



**Hillsborough
County** Florida

Board of County Commissioners
County Internal Auditor's Office
Code Enforcement Department
Foreclosure Property Registration Contract Compliance

Report # 2020-10
July 15, 2020



**Hillsborough
County Florida**

County Internal Auditor

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TO: Board of County Commissioners

FROM: Peggy Caskey, County Internal Auditor

DATE: July 15, 2020

SUBJECT: Foreclosure Property Registration Contract Compliance, Audit Report No. 2020-10

The Audit Team performed a performance audit of the Code Enforcement Department's foreclosure property registration contract activities.

The purpose of this Report is to provide management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. As such, this Report is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

I appreciate the cooperation and professional courtesies extended to the Audit Team. The County Administrator gave the Audit Team full, free, and unrestricted access to all applicable activities, records, property, and personnel necessary to accomplish the stated objective of this audit engagement. Personnel also provided necessary assistance for the Audit Team to effectively perform the audit in an efficient manner.

Sincerely,

Peggy Caskey, CIA, CISA, CFE

County Internal Auditor

CC: Dexter Barge, Assistant County Administrator
Christine Beck, County Attorney
Joe Gross, Director of Code Enforcement
Greg Horwedel, Deputy County Administrator
Bonnie Wise, County Administrator

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EXECUTIVE SUMMARY

Pursuant to the 2019 Audit Plan, the County Internal Auditor's Office conducted a performance audit of the Code Enforcement Department's foreclosure property registration contract activities.

The audit was performed to determine if the external vendor adequately complied with the terms of its foreclosure property registration contract and that the Code Enforcement Department's contract management activities were adequately designed and performed to minimize the likelihood of errors or abuse.

OVERALL OPINION

It is the County Internal Auditor's overall opinion that the foreclosure property registration contract activities are at a formal control maturity level (level 3 out of possible 5). Controls are established with policy structure and an overall existence of control awareness. Control gaps are detected and remediated timely. Performance monitoring is relatively new, placing a greater reliance on the diligence of personnel and independent audits.

The Audit Team's analysis did not discover any material concerns. Other minor concerns, that may have been identified and not included in this Report, were communicated to management and/or corrected during fieldwork.

The exit conference was held on June 05, 2020.

AUDITED BY

Peggy Caskey, CIA, CISA, CFE, County Internal Auditor

Michelle Ferreiro, CPA, Senior Internal Auditor

Melinda Jenzarli, CIA, CISA, CFE, CPA, MBA, Lead Internal Auditor

BACKGROUND INFORMATION

In April 2019, under guidance of Ordinance 18-33, the County contracted with Property Registrations Champions, LLC doing business as ProChamps to:

- Identify and verify foreclosed properties.
- Provide registration of foreclosed properties.
- Administer and maintain foreclosed property records.
- Collect code enforcement fees related to these properties.

In July 2019, the County implemented updated contract payment terms:

- ProChamps is required to remit (bi-monthly) all foreclosure property registration and late fees collected to Hillsborough County via direct deposit and submit a remittance report detailing which registrants made payment as well as an invoice for the cost of its services (50% of the proceeds collected during the prior month).
- The County is required to remit payment to ProChamps within 10 business days of the invoice date.

AUDIT OBJECTIVE

The audit objectives were to:

- determine whether ProChamps complied with the terms with its foreclosure property registration contract with the County; and
- determine the maturity level of the Code Enforcement Department's contract management activities directly related to the ProChamps foreclosure property registration contract.

APPROACH

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that the County Internal Auditor's Office plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. The County Internal Auditor believes that the evidence obtained provides this reasonable basis.

SCOPE

The Audit Team performed vendor compliance (activities performed from January 2018 to June 2019) and contract management (activities performed from May 2019 to June 2019) testing on activities related to the April 2019 contract.

As a business partner, from May 2019 to December 2019, the Audit Team provided advisory services to assist ProChamps and management of the audited area with building upon the contract compliance and contract management activities control environment already in place.

POSITIVE ATTRIBUTE

In 2017, the Code Enforcement Department launched Operation Code Vet to help military veterans whose homes or properties had fallen into despair. Operation Code Vet partners with various agencies, non-for-profit organizations, and businesses to provide the resources necessary to assist military veterans with alleviating home or yard violations that would otherwise lead to citations and fines.

AUDIT COMMENTS

Audit Comment 1 – Vendor Contract Compliance Activities

AUDIT COMMENT

The Audit Team reviewed ProChamps' foreclosure property registration contract compliance activities performed between January 01, 2018, and June 30, 2019. During the audit fieldwork stage, both Code Enforcement and the Audit Team identified a delay in ProChamps' payment for registered foreclosure properties. Management remediated the discrepancies as of November 30, 2019.

DISCUSSION

In April 2019, Hillsborough County awarded a three-year contract to ProChamps to provide the registration, administration, and payment of properties in foreclosure throughout unincorporated Hillsborough County. Outlined below, are some of the contract's minimum requirements:

- Create and maintain an electronic database of searchable foreclosed properties.
- Identify and verify foreclosed properties.
- Provide registration of foreclosed properties.
- Administer and maintain foreclosed property records.
- Collect code enforcement fees related to these properties.
- Remit 100% of the registration fees collected to Hillsborough County.

The foreclosure registration process begins with the lis pendens. A lis pendens is a recorded document that gives notice that a home is subject to a pending legal action, such as judicial foreclosure. Recording a lis pendens with the County and providing it to the borrower begins the judicial foreclosure process in which the lender will repossess the home.

AUDIT PROCEDURES

The Audit Team selected a random sample of 30 properties from the total population of 170 unincorporated properties registered between January 01, 2018, and June 30, 2019.

For each of the sample items the Audit Team tested ProChamps compliance with the following contract terms:

ProChamps April 2019 Contract Minimal Requirements	Attributes Tested By The Audit Team
<p>§1.3.2 - §1.3.7 ProChamps maintained a database for each registration.</p>	<p>Create and maintain an electronic database of searchable foreclosed properties; and identify and verify foreclosed properties; and provide registration of foreclosed properties; and administer and maintain foreclosed property records.</p> <p>Verified that foreclosure property registration was included in ProChamps' database.</p> <ul style="list-style-type: none"> • Lis pendens included in ProChamps database. (Date foreclosure property registered within ProChamps database.)
<p>§1.3.8 ProChamps shall collect all registration fees.</p>	<p>Collect code enforcement fees related to these properties.</p> <p>Validity of registration fee(s) assessed and received from ProChamps, including applicable late fee(s).</p> <ul style="list-style-type: none"> • \$200 registration fee every 6 months (bi-annually). • Applicable \$25 late fee <ul style="list-style-type: none"> ◦ If, property not registered within 10 days of lis pendens. ◦ If, registration fee not paid with 30 days of lis pendens filing. ◦ If, registration renewal not paid within 6 months (bi-annually). • Payment receipt date and amount (registration, renewal or late fee paid, as applicable). • Payment type (credit card, check, etc.).
<p>§1.3.8 ProChamps shall transfer all fees monthly with matching and substantiating property records to the County in a format acceptable to the County.</p> <p>§1.3.16. ProChamps shall remit 100% of each registration fee collected to Hillsborough County by the 1st of the month after the fee was received. Contractor shall submit an invoice to Hillsborough County by the 15th of each month for services rendered and accept Hillsborough County's terms for payment of said invoice. Contractor shall receive no more than 50% of each \$200 registration fee collected as compensation. Contractor shall receive no more than 50% of each \$25 registration late fee collected as compensation.</p>	<p>Remit 100% of the registration fees collected to Hillsborough County.</p> <p>Completeness and timeliness of funds remitted to the County.</p> <ul style="list-style-type: none"> • Payment amounts included on remittance. ProChamps remitted funds to the County.

RESULTS

Code Enforcement's contract management activities identified a delay in ProChamps' payment for foreclosed properties that had been recorded as paid in the property registration database under a deferred payment plan. ProChamps' deferred payment plan option offered property registrants the ability to "promise to pay" at a date later than required by the contract. The deferred payment plan was offered to registrants without Hillsborough County's knowledge and authorization. The plan was not in compliance with Ordinance 18-33. As a business partner, the

Audit Team attended discussions between Code Enforcement and ProChamps. On November 30, 2019, ProChamps ceased offering the deferred payment plan.

Audit testing concluded that 53% of the sample items tested were paid using the ProChamps' deferred payment plan. The Audit Team did not identify any additional material deviations from the ProChamps contract terms and conditions.

RECOMMENDATION

None

MANAGEMENT RESPONSE

None

Audit Comment 2 – Contract Management Activities

AUDIT COMMENT

The Audit Team reviewed the Code Enforcement Department's contract management activities between May 2019 and June 2019. During the audit fieldwork, both Code Enforcement and the Audit Team identified a delay in ProChamps' payment for registered foreclosure properties. Management remediated the discrepancies as of November 30, 2019.

DISCUSSION

Beginning with the May 31, 2019, ProChamps invoice and remittance, the Department performed activities under the newly implemented ProChamps Remittance Verification Policy #CEP-240. The Policy established verification procedures designed to ensure accurate invoices for the services provided.

The Policy states that,

"ProChamps is the third-party vendor contracted by the Department to maintain a database of properties in foreclosure in unincorporated Hillsborough County. The registration process includes a fee every 6 months, identification of responsible parties by the registrant to include but not limited to the mortgagee, mortgage servicer, and property manager, and maintenance of a database available to the County to store and access the information above. As of June 2019, ProChamps shall remit all fees collected to Hillsborough County via direct deposit and submit a remittance report detailing which registrants made payment as well as an invoice for the cost of their services."

As part of the Department's contract management activities, personnel are required to: review ProChamps' remittance receipt, supporting details, and the invoice for accuracy. Any discrepancies identified are to be documented and communicated to the Department's management. As deemed necessary, a meeting may be held with ProChamps representatives to discuss and rectify the discrepancies. Once the discrepancies are resolved, management approves the remittance receipt and invoice which are then forwarded to the Clerk of Circuit Court's Finance Department. The Finance Department uploads the supporting documentation for the revenue and submits payment to ProChamps for the invoiced amount.

Contract management activities

The Audit Team selected a sample of the first two ProChamps remittances: May 31, 2019, and June 15, 2019. The corresponding remittance receipts, supporting details, and invoices were tested. The Audit Team validated that the Department's contract management activities were performed in conformance with the ProChamps Remittance Verification Policy #CEP-240.

County Internal Auditor's Office advisory services

As a business partner, from May through December 2019, the Audit Team provided advisory services to assist ProChamps and management of the audited area with building upon the contract compliance and contract management activities control environment already in place.

RESULTS

During fieldwork, management implemented design enhancements to the contract management control environment. By the end of fieldwork (December 2019), the Audit Team determined that the control environment was well designed.

Test results for the May 31st and June 15th ProChamps remittances indicate that the Department's personnel adequately performed contract management activities. The activities complied with the ProChamps Remittance Verification Policy #CEP-240.

RECOMMENDATION

None

MANAGEMENT RESPONSE

None