



HALLANDALE BEACH COMMUNITY REDEVELOPMENT AGENCY

MEMORANDUM

DATE: February 20, 2018

TO: HBCRA Board of Directors

FROM: Roger M. Carlton, CRA Executive Director

SUBJECT: HBCRA Financial Controls Updates

Background:

The Broward Office of the Inspector General

In January 2012, the Broward Office of the Inspector General (OIG) began an investigation into allegations that officials of the City of Hallandale Beach had mismanaged public funds entrusted into the care of the Hallandale Beach Community Redevelopment Agency (HBCRA). The OIG investigation found numerous instances of mismanagement that stemmed from institutional deficiencies in the establishment, organization, and function of the CRA. The OIG findings were as follows:

- Failure to establish the CRA Redevelopment Trust Fund (RTF)
- Failure to operate the CRA as a separate legal Entity
- Failure to generate detailed CRA plans
- Failure to maintain stable and empowered CRA staff and ensure compliance with Chapter 163, Part III.
- Numerous questionable CRA Expenditures
 - a) Multiple failures in charitable distribution of CRA funds
 - b) Mismanagement of CRA loan programs
 - c) Improper use of CRA funds to pay City Bonds

The OIG report also stated six (6) recommendations that the HBCRA should follow to comply with Florida Statue Chapter 163 part III. The recommendations were as follows:

1. The CRA should take considerable steps to ensure the retention of a stable CRA staff. Whether the CRA Executive Director duties remain with the City Manager or are again filled by an independent officer, the CRA should incorporate some level of independent management for CRA issues.
2. The CRA should avail itself of training designed to strengthen the understanding of FS. Chapter 163, Part III, its requirements, and its limitations on spending.
3. The CRA should reevaluate its current Community Partnership Grant program, which replaces the former charitable donation program, for compliance with FS. Chapter 163, Part III.
4. CRA staff must be empowered to ensure compliance with the requirements of FS. Chapter 163, Part III.
5. The City and the CRA should determine whether the current balance of the Redevelopment Trust Fund (RTF) accurately reflects the amount of funds due to the CRA and, if not, promptly effect reconciliation.
6. The CRA should diligently monitor the expenditure of funds.

HBCRA Comprehensive Annual Financial Reports

In 2012, the HBCRA established a separate RTF as required by FS. 163, Part III, and after that completed annual financial audits. From FY 12/13-FY 15/16, the HBCRA completed annual audits; all of which had numerous findings. Summary of findings for the Comprehensive Annual Financial Report (CAFR) are listed below:

2012 & 2013

- Material weakness reporting assets held for resale
- Significant Deficiency monitoring program loans
- Untimely reporting of annual report

2014

- Material weakness monitoring of loans programs; loan receivable
- Lack of performing timely bank reconciliations
- Lack of internal controls over financial close and reporting procedures

2015

- Material weakness in monitoring of loan programs; loan receivables
- Lack of performing timely bank reconciliations
- Improper recording of assets held for resale

In 2016, the HBCRA engaged the services Government & ERP Implementation Services "Firm" (Exhibit 1). The Firm did a comprehensive review of HBCRA operations, internal financial controls, and policies and procedures to provide findings and recommendations that would address the CAFR audit findings. The Firm's review of HBCRA operations revealed the following areas of concern:

- Recording of Assets
- Loans Receivable
- Reimbursement of Costs
- Capital Projects Costs

In addition to the primary areas of interest, the firm also made the following recommendations:

- The hiring of a fiscal operations manager that has accounting and budgeting experience;
- Establish frequent communication with finance personnel and;
- Establish month end procedures to complete bank reconciliations and balance sheet reconciliations.

In 2017, the HBCRA Board engaged the services of Foodman CPAs and Advisors in order to conduct a forensic audit of the HBCRA. This audit was authorized in order to determine if there had been fraud, waste and abuse from FY12/13 through 15/16. The primary finding of the report, which was released on January 23, 2018 indicates that the City could potentially owe the HBCRA \$11,098,110.

Current Situation:

HBCRA and City staff have been working diligently to address the concerns raised by the OIG and the Firm. To that end, the HBCRA has worked on a complete overhaul of its Standard Operating Procedures Manual (SOP). This process began in the summer of 2017 and was completed by the end of fall 2017. The primary focus of the update to the SOP's was the portion that adheres with the finance operation procedures. Below are some of the corrective actions taken by the HBCRA to date:

The Broward Office of the Inspector 2012 Report Corrective Actions

1. In 2017, the City of Hallandale Beach hired an Assistant City Manager, who oversees the daily operations of the HBCRA and staff. The hiring of the Assistant City Manager has improved staff retention of competent and diligent employees and created stability.
2. Currently, two of the four full-time HBCRA employees have completed the Florida Redevelopment Association (FRA) courses for certification as a Florida Redevelopment Association Professionals (FRA-RP). The remaining

two employees who also happen to be the finance personnel of the HBCRA, have already taken two of the five classes required for certification. Completion of the necessary coursework is anticipated by the end of Summer 2018. The certification of Staff shows that the HBCRA is committed to providing staff training to strengthen the understanding of Florida Statute Chapter 163, Part III.

3. On February 21, 2018, the City and HBCRA will present to the City Commission modified Community Partnership Grant guidelines which will create concrete deliverables, times frames, monitoring requirements, and enforcement mechanisms.
4. The HBCRA is committed to empowering staff to ensure compliance with the requirements of Florida Statute Chapter 163, Part III. Staff will continue to attend both FRA and Florida Governmental Finance Officers Association (FGOA) conferences to remain current with both Florida Statutes and Generally Accepted Accounting Principles (GAAP) respectively.
5. The HBCRA is up to date with its monthly financial reconciliations.
6. HBCRA finance staff diligently monitor the expenditures of funds and account for revenues.

Government & ERP Implementation Services Corrective Actions

1. Recording of Assets – In the past, the HBCRA relied on the City of Hallandale Beach to maintain records for land acquisition and disposition. The HBCRA is now responsible for maintaining the records for HBCRA land acquisition and disposition. Both HBCRA and City staff have established quarterly meetings to review any changes in the property records as it pertains to land acquisition and disposition. As a part of its ongoing commitment, HBCRA staff takes the lead on providing agenda items to the Finance Department as it relates to purchasing of assets.
2. Loans Receivable – In 2015, the HBCRA purchased and implemented a loan servicing software system, called AutoPal. To ensure accurate reporting, HBCRA understands that when funds are being disbursed the loan should be recorded immediately. HBCRA staff maintains quarterly verification of loans in accordance with the Broward County Property Appraiser's report in order to review property ownership for residential loans, and active status for commercial loans. HBCRA has also engaged the services of NCS Plus, a collection agency to assist with delinquent loans, if necessary the HBCRA Board will be requested at times to write off bad debt.

3. Reimbursement of Costs – HBCRA is currently processing both the payroll benefit expenses and Interlocal Agreement (ILA) payments on a quarterly basis. HBCRA has also established concrete deliverables for the Interlocal Agreements with the City, such as quarterly reports to ensure funds that are being disbursed properly and can be accounted for accurately.
4. Capital Project Costs – HBCRA staff conducts a monthly analysis of the budget. As a part of the analysis, a Budget-To-Actual report is created to assist with the review of financials pertaining to all CRA funded capital projects. These reports are presented to the HBCRA Board at the monthly meeting for review.
5. In general, greater attention is paid to timely processing of grants and ensuring implementation and execution of proposed projects.

In conclusion, the HBCRA has made a strong commitment to financial transparency and accountability. HBCRA staff led by its finance team have made tremendous strides in correcting issues from the past. Below are a few of the items that HBCRA staff are currently working on:

- Quarterly ILA/MOU Payments based on Actual Performance rather than Annual "True-ups"
- Weekly Check/Cash Deposits
- Implementation of a Loan Servicing Software
- Quarterly meeting with the Finance Department Regarding List of Assets Held for Resale
- Monthly Bank Reconciliations
- Monthly Payroll Benefits Reimbursements
- Timely Journal Entries After Deposits
- Proper Documentation of all Invoice Payments and Journals
- Monthly Financial Report presented to the Board
- Monthly Budget Analysis
- Financial Review of CRA Programs
- Creation of Stringent HBCRA Financial Controls

As a part of this ongoing commitment to GAAP and compliance with Florida Statute 163 part III, the HBCRA will continue to evaluate, monitor and implement changes to its financial operations, policies and procedures frequently; and take whatever actions are necessary in order to ensure a fiscally strong Agency.

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| Attachment(s): |
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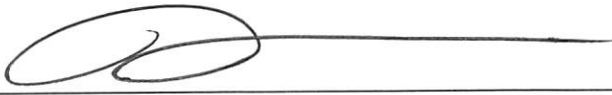
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| Exhibit 1 – Analysis Performed by Government & ERP Implementation Services Exhibit 2 – Standard Operating Procedures (SOP) Exhibit 3 – 2012 OIG Report |
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