



Internal Audit Department

Interim Report 2011 – 5B

Housing, Human & Veteran Services

**Neighborhood Stabilization Program
Property Review: 3870 4th Ave NE**

September 2011

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BACKGROUND

Based upon issues cited with pay requests related to 3404 Seminole Ave in June 2011 (as detailed in Audit Report 2011-5A), another property was chosen at random for further review by Internal Audit. On June 20, 2011, pay requests for 95% completion of Neighborhood Stabilization Program (NSP*) property located at 3870 4th Ave NE from Vincent Raymer, GC (the Contractor) were submitted by Housing, Human & Veteran Service (HHVS) to Clerk's Finance for payment; pay requests for this property were pulled for audit testing.

Internal Audit performed a physical inspection of the home to document the condition and progress of work performed by the Contractor. This rehabilitation property is located in a remote area of Golden Gate Estates in Naples, FL. To-date, the rehabilitation of the home is incomplete and the home is currently vacant.

*NSP grant funds are for the purpose of purchasing and rehabilitating foreclosed residential properties for subsequent resale to income-qualified families.

SUMMARY

After completing a field visit to the property and comparing the pay requests to the work completed on the home, the following issues were noted:

- The Contractor submitted invoices for incomplete work stated to be 100% complete.
- County Housing staff approved pay requests for incomplete work attesting to be 100% complete.
- Some items apparently stolen from the property (A/C compressor, handler and water heater) were not reported for approximately 5 months after they were last seen on site and the Contractor stated other items (ceiling fan, well and pool equipment) were missing that were not cited in the police report.
- Duplication of pool services found with another contractor for the same property.

County staff submitted payment requests to the Clerk's office for rehabilitation work on this property without apparently having first performed a thorough site inspection, which is an integral control in the payment approval process. As a consequence, the Contractor would have been paid for incomplete work if Internal Audit had not inspected the property and found the discrepancies between the invoices submitted and the actual work performed.

SCOPE

The interim review consisted of the following tasks:

- Compiling files and information from county Housing staff, the Clerk's Finance Department and documents available in county public records;
- Site visits on 6/24/2011 and 7/20/2011 to the property including photo documentation;
- Interviewing county Housing staff and the Contractor;
- Comparing details of work within bid specifications to actual work performed by the Contractor;
- Comparing work performed by the Contractor to pay request details;
- Reviewing video of the 7/26/2011 BCC meeting related to the most recent change order (#4) for the property (item 10E);
- Review of BCC Resolutions 2009-81 and 2011-110 (repealed and replaced Resolution 2009-81).

An interim audit report is issued for the purpose of making management immediately aware of issues cited by Internal Audit so that measures can be taken to promptly address the audit observations. Further findings may be discovered and incorporated into a subsequent final audit report.

OBSERVATIONS

1) The Contractor requested payment for incomplete work.

The following items were stated to be 100% complete by the Contractor and were requested for full payment and approved by HHVS staff without the work having been completed, as observed during physical inspection of the property by Internal Audit:

a) Exterior Entry Door Repairs \$900

- **Per bid specification #1:** Front Door: Complete the finish work at front door exterior, insulate, caulk, and stucco patch as needed. Replace weather strip, bug sweep, and replace lockset and deadbolt, both keyed alike.
- **Per physical inspection:** Finish work, weather strip, bug sweep and replacement of lockset and deadbolt incomplete.
- **Per Contractor (7/27/2011):** Agreed that the weather strip was incomplete.



b) Miscellaneous Repairs \$730

- **Per bid specification #5:**
 - i. Exterior: Remove debris from perimeter to include wood, paper, glass, plastic, paint bucket, etc.
 - ii. At kitchen sink base: install new white melamine type board caulked in place
 - iii. Both bathrooms: re-grout/re-caulk tub/shower surround
 - iv. Mailbox post: install new mailbox with post, include numbers on mailbox door or side
- **Per physical inspection:** Debris not removed, melamine not installed, caulk and grout incomplete, mailbox and post not installed.
- **Per Contractor (7/27/2011):** Agreed kitchen sink base was not installed or caulked, tub re-grout incomplete and mailbox not installed.



c) **Minor Electrical and Low Voltage \$1,635**

• **Per bid specification #6:**

- i. Exterior: install 2 basic coach lights at front elevation, 1 wall light at left elevation by side door, 1 weather-proof cover at GFCI outlet and 1 exterior flush mount ceiling fixture at rear porch, replace 1 broken wall light with globe.
- ii. Kitchen: replace range hood with similar ducted white unit
- iii. Living/Family Room: replace ceiling fan with similar, check circuit
- iv. Master Bedroom: install black ceiling fan from garage in master bedroom
- v. Laundry Room: replace dryer outlet with new 4-prong outlet (include wiring as needed)

- **Per physical inspection:** Coach lights missing, range hood not installed, no ceiling fan in living room or master bedroom (black fan from garage said to be stolen according to Contractor, but not on police report), dryer outlet not replaced.

- **Per Contractor (7/27/2011):** Agreed exterior work was not done, 2 coach lights not installed but stated they were intentionally not installed due to concerns of theft and offered to install them right away.



d) **Minor Plumbing \$2,080**

• **Per bid specification #7:**

- i. Kitchen: replace sink, faucet with sprayer, shut off valves, hoses and waste drain
- ii. Garage: install new 40 gallon water heater, necessary plumbing/electrical connections, drain tube, and drip pan underneath. Use Energy Star or most efficient model.

- **Per physical inspection:** Sink sitting on the floor, water heater not installed and said to be: 1) stolen according to the police report [see *Observation #3 on page 7: Items Reported Stolen*] and 2) new replacement stored off site by the Contractor for installation at a later time.

- **Per Contractor (7/27/2011):** Recognized that kitchen sink was not yet installed but stated those items are normally installed as the project finishes.



e) **Water System Repairs \$3,500**

- **Per bid specification #11:** Reinstall complete new exterior water system to include any pump(s), salt and/or potassium tanks, tannin tank(s), sand filters, non-aerator tank tape system, hoses, minor electrical components/connections etc., for a complete new system to operate as originally designed. Also: at well-head, repair vandalism damage to electrical and water line connections.
- **Per physical inspection:** Water system incomplete, equipment not installed or observed on site.



f) **Pool and Deck Repairs/Service \$2,500**

- **Per bid specification #12:** Return pool to healthy serviceable condition. Hire pool sub-contractor to clean and sanitize pool. Make repairs to pool finish, reconnect plumbing, perform leak test, seal any leaks, include repairs/replacing of all unserviceable or missing pool equipment, install new filter in order to return pool to serviceable state. Chlorinate pool as needed. At pool deck; remove all dirt, debris, weeds. Return pool deck to like new condition. Provide 6 months of pool service and cleaning in writing, from date of project award, transferable to the future homeowner.
- **Per physical inspection:** Pool not in serviceable condition, pool equipment missing, sub-contractor never hired by Contractor, weeds abundant in pool deck area.
- **Per Contractor (7/27/2011):** Stated the work was complete but after seeing photos, agreed pool work was not done according to bid specs.



g) **Property Maintenance & Security \$900**

- **Per bid specification #14:** Provide monthly service consisting of the following for bi-weekly visits: ensure all windows, doors and garage door if applicable are secured, lights turned off, inspect for and immediately report vandalism to HHS, run water at plumbing fixtures for 5 minutes, flush toilets, check for leaks throughout, ensure exterior of property is neat and free of litter/debris, all for 6 months from date of award letter.
- **Per physical inspection:** Items were vandalized (sliding glass doors) and stolen (A/C unit, water heater, fan in garage) while Contractor was performing rehabilitation work, exterior of property contained several litter items (plastic water bottles, an old toilet, pieces of wood and metal from construction). [See Observation #3 on page 7: Items reported stolen]



According to the Contractor in an in-person discussion on 7/27/2011 with Internal Audit, he agreed that several items that were billed as complete were in fact not finished. However, he did believe that the items that were not finished were “nitpicking” in his opinion and that his intent was not to defraud anyone. He stated that the billing process and work completed is a “give and take” with Housing.

Recommendations:

- Contractors should be made clearly aware that billing for incomplete work can be construed as a fraudulent act and can put them in jeopardy of losing the ability to be awarded future jobs with the county, losing their contractor’s license and/or criminal prosecution.
- Work must be completed prior to billing according to the bid specifications.
- Equipment purchased with Federal, State and/or County funds should be secured by the county and not stored for future installation or use by any third party, including the private contractor. Payment cannot be made to a contractor for any items stored pursuant to the contract, work must be complete.

Management Response:

Agree with recommendations. HHVS management will meet with all contractors involved and make them clearly aware that billing for incomplete work will no longer be tolerated. Accordingly, HHVS will take additional measures to assure that work is completed prior to billing and that it is according to the bid specifications and the contract terms. The primary procedural change is to require photos of the components of work being invoiced. Finally, we agree to add a new component in our review of invoices to assure that appropriate inspections for the work being invoiced have been completed. Effective immediately, HHVS will not submit requests for payment for any items stored for future installation and agree that work must be complete prior to billing.

2) County Housing Staff approved payment for incomplete work.

The HHVS Project Manager and Housing Development Manager both signed affidavits attesting to 100% completion of all work submitted by the Contractor. The observations noted by Internal Audit during our inspections of the property would not have led us to conclude the work billed was complete, indicating either a lack of an inspection or a poor inspection of the work by the Project Manager. As indicated on one of the forms required by HHVS for payment authorization, “This Disbursement Authorization certifies that the above referenced Vendor is a participant in Collier County’s affordable housing program and has performed rehabilitation work as specified in the attached invoice. A site inspection was conducted and payment is approved for the following project.”

A thorough inspection of the property, before the payment requests totaling \$27,667 were approved and submitted to Finance, was required as part of the controls in place to prevent and detect false billing by contractors. Management approval of pay requests without sufficient evidence of work having been properly completed is non-compliant with Federal, State and County regulations and guidelines.

Recommendations:

- Project Managers must thoroughly inspect all work prior to authorizing any payment requests; signing such statements without having performed a sufficient inspection is considered a misrepresentation of facts and falsification of official records.
- Photographic evidence of all items completed to support both the progress of work and payment requests submitted by contractors is highly advisable. The second signatory on the pay requests should, at a minimum, utilize the photos as evidence of work completed and inspection of the property by the Project Manager in order to validly attest to the completion of work and legality of the pay request.
- The Clerk's office will require evidence of such inspections having been performed; photos of completed work being billed by the contractor and approved by HHVS should be included in the documentation submitted to Finance beginning immediately.

Management Response:

Agree with recommendations. Beginning immediately, HHVS will take additional measures to assure that work is completed prior to billing and that it is according to the bid specifications and the contract terms. The primary procedural change is to require photos of the components of work being invoiced. The second signatory will utilize these photographs and proofs of inspections as evidence on every request for payment, and also, periodically, will perform unscheduled site inspections to further verify. Finally, we agree to add a new component in our review of invoices to assure that appropriate inspections for the work being invoiced have been completed.

Internal Audit Response:

Per our discussion with Management, to further clarify the "new component" referenced in Management's response, the inspections are understood to be trade reviews; we feel this is an excellent addition to Housing's invoice approval process.

3) Items reported stolen after approximately 5 months from date last seen on property.

On 6/7/2011, the Project Manager reported to the Sheriff's Office that the air conditioning unit, air handler and hot water heater were stolen from the property. It was stated in the report, and verified in a separate conversation with the Contractor, that the items were thought to have been stolen around January of 2011, approximately 5 months prior to filing the report with the Sheriff's Office. The well and pool equipment are also currently missing and the sliding glass doors were vandalized at some point, but none of these items were reported to HHVS or the Sheriff's Office as stolen/vandalized.

The Contractor was obligated to report any items thought to be stolen or vandalized immediately to HHVS staff for follow-up as stated in item #14 in the bid specifications. It is unknown why the Contractor and/or Project Manager delayed reporting the selected items as stolen. In change order #4 submitted by HHVS staff to the BCC for approval on 7/26/2011 (item 10E), the A/C and glass door repairs were included as items needing to be replaced. The additional costs in the change order of \$6,661 were approved by the BCC.

Recommendation:

- As a general best practice and to comply with contract terms, if items are observed to be stolen or vandalized, an immediate report by the Contractor or the Project Manager should be made to the Sheriff's Office and a copy of the report placed in HHVS files.

Management Response:

Agree with recommendation. Going forward, should an item be observed to be stolen or vandalized a report will be made immediately either by the Contractor or the Project Manager to the Sheriff's Office and a copy will be retained in the HHVS files.

4) Duplication of pool services found with another contractor for same property.

It was discovered that an award for pool maintenance services for 5 NSP properties was made to Care-Free Pools on 7/12/2011; one of the properties included in the project maintenance scope is the property in this report. The bid award includes an initial service cost of \$800 for the initial cleaning and project start-up costs before regular maintenance of the pool can begin at \$37.50 per bi-weekly visit. This service was required to be performed by the original rehabilitation Contractor (bid spec item #12) and was billed as complete even though it does not appear to have ever been completed. Care-Free Pools was to have begun the work on all 5 properties by July 19; subsequent visits to the property have been made by Internal Audit and the work had yet to proceed.

The purchase order total of \$7,963 was issued on 7/12/2011 citing Resolution 2009-81 as the authority for the services. Resolution 2009-81 is for acquisition and rehabilitation of NSP properties but is used in the context of the PO as the authority for ongoing property maintenance agreements. Further, it was repealed and replaced by Resolution 2011-110 by vote of the BCC on 6/28/2011 (agenda item #16D9) and therefore 2009-81 was no longer a valid citation in the PO issued to the pool contractor.

Recommendations:

- The Contractor should have the corresponding pool maintenance costs removed from his original bid if Care-Free Pools will now be performing the work.
- Two contractors cannot be paid for the same service and due care should be taken by HHVS staff to not award duplicate contracts for work included in another active contract.
- Resolution 2011-110 should be clarified to include all related contracts if that is the intent of the BCC.

Management Response:

Agree that the same service cannot be performed by two different contractors. The intent was to have continuing service already available after the expiration of the contractor's obligation. Since the contractor's obligation has not been met, and the contract for Care-Free Pools provides for flexibility in which services are actually provided, to date no services have been provided by Care-Free Pools for the questioned address.

Regarding the reference to the resolutions, neither of these resolutions should have been referenced in relation to this contract; it was simply an error to have been referenced.

CONCLUSION

Until line items from the bid specifications are completed by the contractor, inspected by the Project Manager and verified by HHVS management, payment requests should not be approved or forwarded to the Clerk's Office for payment. The Clerk's Office cannot process invoices for payment where the work is not verified as completed in accordance with the contract and the bid specifications.

It is the responsibility of management to understand and implement the proper process and procedural controls to limit the risk of fraud and misappropriation of county assets. When these controls are circumvented, it is possible that payment requests forwarded to the Clerk are not legally sufficient to pay. The Clerk's Office may suggest recommendations in audit reports, but it is the decision of management to formulate compliant ways of implementing controls.

As a result of the issues noted for this property, the Clerk's Internal Audit Department has increased the scope of review to include inspections of all NSP rehabilitation properties actively held in inventory by the County.

Additional Management Comments:

It is the position of the management at Collier County to comply 100% with the recommendations made in this audit, and the management team remains committed to vast improvement of the internal business processes and controls over these functions. Management is taking proactive measures to make sure these do not reoccur and will maintain a zero tolerance policy in these regards. Once again, we appreciate the work and effort undertaken by the Clerk of Courts staff and volunteers to bring these issues to our attention and we appreciate the posture to work together to resolve the issues.