15

Use of Non-Conventional Construction Payment Process

Issue: SHIP, Tornado, or Hurricane Recovery projects do not use standard construction payment processes.

Discussion and Background: Normal industry standard, construction payment processes require that contractors put in for draws (payment requests) for completed progress during a construction project. A standard requirement is for retention to be withheld as a percentage of each draw. Retention is withheld to ensure that approximations of the completed work reported is correct and to ensure compliance with contractual agreements such as the use of specified materials, licensed workers, etc. In addition, retention is withheld in order to ensure that projects are completed on-time and that final punch lists items are corrected timely.

Current processes allow for contractors to receive final payment once a final inspection has occurred for the project. This final inspection is performed before the home owner has had an opportunity to test all the systems installed out - kicked the tires and taken a test drive so to speak.

A review of files and discussions with clients and contractors confirms that retention is not withheld on construction projects. In addition, clients and SHIP personnel report that punch lists deficiencies are not always corrected in a timely or satisfactory fashion. Some contractors are very good about responding to issues, while others are less than responsive and little to no action is taken. Clients report that some punch list deficiencies remain outstanding for two to three months after a project is completed and final payment made.

Little to no incentive is provided to problem contractors to timely respond to outstanding punch list items especially after they have received final payment.

Recommendation: Recommend that a percentage of each payment/draw be withheld as retention until the final inspection is performed and then recommend, at a minimum, that a portion of the retention be withheld until 30 days after the home owner has moved in and all punch list items are satisfactorily completed. SHIP personnel should act as mediators between the home owner and the contractor to determine what is satisfactory, per the contract, etc.

Issue Risk: Medium

Issue Type: Process Ineffective

Management Comments: The current procedure is that the final 25% draw is not paid until the items on the final punch list are corrected. Homeowners are required to sign off on all payment requests indicating that the work has been done. Contractors are required to provide the homeowners with the original manufactures warranties covering materials and equipment and the SHIP office with copies. This being said there could always be situations in which corrections made on punch list may have to be addressed again such as a door or window sticking or other relatively minor problem. The Contractor is required to provide follow up work for issue due to workmanship for a 12 month period after the project is officially completed. It is anticipated that with the outsourcing of the Construction Project Management of the SHIP Home Repair Program that material, equipment, and workmanship issues will be identified earlier in the process and addressed much more effectively.

#: 16

Not Following Standard Procurement Policies

Issue: Construction projects, refrigerators and stoves, landscape services, etc. are procured through non-standard contractual arrangement.

Discussion and Background:

There are two areas of concern with the procurement and contracting methods used in the SHIP program. The first issue is the payment method used for paying contractors. Current payments are performed by submitting a Direct Pay Request. The Direct Pay Request method is somewhat cumbersome as the dollar amounts may exceed the signature authority of the management and payment requests would need to go to the BCC for approval. This would add undue delays to the payment process.

Secondly, as funds allow, refrigerators, stoves, landscape services, etc. are provided to clients. SHIP personnel use their P-cards to procure these types of items. The County has standard term and supply contracts or other standard procurement avenues available to meet SHIP requirements. Therefore, SHIP personnel procure items outside of normal purchasing arrangements. These non-standard practices may result in higher prices, increased delivery costs, increased administration costs to the program, and increase the risk of preferential treatment or securing kickbacks. Approved term & supply contract vendors do accept p-cards as a payment method so efficiencies of using a p-card can still be achieved.

Recommendation: Recommend contractors be paid using administrative purchase orders procedures.

Recommend SHIP program purchases be made through authorized term and supply contracts or other available procurement processes and that any items/services recurrently needed by SHIP program personnel be procured through the Office of Procurement Services except for emergent supplies.

Issue Risk: Medium

Issue Type: Policies Not Enforced

Management Comments: As stated previously all payments are now done off of Administrative Purchase Orders. Items that are covered in authorized term and supply contracts or available through procurement processes will be done through the Office of Procurement Services.

Low Risk or Low Priority Issues:

#: 17

Payments made very timely

Issue: Payments for change orders/draws by contractors, and payments to vendors/contractors are made very timely.

Discussion and Background: Records show and discussions confirm that payments for change orders/draws by contractors are paid timely. Usually if SHIP personnel receive the draw request for payment by Tuesday of each week, the payment is issued by Friday of the same week. SHIP personnel go out of their way to expedite payments to contractors. Payments to other vendors are usually made by p-card.

Recommendation: None. The timelines of payment for construction work accomplished is about the best we've seen. SHIP personnel and Board Finance personnel communicate and coordinate very well in processing payments to contractors.

Issue Risk: Low

Issue Type:

Management Comments: This process works very well due to the effort by all. Finance Office personnel take those extra steps to work with the SHIP Home Repair Program. They recognize that a payment request is not "just a check to someone". In many cases these are small contractors and small businesses that depend on us to make payroll and pay their bills.

Thanks.

#: 18

Reviewed Fixed Asset Accountability Issue

Issue: None for Fixed Asset Oversight

Discussion and Background: IA reviewed the procedures the County has and is deployed in Community Services and found no instances of accountability issue with this program. Fixed Assets are accounted for & managed well.

Recommendation: None.

Issue Risk:

Issue Type:

Management Comments: None.

#: 19

Reviewed Vehicle Usage Issue

Issue: None for vehicle use.

Discussion and Background: The County's policy recently changed with regard to vehicle utilization. The SHIP program is in compliance with the new policy and only minor deviations were note. None of which would be classified as misuse or abuse of the current system.

Recommendation: None.

Issue Risk:

Issue Type:

Management Comments: None.

#: 20

Reviewed Cellular Phone Usage Issue

Issue: None for cellular phone usage.

Discussion and Background: The County recently changed its policy and procedures to bring the cellular phone program into compliance with IRS regulations. No instances were noted of any infractions of policy by SHIP personnel.

Recommendation: None.

Issue Risk:

Issue Type:

Management Comments: None.