

**CORPORATION TO DEVELOP  
COMMUNITIES OF TAMPA, INC.  
AUDIT 13-03  
MAY 3, 2016**



# CITY OF TAMPA

Bob Buckhorn, Mayor

Internal Audit Department

Christine Glover, Internal Audit Director

May 3, 2016

Honorable Bob Buckhorn  
Mayor, City of Tampa  
1 City Hall Plaza  
Tampa, Florida

RE: Corporation to Develop Communities (CDC) of Tampa, Inc. – Audit 13-03

Dear Mayor Buckhorn:

Attached is the Internal Audit Department's report on the CDC of Tampa.

CDC and the Housing and Community Development Division of Planning and Urban Development (HCD) have already taken positive actions in response to our recommendations. We thank the management and staff of both the CDC and the HCD for their cooperation and assistance during this audit.

Sincerely,

/s/ Christine Glover

Christine Glover  
Internal Audit Director

cc: Dennis Rogero, Chief of Staff  
Sonya Little, Chief Financial Officer  
Ernest M. Coney, President/CEO, CDC  
Bob McDonough, Administrator for Economic Opportunity  
Thomas Snelling, Director of Planning and Development

**CORPORATION TO DEVELOP COMMUNITIES OF TAMPA, INC.**

**AUDIT 13-03**

**MAY 3, 2016**

*/s/ Vivian N Walker*

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Auditor

*/s/ Christine Glover*

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Audit Director

**CORPORATION TO DEVELOP COMMUNITIES OF TAMPA  
AUDIT 13-03**

**BACKGROUND**

The Corporation to Develop Communities of Tampa, Inc. (CDC) is a non-profit 501(C) (3) whose mission is to “revitalize communities.” The City of Tampa partnered with the CDC in order to meet its obligation to fund a Community Housing Development Organization (CHDO), and in its effort to provide leadership to youth.

**STATEMENT OF OBJECTIVES**

This audit was conducted at the request of the City’s Administration and added to the Internal Audit Department's FY13 Audit Agenda. The objectives of this audit were to ensure that:

1. The CDC reimbursed the City of Tampa for all applicable property sales as required by Resolutions 2006-1089 and 2006-1096 (original Resolution 2005-1318).
2. The CDC properly qualified applicants for down payment assistance based on applicable Department of Housing and Urban Development (HUD) criteria as required by Resolution 2006-1096 (original Resolution 2005-1318).
3. The CDC complied with requirements for the creation and retention of jobs as required by Resolution 2010-70 (original Resolution 2005-1319).

**STATEMENT OF SCOPE**

Due to the nature of the grant issued, the audit scope included the initial agreement with the CDC for development and selling of property to low income applicants. The original resolution was signed September 29, 2005, and the affordability period for HUD can last up to 15 years. Therefore, this audit reviewed those activities included from the inception of the agreement with the CDC, through March 31, 2013.

**STATEMENT OF METHODOLOGY**

This audit included reviews of original records maintained by the CDC supporting the processing of applications for potential homeowners and documentation supporting compliance with the creation and retention of jobs.

Specifically, during this audit, files maintained by both the CDC and the City of Tampa’s Housing and Community Development Division were reviewed. These files were used in order to support that individuals receiving financial assistance qualified based on HUD income guidelines or jobs created were being performed by low-income individuals.

Additionally, in order to support compliance with the agreement, the Hillsborough County Property Appraiser’s website was reviewed to ensure that titles to the properties sold by the CDC were still recorded in the name of the initial applicant.

The only computer generated data used for this audit was obtained through the City of Tampa's Financial Accounting Management Information System (FAMIS), which has previously been assessed and deemed reliable.

### **STATEMENT OF AUDITING STANDARDS**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **AUDIT CONCLUSIONS**

Based upon the test work performed and the audit findings noted below, we conclude that:

1. The CDC had not developed and sold the subject properties as required by the agreement authorized by Resolution 2006-1089. Additionally, there had been no reversion of property titles back to the City of Tampa.
2. The CDC properly qualified applicants for down payment assistance based on applicable HUD criteria. However, the City of Tampa's Housing and Community Development Division could not provide adequate documentation to support the reimbursements received for the homes sold.
3. The CDC complied with requirements for the creation and retention of jobs.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Corporation to Develop Communities of Tampa, Inc., they do present risks that can be more effectively controlled.

## **IN-FILL HOUSING PROPERTY DEVELOPMENT AGREEMENT**

### **AUDIT ISSUE**

Pursuant to Resolution 2006-1089, the CDC failed to develop and sell certain properties within the stipulated timeline and ownership of the properties had not reverted back to the City of Tampa.

### **OBSERVATIONS**

On August 31, 2006, Tampa's City Council approved a Land Sales Agreement to have the CDC develop six vacant lots as part of an in-fill housing program in East Tampa. The lots were owned by the City of Tampa and deeded to the CDC for development and future sale. The agreement required the CDC to develop the lots within nine months from acquiring ownership from the City of Tampa. The sale to the CDC was recorded on November 22, 2006. The agreement indicated that if the properties were not developed within the timeframe stated, the "Purchaser shall reconvey the Properties back to the City at no additional cost." Therefore, as of August 2007, the properties should have been sold and appraised values of lots (which totaled \$87,500) remitted to City of Tampa or actions taken to reconvey the property back to the City of Tampa.

A review of the Hillsborough County Property Appraiser's website indicated that the six properties listed in Resolution 2006-1089 were still recorded in the name of Corporation to Develop Communities of Tampa. An October 2010 letter to the CDC was discovered in HCD's files that notified the CDC of the default; however, there was no explanation as to why there had been no transfer from the CDC back to the City.

### **CRITERIA**

Resolution 2006-1089, Land Sales Agreement, Section 2 (f), requires the CDC to develop the listed properties or reconvey them back to the City of Tampa within nine months.

### **RISK DESCRIPTION**

The City of Tampa, without regaining ownership of the property deeded to the CDC, could potentially lose revenue of any future sales of those lots.

### **RECOMMENDATION 1**

As indicated in the Housing Audit performed by the City of Tampa's Internal Audit Department (Audit 12-02, Housing Programs):

Management should develop a series of checklists to ensure all project monitoring activities required by its policies and procedures are documented and properly maintained in the file.

Additionally, whenever agreements require an entity to meet a deadline, there should be documented support of due diligence by the City of Tampa of ascertaining whether or not the requirements were met by the established deadline and any actions taken if they were not met.

MANAGEMENT'S RESPONSE – HOUSING AND COMMUNITY DEVELOPMENT

Agree with the recommendation. The three properties that were not developed were deeded back to the City on April 28, 2014. In addition, we have since developed a policy and procedure and a monitoring plan for all subrecipients. Contracts are monitored regularly. Property transfers now require that the recipient:

- a. Show proof of funding to complete the project
- b. Buyer for the property or a marketing plan
- c. Approved building plans and permits
- d. These must all be in place prior to the property being transferred. Once the transfer takes place the project is monitored to insure HUD Quality Standards are maintained and updates on marketing or the buyers financing are also required.

## **AFFORDABLE HOUSING CONSTRUCTION COSTS REIMBURSEMENT**

### **AUDIT ISSUE**

The City of Tampa's Housing and Community Development Division could not provide adequate documentation to support the reimbursements received for the homes sold.

### **OBSERVATIONS**

The City of Tampa entered into an agreement with the Corporation to Develop Communities (CDC) of Tampa to construct affordable housing units in the East Tampa Community Redevelopment Area. The original agreement (Resolution 2005-1318) was for the "construction of six affordable single-family homes" at a cost not to exceed \$560,893.80. However, in August 2006, the agreement was amended (Resolution 2006-1096) to add an additional 5 homes, increasing the total number to 11 for an amount not to exceed \$1,886,652.79. The following costs were to be reimbursed to the City upon the sale and closing on the constructed home:

- property acquisition and closing costs
- construction costs less any seller's closing costs
- construction costs less any funding to the buyer to make the home affordable

The 11 homes were sold between October 2007 and June 2014 and the City has received reimbursement. However, inadequate recordkeeping by both the CDC and HCD prevents verification and assurance that the reimbursement is in compliance with the requirements of the resolution. Subsequent to this audit there has been significant staff turnover at both the CDC and HCD, thus hindering the ability to glean any information from the historical knowledge of staff members.

### **CRITERIA**

Resolution 2006-1096 required reimbursement by the CDC of land acquisition and construction costs.

### **RISK DESCRIPTION**

Non-compliance could result in loss of revenues and ultimately a loss of funding to assist other citizens with housing needs.

### **RECOMMENDATION 2**

HCD Management should ensure that entities with which the City engages to provide services comply with the terms of the approved signed agreements. If there are any modifications to the terms, documentation should be maintained to support approval by the appropriate levels of Management.

### **MANAGEMENT'S RESPONSE – HOUSING AND COMMUNITY DEVELOPMENT**

Agree with the recommendation. HCD Policy and Procedure which have been improved outlines the process for contract management and monitoring of agreements to insure compliance. Technical assistance is provided through quarterly meetings with all not-for profits as well as on-site based on desk reviews. Contracts are managed by the Community Development Specialist II, whose work is monitored and reviewed by the Community



Development Coordinator. All payments are provided on a reimbursement basis and require the signature of the Community Development Coordinator and the Housing and Community Development Manager both of whom review the back-up detail for accuracy and contract compliance.

HCD recently completed a reorg and created a Housing Compliance Coordinator position to better monitor and reconcile HCD Financial transactions and a Housing Quality Specialist to monitor construction projects. The policies and procedures are being updated to include these two new additions who will provide an added level of controls. The Housing Compliance Coordinator (Hire date 1/19/16) reviews all payments and reimbursements to insure that all funds are accurately accounted.

## **AFFORDABLE HOUSING AGREEMENT**

### **AUDIT ISSUE**

The lots developed pursuant to Resolution 2006-1096 were not owned by the CDC at the time of sale, but a related party. Several land acquisition costs that were reimbursed at the closings did not appear to be at fair market value.

### **OBSERVATIONS**

The seller of the developed properties identified on the HUD-1 statements was an organization other than the CDC. Details of the land acquisition transactions indicated the lots were purchased by Belmont Heights Development. In reviewing the corporate documents for Belmont Heights Development and CDC, it was noted that the CDC is the sole member of Belmont Heights Development. Also, the CDC lists Belmont Heights Development on its 2011 Form 990 Schedule R - "Related Organizations and Unrelated Partnerships" as a Disregarded Entity.

The agreement signed by the CDC as the designated Community Housing Development Organization (CHDO) indicates it will "acquire vacant property for development of single-family housing." There is no mention of involvement by Belmont Heights Development (BHD) or a relationship between the two entities.

All properties used for the construction were purchased by and the named seller was BHD. Additionally, the funding provided was on behalf of the BHD, although the agreement required the acquisition to be by the CDC. A review of the sales history for each property disclosed that the CDC never held title. It was also noted that for three of the properties, the amount of the reimbursement was for \$30,000 each, when it appeared the fair market value was closer to \$5,000.

### **CRITERIA**

The agreement with the City of Tampa was with the Corporation to Develop Communities of Tampa, not Belmont Heights Development Company.

### **RISK DESCRIPTION**

The City could have lost revenue due to the lack of obligation by the owner of the land and subsequent seller of the property to reimburse the City of Tampa for land acquisition costs, since they were not the CDC.

### **RECOMMENDATION 3**

CDC Management should ensure arms-length transactions occur when entering agreements to obtain services for the City of Tampa.

As established by Ordinance 2010-153 and stated in Section 2-525 of City Code Chapter 2, management should ensure that non-profit partners maintains a policy that prohibits business transactions with for-profit organizations with which it is affiliated.

#### MANAGEMENT'S RESPONSE – CDC OF TAMPA

The CDC of Tampa acknowledges that it developed homes in Resolution 2006-1096 with the title of property remaining with Belmont Heights Development (which the CDC of Tampa is the sole member and owner). This is a best practice model followed by developers.

However, it must be stated that this was a 1 time event. *All CHDO transactions subsequent to this one (1) time event, have been in the name of the CDC of Tampa. The process of expressly naming the CDC of Tampa as developer will continue going forward, unless need arises and contractually documented by the City of Tampa.*

In regards to the value of the properties -

- The 11 lots were purchased by CDC of Tampa for a sum of \$120,000, with a private loan through Neighborhood Lending Partners.
  - Some of the lots (purchased) had duplexes on them, which gave them a higher acquisition price.
  - The lots were cleared to make them vacant lots.
  - The acquisition price for the City of Tampa (for the 11 homes) was based on the acquisition price and loan amount of \$120,000 for the CDC of Tampa.

#### RECOMMENDATION 4

HCD Management should develop guidelines for properties acquired to ensure the transactions are at arms-length and that a fair market value is paid to the seller.

#### MANAGEMENT'S RESPONSE – HOUSING AND COMMUNITY DEVELOPMENT

Agree with the recommendation. All property acquisitions are completed per the federal guidelines and a copy of an appraisal and/or sales contract is required as back-up documentation. With the addition of the Housing Compliance Coordinator and the Housing Quality Specialist (Hire date 2/15/16) additional updates to the policies and procedures are being made to provide for an added level of controls. One of the items noted in the audit was the establishment of the Belmont Heights Development which is a subsidiary solely owned by the CDC of Tampa. It is a common business practice in housing development to create an LLC for the project to limit liability. I contacted HUD to be sure that they were comfortable with the practice.