Memorandum

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To: Honorable Mayor Carlos A. Gimenez
Honorable Chairman Esteban L. Bovo
and Members, Board of County Commissioners, Miami-Dade County

From: Mary T. Cagle, Inspector General

Date: August 24, 2018

Subject: OIG Final Audit Report Re: *North Miami Community Redevelopment Agency,* Ref. IG15-0039A

Attached please find the above-captioned final audit report issued by the Office of the Inspector General (OIG). The North Miami Community Redevelopment Agency (NMCRA) was officially established in 2004 to eliminate slum and blight within designated areas of the City of North Miami (City). The work and responsibilities of the NMCRA is guided by its redevelopment plan, and an Interlocal Agreement (ILA) between Miami-Dade County, the City, and CRA itself.

The audit focused on the NMCRA's use of tax incremental financing (TIF) funds, and that such funds were used in accordance with applicable Florida Statutes, its ILA, redevelopment plan, and its annual budgets. This audit report contains three findings and six recommendations. It also includes our observations of two home loan programs and past administrative practices with regards to the loans. The response received from the NMCRA is included in the Final Report as Appendix A.

For your reading convenience, an Executive Summary follows.

Attachment

cc: Edward Marquez, Deputy Mayor, Miami-Dade County
Jennifer Moon, Director, Office of Management and Budget, Miami-Dade County
Cathy Jackson, Interim Commission Auditor, and Director, Miami-Dade Audit and Management Services Department

<u>Under Separate Cover</u>
Dr. Smith Joseph, Chairman, and Members of the NMCRA Board
Larry M. Spring, Jr., Executive Director, NMCRA
Rasha Cameau, NMCRA Director
Steven Zelkowitz, NMCRA Attorney

OIG EXECUTIVE SUMMARY

Audit of the North Miami Community Redevelopment Agency

The Office of the Inspector General (OIG) conducted an audit of the North Miami Community Redevelopment Agency (NMCRA). In July 2004, the Miami-Dade County (County) Board of County Commissions (BCC) adopted Resolution R-837-04, which officially declared a geographical area within the municipal boundary of the City of North Miami (City) to be a slum and blighted area. The resolution also authorized the creation of the NMCRA, and delegated the City with certain redevelopment powers to establish a board and prepare a redevelopment plan. The County, the City, and the NMCRA later adopted an Interlocal Agreement (ILA), which establishes the authority of the City and the County to review and authorize the spending of funds and the establishment of new debt. The NMCRA operations and its economic redevelopment programs are funded through tax incremental financing (TIF). The purpose of the audit was to determine if NMCRA operations provided transparency and accountability in its use of TIF funds, and that such funds were used in accordance with Florida Statutes, Chapter 163 Part III, its ILA, the redevelopment plan, and its annual budgets as approved by the BCC.

Prior to the City's reorganization of the NMCRA in 2014, the NMCRA staff was comprised of non-City employees. In 2011, the then City Manager was appointed to be the NMCRA Executive Director; however, the remaining NMCRA staff were still non-City employees. In June 2014, with a change in the City Manager, the new NMCRA Executive Director made significant changes and brought NMCRA staff in-house to the City and relocated the NMCRA operations within City office space. These maneuvers were made to save money and directed the savings to its redevelopment programs. Some of the OIG's findings and observations relate to administrative practices and redevelopment projects that originated under prior administrations.

The first audit finding addresses compliance with Florida Statutes. We found that NMCRA operations did not comply with Florida Statutes Section 163.387(7), which requires that excess TIF funds, at year-end, be appropriated for future expenses or be returned to the taxing authority, i.e. the City and the County. Specifically, year-end carryover funds, as identified in its adopted budgets and as appropriated to its capital improvement program, were understated when compared to the available TIF funds in its bank accounts. Thus, excess TIF funds were sitting in its bank accounts, untouched for several years. However, the NMCRA audited financial statements did identify such excess funds in its cash and cash equivalents amounts. This was addressed during the audit with the current NMCRA staff, who has since corrected its annual budget carryover amounts.

The second audit finding addresses the fact that NMCRA's financial system does not provide key reports to track project funding and expenditures from year-to-year. Annual budget reports, provided as supporting financial documentation showed instances where funds appropriated to capital projects were being reallocated to new capital projects with limited or no support for why prior projects were being canceled. This lack of support, especially without the ability to track projects in the financial system, diminishes transparency in how and why projects are being funded from year-to-year. NMCRA staff has acknowledged these project tracking shortcomings and has advised that it is implementing a new financial accounting system.

The third audit finding identifies that several commercial grant projects were not completed timely and recipients were not in compliance with grant agreements. NMCRA staff has since reached out to several grantees and have either closed out the grants, or extended the time required for the grantee to comply with grant terms and agreements.

Last, the OIG reviewed several loan files from two home loan programs, issued between 2008 and 2012, from the NMCRA's Affordable Housing Program. The first loan program involved nine home loans for $50,000 each with a maturity date of 10 years. A review of the loan files showed that all borrowers received an annual deferment on their loan payments for each year since their loan existed. The deferment occurred even absent documentation of the financial hardship. The loan terms were not clear on what was expected at the end of 10 years; however, NMCRA could, at its discretion, extend the loan for additional years beyond the 10-year term. The second loan program, for foreclosure prevention, involved eight loans, of varying amounts, totaling $29,937. In this case, these loans were past due. Two borrowers had fully paid while three others made partial payments, thus totaling $9,332. In February 2018, the NMCRA Board approved forgiving both loan programs due to the unlikely repayment of all loan amounts.

The NMCRA provided a response to the OIG's draft audit report and fully agreed with the OIG's findings and recommendations. The NMCRA response is included in the Final Report as Appendix A.

The OIG would like to thank the staff of NMCRA, the City of North Miami, and the County's Office of Management and Budget for their cooperation and for the courtesies extended to the OIG throughout this audit.

MIAMI-DADE COUNTY

OFFICE OF THE INSPECTOR GENERAL

FINAL AUDIT REPORT

IG15-0039A

Audit of the North Miami Community Redevelopment Agency

August 24, 2018

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I. INTRODUCTION

The Office of the Inspector General (OIG) conducted an audit of the North Miami Community Redevelopment Agency (NMCRA). The NMCRA was officially established in July 2004, after the required findings of necessity were determined. The objective of the NMCRA is to eliminate slum and/or blighted conditions within designated areas of the City of North Miami through community benefits, affordable housing, and neighborhood enhancements. The work and responsibilities of the NMCRA is guided by a Redevelopment Plan that was adopted in 2005 and an Interlocal Agreement (ILA) that was entered into between Miami-Dade County (County), the City of North Miami (City), and itself. NMCRA's operations and economic redevelopment programs are funded through tax incremental financing (TIF). The purpose of the audit was to determine if NMCRA operations provide transparency and accountability in its use of TIF funds, and that such funds were used in accordance with Florida Statutes, Chapter 163 Part III, its ILA, the redevelopment plan, and its annual budgets.

NMCRA's economic redevelopment programs include providing commercial grants to enhance current businesses or bring new businesses to the area, housing incentives for low income homeowners, and neighborhood aesthetics through property and roadway improvements. Projects completed, in progress, or in the development stage during the audit period included the renovations of Moca Plaza, West Dixie Green Trail, Thomas Sasso Pool Facade, the Chinatown Cultural Arts District on NW 7th Avenue, and a public/private partnership (P3) mixed-use development on NE 125th Street and NE 8th Avenue.

II. RESULTS SUMMARY

This audit resulted in three findings with six recommendations, and one observation. While not an audit finding, this report also discusses two home loan programs and our observations relating to past administrative practices with regards to them.

The NMCRA's governing board (NMCRA Board) has, since its establishment, been comprised of the City's Mayor and Council Members. Staff to the NMCRA, until 2014, was employed directly by the NMCRA (non-City employees). In 2011, the then City Manager was appointed to be the NMCRA Executive Director; however NMCRA staff were still external to the City. In June 2014, with a change in the City Manager, the new NMCRA Executive Director made significant staffing and organizational changes—staffing was brought in-house to the City and NMCRA operations were relocated within City office space. These maneuvers were made to save money so that the savings could be used for redevelopment projects. Since then, the NMCRA has reorganized into a hybrid staffing model with some NMCRA dedicated personnel being supplemented by City staff. Some of the OIG's findings and observations relate to administrative practices and redevelopment projects that were initiated under prior administrations.

The OIG's first audit finding involves compliance with Florida Statutes. We found that NMCRA operations did not comply with Florida Statutes Section 163.387(7), which requires that excess TIF funds, at year-end, be appropriated for future expenses or be returned to the taxing authority, i.e. the City and the County. Specifically, year-end carryover funds, as noted in its adopted budgets and as appropriated to its capital improvement program, were understated when compared to the available TIF funds in its bank accounts. However, the NMCRA audited financial statements did identify such excess funds in its cash and cash equivalents amounts. This was addressed with current NMCRA staff, who has since corrected its annual budget carryover amounts.

In our second audit finding, we address the fact that NMCRA's financial system does not provide key reports to track project funding and expenditures from year-to-year. When OIG Auditors asked for supporting financial documentation of any kind to support project allocations vis-à-vis project expenditures, we were provided with annual budget reports to show project funding. However, these reports showed instances where funds appropriated to capital projects were being reallocated to new capital projects with limited or no support for why prior projects were being canceled. This lack of support, especially without the ability to track projects in the financial system, diminishes transparency in how and why projects are being funded from year-to-year. NMCRA staff has acknowledged these project tracking shortcomings and has advised that it is implementing a new financial accounting system.

In our third audit finding, we noted that several commercial grant projects were not completed timely and recipients were not in compliance with grant agreements. NMCRA staff has since reached out to several grantees and either closed out the grants, or extended the time required for the grantee to comply with grant terms and agreements.

Last, OIG Auditors made observations when reviewing several loan files from the NMCRA's Affordable Housing Program. There were two types of home loans that we reviewed as part of this audit's fieldwork—the *First Time Home Buyer & Single Family Rehabilitation Loans* and the *Homeowner Foreclosure Prevention Loans.* These loans were all issued between 2008 through 2012.

The first loan program involved nine home loans for $50,000 each. The loans had an annual rate of 3% and maturity of 10 years; however, the agreements allowed for annual deferments based on the demonstration of financial hardship. A review of the loan files showed that all the borrowers received an annual deferment on their loan payments for each year since their loan has existed. The deferment occurred even absent documentation of the financial hardship. The loan terms were not clear on what was expected at the end of 10 years; however, the Lender (NMCRA) could, at its discretion, extend the loan for additional years beyond the 10-year term. NMCRA staff acknowledged that repayment of the loans was unlikely. Recently in February 2018, the NMCRA Board approved forgiving all the loans.

The second set of loans (foreclosure prevention) involved eight loans, of varying amounts, totaling $29,937, which were also recently forgiven by the NMCRA Board in February 2018. In this case, five borrowers had made payments totaling $9,332 prior to all the outstanding balances being forgiven.

Some of these audit findings and loan observations involved previous NMCRA administrations. The current staff has already made inroads in correcting deficiencies and has also been receptive to OIG Auditor feedback on noted findings and observations.

III. AUDITEE RESPONSE(S) AND OIG REJOINDER

This report, as a draft, was provided to the NMCRA and to the Miami-Dade County Office of Management and Budget (OMB) for each entity's review and comment. The NMCRA's response is included in this report as Appendix A. The OIG did not receive a response from the County's OMB.

The NMCRA responded positively to each finding and recommendation, and has indicated that the OIG findings are consistent with the discoveries made by the current NMCRA administration during the Fiscal Year (FY) 2014 reorganization. The NMCRA advised that some of our recommendations were implemented during the audit, while others are being implemented now, including project modification disclosure and the implementation of a new contract compliance system.

IV. TERMS USED IN THIS REPORT

BCC	Miami-Dade County Board of County Commissioners
CRA	Community Redevelopment Agency
City	City of North Miami
County	Miami-Dade County
FY	Fiscal Year
ILA	Interlocal Agreement
NMCRA	North Miami Community Redevelopment Agency
OIG	Office of the Inspector General Miami-Dade County
OMB	Office of Management and Budget, Miami-Dade County
P3	Public/Private Partnership
TIF	Tax Incremental Financing

V. OIG JURISDICTIONAL AUTHORITY

In accordance with Section 2-1076 of the Code of Miami-Dade County, the Inspector General has the authority to make investigations of County affairs; audit, inspect and review past, present and proposed County programs, accounts, records, contracts and transactions; conduct reviews, audits, inspections, and investigations of County departments, offices, agencies, and Boards; and require reports from County officials and employees, including the Mayor, regarding any matter within the jurisdiction of the Inspector General.

VI. BACKGROUND

A. RELEVANT GOVERNING AUTHORITIES

Florida Statutes, Chapter 163, Part III, Community Redevelopment

The enactment of the Community Redevelopment Act of 1969 allowed for the creation of community redevelopment agencies (CRAs) in municipal boundaries that have areas that are deemed to be slum and/or blighted. Before a CRA can be created, the municipality has to first show a finding of necessity as to the redevelopment of the area. Specifically, Section 163.355, Florida Statutes, Finding of Necessity by County or Municipality, requires that:

> *No county or municipality shall exercise the community redevelopment authority conferred by this part until after the governing body has adopted a resolution, supported by data and analysis, which makes a legislative finding that the conditions in the area meet the criteria described in s. 163.340(7) or (8). The resolution must state that:*
>
> *(1) One or more slum or blighted areas, or one or more areas in which there is a shortage of housing affordable to residents of low or moderate income, including the elderly, exist in such county or municipality; and*
>
> *(2) The rehabilitation, conservation, or redevelopment, or a combination thereof, of such area or areas, including, if appropriate, the development of housing which residents of low or moderate income, including the elderly, can afford, is necessary in the interest of the public health, safety, morals, or welfare of the residents of such county or municipality.*

Once a CRA is created, a CRA board, redevelopment plan, trust fund, and interlocal agreement are established. The CRA board is comprised of local government officials or other individuals appointed by the municipality and/or the county. The CRA's authority is exercised through its board. The redevelopment plan identifies economic improvements within the designated area(s) that will address slum and blight. The trust fund is funded by municipal and/or county property tax revenues, collected from properties within the boundaries of the CRA, that are above the base-tax amounts that existed during the year in which the CRA was created. These captured and diverted tax revenues are TIF funds.

The county, municipality, and CRA enter into an ILA, which establishes the authority of the municipality and the county to review and authorize the spending of funds and the establishment of new debt. Additionally, both the municipality and the county are obligated to fund the trust fund until all CRA loans, advances, and incurred indebtedness have been paid in full. According to Section 163.387(1)(a), Florida Statutes, tax revenues of up to 95% of the additional revenues from the tax increases may be used to fund CRAs; however, such revenues are required to only be used for activities included in the redevelopment plan.

Miami-Dade County Code, Article CXXI, Section 2-1841 et. seq., Establishing the City of North Miami Redevelopment Area

The City of North Miami Redevelopment Area and Revitalization Trust Fund are established and governed by Section 2-1841 through Section 2-1847 of the Code of Miami-Dade County. Specifically, Section 2-1846 requires that the NMCRA have independent financial audits of TIF funds conducted on an annual basis, and that a report be provided. The report shall identify the amount and source of deposits, withdrawals, principal and interest paid on debt, and remaining debt balances. Section 2-1846 also allows for the County to inspect and audit the Trust Fund.

B. NORTH MIAMI COMMUNITY REDEVELOPMENT AGENCY OVERVIEW

On July 13, 2004, the Board of County Commissioners (BCC) adopted Resolution R-837-04, which declared a geographical area within the municipal boundary of the City of North Miami to be a slum or blighted area; authorized the creation of the NMCRA; and delegated to the City certain redevelopment powers, namely to establish a board and prepare a redevelopment plan to carry out the activities of the agency.

On June 7, 2005, the BCC approved the City of North Miami Redevelopment Plan and also the ILA between the City, the NMCRA, and the County. The ILA establishes the terms, conditions, and respective responsibilities of the parties for the implementation of the Redevelopment Plan.[1] Also on June 7, 2005, by Ordinance 05-109, the BCC established the North Miami Community Redevelopment Agency Trust Fund, which provides for the mechanism to transfer tax incremental funds to the Trust Fund.

The NMCRA-designated redevelopment area is approximately 3,250 acres, which is approximately 60% of the City's land mass. The NMCRA is a legal and separate entity

[1] See Miami-Dade County Legislative File No. 051028 (Agenda Item 5M on the June 7, 2005, BCC Agenda).

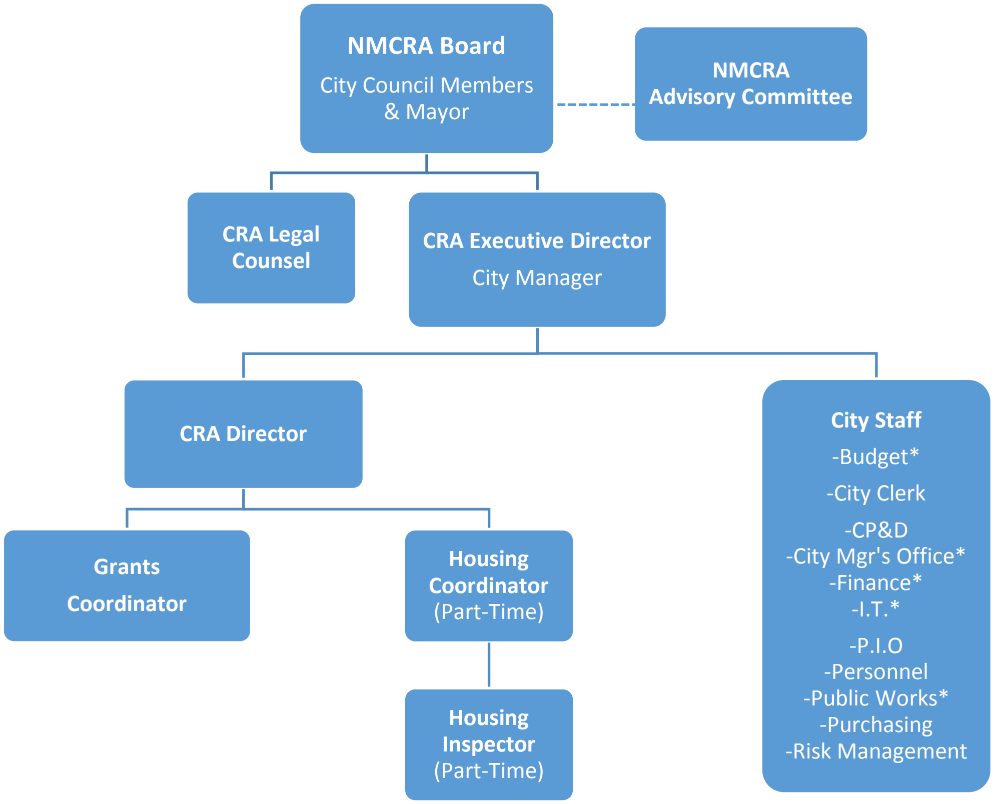
from the City. Its governing board comprises of the City Mayor and members of the City Council. Since 2011, the City Manager also serves as the CRA's Executive Director.[2] In addition, the NMCRA has a 12-member Advisory Committee that is appointed by the NMCRA Board.[3] The Advisory Committee hears all matters and makes recommendations to the NMCRA Board. The County's Community Redevelopment and Municipal Services Division of OMB is responsible for the oversight and management of all CRAs within the County.[4]

In June 2014, the NMCRA Executive Director terminated its then existing NMCRA staff, transferred CRA duties to the City staff, and moved its operations from a leased office to within City Hall. The then City Manager (who was also the CRA Executive Director) presented a memo to the NMCRA Board, which stated that the above changes would eliminate $470,439 from the projected FY 2015 budget, and produce an estimated savings of $251,000 annually for redevelopment projects.

In FY 2016, a full time CRA Director was hired. Currently, a hybrid staffing model is in place. There are two full-time CRA employees[5] (the CRA Director and a Grants Coordinator) and two part-time employees, who hold City job positions but have a budgeted allocation to perform CRA-work (the Housing Program Coordinator and the Housing Inspector).[6] Additionally, there are eleven City employees that are tasked with CRA-duties and they receive a stipend in addition to their City salary for providing administrative support to the NMCRA.[7] Beginning in FY 2015 through FY 2017, the City invoiced the NMCRA a total of $205,990 in stipend for City employees. The most recent NMCRA organizational chart is found on the next page.

[2] From inception to 2011, the Executive Director was a contracted CRA-employee.
[3] Advisory Committee Members serve between one to two year terms.
[4] Currently, there are 14 CRAs within the County. There are ten city-operated CRAs, with oversight from the County. The County manages the remaining four CRAs, which are located in unincorporated areas. Furthermore, there are an additional six proposed CRAs currently being reviewed by the County.
[5] These two CRA-employees actually receive City payroll checks and City benefits (health insurance, etc.) that are reimbursed by the NMCRA.
[6] The CRA-portion of their work is reimbursed to the City by the NMCRA.
[7] During the audit, 11 City employees had received a stipend. The NMCRA Director stated that the City Manager is currently in the process of transitioning the stipend from an amount paid above the employees' city-salaries to being included as a portion of the employees' city-salaries.

Chart 1: North Miami CRA Organization Chart



*Departments with City employees receiving a stipend. There are a total of 11 City employees receiving stipends.

Annually, the NMCRA receives TIF funding from both the City and the County at a 95% increment above the established base year of 2005. However, a portion of TIF revenues west of Biscayne Boulevard is excluded from the NMCRA annual budget and is refunded to the County. In December 2016, pursuant to the ILA's 2nd amendment terms, TIF revenues were further restricted with the County's portion being capped at $1 million along with the refund for TIF west of Biscayne Boulevard. The City's TIF revenues are limited with a 45% refund for areas east of Biscayne Boulevard.[8] These capped refunds are separate from the statutory requirements for excess and unappropriated remaining year–end TIFs noted in Section 163.387(7)(a) of the Florida Statutes.

In September 2016, the County disclosed in its fiscal impact memo accompanying the NMCRA extension[9] that, to date, it has contributed $15.56 million in TIF to the NMCRA trust fund with a refunded amount of $11.39 million (a total net contribution of

[8] See Resolution R-1132-16. For the FY 2017 amended budget, NMCRA allocated refund amounts of $356,892 to the City and $948,888 to the County. For the FY 2018, the NMCRA proposed a refund of $368,364 to the City and $1,276,653 to the County.
[9] See Ordinance 16-95, which extended the sunset provision for NMCRA from 2016 to 2044.

$4.17 million). It added that the City had contributed a total of $24.76 million during the same period. The County further noted that with the extension of the NMCRA to July 2044, and the revised funding to the ILA, it is estimated that the County will contribute $26.9 million, and the City will contribute $263.9 million during the life span of the ILA.

C. PRIOR REPORTS

Miami-Dade County Audit and Management Services Department Report

In April 2012, the County's Audit and Management Services Department issued an audit report on the NMCRA and whether TIF contributed by the County was used according to its amended ILA dated October 21, 2008. This audit report spanned a six-year period, ending September 30, 2011. The audit report noted that TIF monies were appropriately spent on infrastructure improvements and administrative costs; however, $4.5 million (39% of total project expenditures) was wasted on three projects (two affordable housing development projects[10] and one underground power line project), which were later abandoned due to prior management negligence and poor planning.

Grand Jury Report (Eleventh Judicial Circuit, Miami-Dade County)

On February 3, 2016, the Grand Jury for the Eleventh Judicial Circuit Court of Florida, in and for the County, issued its Final Report titled: *CRAs: the Good, the Bad and the Questionable.* The report examined the current CRA framework and, as the title suggests, highlights positive, negative, and questionable practices. The report provides several recommendations for change, which include prioritizing affordable housing, establishing procurement guidelines, capping annual administrative expenses, updating finding for necessity, requiring ethics training for CRA personnel, and annual County audits.

D. EXTENSION AND AMENDMENTS TO THE NMCRA TRUST FUND AND ILA

Latest County Guidelines for New and Existing CRAs

In step with the Grand Jury Report, the BCC approved Resolution No. R-499-16 on June 7, 2016, which requires certain enhancements to all new and existing CRAs within the County. This resolution adopts 13 recommendations of the Grand Jury Report. All 13 recommendations were later included in the NMCRA amended ILA, which was approved by the BCC on December 6, 2016, as noted below.

[10] These two affordable housing development projects, Pioneer Gardens and Bel House Apartments, although part of the NMCRA Affordable Housing Strategies, were separate and independent of the home mortgage and foreclosure prevention loans identified in our findings.

NMCRA Extension and ILA Amendments

The NMCRA, which was set to expire on October 1, 2016, was extended by the County for an additional 28 years to July 13, 2044.[11] Separately, the ILA was amended in December 2016 and incorporated the 13 provisions referred to above.[12] One of those requirements involved dedicating resources towards affordable housing projects. The amended ILA specifically requires that at least 10% of the NMCRA's annual budget be programmed for affordable housing projects. The 2016 ILA amendment also included performance milestones that are expected to be achieved by September 2024. Last, the 2016 amendment identified a couple of open items that would need to be addressed and finalized by the City and the NMCRA, and approved by the County by July 2017.

The last amendment to the ILA, which took place in October 2017,[13] addressed those open items from the 2016 amendment, specifically a reduction to the NMCRA's boundaries and the location of affordable and workforce housing projects along major corridors (e.g., along 7th Avenue). The final amendment included the provision for affordable housing; however, ultimately, no changes were made to the CRA's boundaries.

E. BUDGET AND FINANCIAL OVERVIEW

Table 1 below, provides an overview of the NMCRA's recent budget and its projected expenses by program areas.

Table 1: NMCRA Fiscal Budget Comparison for FY 2017 & FY 2018

Description	FY 2016-2017 Amended Amounts	FY 2016-2017 % Total for Expenditures	FY 2017-2018 Proposed Amounts	FY 2017-2018 % Total for Expenditures
TIF Revenues:				
County TIF	$1,398,359		$1,877,602	
City TIF	$2,195,062		$3,031,173	
Carryover TIF from prior years*	$4,362,542		$3,831,167	
Other	$ 7,328		$ 3,000	
Total TIF Revenues	**$7,963,291**		**$8,742,942**	
Projected Expenses:				
Commercial Grants	$1,120,000	14.1%	$1,100,000	12.6%
Capital Projects	$3,474,536	43.6%	$3,384,193	38.7%
Housing Initiatives	$ 700,000	8.8%	$1,190,000	13.6%
Administrative Expenses	$ 323,854	4.0%	$ 354,432	4.1%
Operating Expenses**	$2,344,900	29.5%	$2,714,317	31.0%
Total Projected Expenses	**$7,963,290**	**100.0%**	**$8,742,942**	**100%**

Source: NMCRA FY 2017 amended Budget and FY 2018 approved Budget.
*****Carryover TIF is end of year funds allocated for economic redevelopment.
******Amounts included TIF refund to the County and the City, per ILA. FY 2017 amounted to $1.31 million while FY 2018 is proposed at $1.65 million. With refund amounts deducted, operating percentage amounts are reduced to 13.1% for FY 2017 and 12.2% for FY 2018.

11 Miami-Dade County Ordinance No. 16-95.
12 Miami-Dade County Resolution No. R-1132-16.
13 Miami-Dade County Resolution No. R-882-17.

Table 2 below, shows annual receipts and expenditures of TIF revenues received for FY 2012 through FY 2016. The increases in total revenues for FY 2015 and FY 2016 are a result of increased property tax values.

Table 2: NMCRA – Five Year Fund Expenditures

	As of September 30th				
Description	**2012**	**2013**	**2014**	**2015**	**2016**
Revenues:					
TIF Revenues (net)	*682,743*	*469,061*	*853,915*	*1,427,134*	*2,507,311*
Other Revenues	*24,690*	*133,741*	*41,635*	*4,605*	*3,648*
Total Revenues	***$707,433***	***$602,802***	***$895,550***	***$1,431,739***	***$2,510,959***
Expenditures:					
General Government	*229,118*	*244,632*	*438,628*	*108,986*	*$768,733*
Community Redevelopment Projects	*2,928,104*	*1,590,134*	*696,562*	*324,507*	*644,457*
Total Expenditures	***$3,157,222***	***1,834,766***	***1,135,190***	***$433,493***	***$1,413,190***
Increase (decrease) in net position	*(2,449,789)*	*(1,231,964)*	*(239,640)*	*998,246*	*$1,097,769*
Beginning net position	*6,375,051*	*3,942,685*	*2,710,721*	*2,471,080*	*$2,950,706*
End of Year Net Position*	***$3,925,262***	***$2,710,721***	***$2,471,081***	***3,469,326***	***$4,048,475***

Source: North Miami CRA Audited Financial Statements
**At the close of fiscal years, the majority of net position balances comprised of cash.*

With the exception of FY 2014, the administrative expenses for FY 2012 through FY 2016 were within the ILA percentage limit of 20%. The administrative expenses for FY 2014 amounted to 31% of total expenditures. In that year, the City reorganized the NMCRA and paid out severances to some of the salaried employees. Operating expenses for the same period ranged from 2% to 8% of total expenditures.

VII. OBJECTIVES, SCOPE & METHODOLOGY

The objectives of this audit were to determine if NMCRA operations are transparent and that the NMCRA is accountable in its use of TIF funds, and that such usage complied with Florida Statutes Chapter 163, the ILA, the redevelopment plan, and its annual budgets as approved by the BCC. OIG Auditors met with and interviewed NMCRA management and staff, City staff tasked with CRA activities, as well as County staff from OMB. OIG Auditors also conducted site visits and interviewed business representatives regarding grant funds received.

OIG Auditors reviewed relevant state laws, City and County ordinances and resolutions, the ILA and redevelopment plan, and their amendments. Auditors also reviewed operational and program/project specific documents such as NMCRA policies and procedures, financial statements, budgets, general ledgers, bank statements, grant files, and home loan files. Also reviewed were board agenda items and meeting minutes from the City Council, the NMCRA Board, and its Advisory Committee. The audit scope encompassed financial data and operating activities for the period from October 1, 2011 through September 30, 2016, as well as selected activities from FY 2017.

This audit was conducted in accordance with the *Principles and Standards for Offices of Inspector General* and with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions. Based on our audit objectives, we believe the evidence obtained provides a reasonable basis for our findings and conclusions.

VIII. AUDIT FINDINGS AND RECOMMENDATIONS

Finding No. 1: The NMCRA was not compliant with statutory requirements regarding uncommitted funds remaining at fiscal year-ends.

The NMCRA did not accurately identify year-end carryover TIF funds in its FY 2012 through FY 2016 adopted budgets. Therefore, total revenue amounts included in its annual budgets were significantly understated and funds that should have been appropriated for future expenses or refunded to the City and/or the County were sitting in bank accounts, untouched for several years. The NMCRA's annual audited financial statements did include these excess funds in the cash and cash equivalent amounts; however, a comparison with the annual budgets highlights the inconsistencies between them.

Carryover TIF funds are monies remaining at year end that should be appropriated for CRA activities and/or debt obligations. These funds are normally added to the next year's budget as additional revenues and appropriated to proposed expenditures. Florida Statutes Section 163.387(7)(a) addresses the timely commitment and usage of end-of-year TIF funds. The statute requires that on the last day of the fiscal year, after all expenses have been paid, that any funds remaining in the CRA trust fund be:

a) *Returned to each taxing authority which paid the increment in the portion that the amount of the payment of such taxing authority bears to the total amount paid into the trust fund by all taxing authorities for that year.*
b) *Used to reduce the amount of indebtedness to which the increment revenues are pledged;*
c) *Deposited into an escrow account to the purpose of later reducing any indebtedness to which increment revenues are pledged; or*
d) *Appropriated to a specific redevelopment project pursuant to an approved community redevelopment plan which project will be completed within 3 years from the date of such appropriation.*

OIG Auditors observed that the excess TIF funds, sitting idly in NMCRA bank accounts, were not pledged to any programs, activities or debt obligations. Therefore, such funds should have been returned to the City and/or the County. Table 3, below, compares NMCRA's carryover TIF amounts (as noted in its annual budgets) to its year-end cash and cash equivalent amounts (as noted in its audited financial statements). The OIG's comparison covered five fiscal years.

Table 3: Comparison of NMCRA Year-End Cash & Equivalents vs Carryover TIF

Description	FY2012	FY2013	FY2014	FY2015	FY2016
Year-end Cash & Cash Equivalents[1]	$8,601,847	$5,434,610	$3,442,124	$2,204,119	$3,140,544
Prior Year Carryover TIF[2]	($1,767,050)	($1,885,180)	($1,289,265	($1,344,107)	($1,425,116)
Est. Difference not included in Carryover Amounts	**$6,834,797**	**$3,549,430**	**$2,152,859**	**$860,012**	**$1,715,428**

[1] Amounts identified as year-end cash and cash equivalents in the NMCRA audited financial statements for FY 2011 through FY 2015. NMCRA fiscal period runs from October 1st through September 30th.
[2] Amounts taken from NMCRA annual adopted/amended budgets for FY 2012 through FY 2016.

Excess TIF differences varied from approximately $860,000 to $6.8 million, due to amounts in the NMCRA bank accounts not being properly identified in the annual budgets. As of the FY 2016 amended budget, excess TIF funds of approximately $1.7 million was uncommitted towards its operations. These amounts should have been refunded to the taxing authority, i.e. the City and the County, as statutorily required.

During our audit this condition was addressed with the current NMCRA staff, who have properly included and committed prior year carryover funds of approximately $4 million in its FY 2017 budget. This amount equates to its audited financial statements' year-end cash and cash equivalent amounts. Although carryover TIF funds were properly identified and committed in FY 2017, the NMCRA had not been compliant with the Florida Statute requirements in prior years. As such, those prior years' funds should have been refunded to the City and/or the County.

Additionally, OIG Auditors reviewed NMCRA financial records and confirmed that there were no refund payments made to the City or the County for year-end uncommitted funds.[14] This was confirmed by County staff from the Community Redevelopment and Municipal Services Division of OMB, who advised that no CRAs have refunded excess or uncommitted year-end TIF to the County. The County staffer also indicated that the County does not have the resources to pursue such refunds; instead, the County's priority

[14] Separately, as previously stated in this final report Background, the ILA restricts the amount of TIF received that NMCRA can allocate in its annual budgets. These restricted amounts are identified separately in its budgets as "refunds" to the City and the County.

is to make sure that TIF funds are being used on the projects identified in the CRA's redevelopment plan.

Recommendations

1. The OIG recommends that the NMCRA accurately identify annual carryover funds in future budgets.

2. The OIG also recommends that a) the County's Community Redevelopment and Municipal Services Division more closely review NMCRA's budget against its end-of-year bank reconciliation for accurate reporting of year-end carryover funds to determine whether uncommitted funds should be returned to the City and/or County; and if not to be returned, b) the County should affirm its acknowledgment of available balances and obtain commitments from the NMCRA on its intended future use.

Finding No. 2: The NMCRA could not adequately track project funding and expenditures from year-to-year, thus diminishing budgetary transparency in its operations.

NMCRA's financial system does not provide key reports to track project funding and expenditures from year-to-year. When OIG Auditors asked for supporting financial documentation of any kind to support project allocations vis-à-vis project expenditures, we were provided with annual budget reports to show project funding. However, these reports showed instances where funds appropriated to capital projects were being reallocated to new capital projects with limited or no support for why prior projects were being canceled. This lack of support, especially without the ability to track projects in the financial system, diminishes transparency in how and why projects are being funded from year-to-year. NMCRA staff has acknowledged these project tracking shortcomings and has advised that it is implementing a new financial accounting system.[15]

[15] Separate but related documentation requests for project expenditures (without corresponding funding allocation details) resulted in OIG Auditors receiving an Excel spreadsheet for each fiscal year, which listed open (and/or completed) capital projects. Each year's spreadsheet, however, was different. For example one year might only list purchase order amounts and the identified vendor, but the "Amount Paid" column was blank. Another year's spreadsheet showed no purchase order information but only a project description with a projected cost. Another spreadsheet had both "Completed" and "In-Progress" projects. It also listed change orders but without a description of what the change order was for. Based on the project descriptions in the various spreadsheets, it was difficult to match the purchase orders to entire projects or various project scopes. OIG Auditors attempted to match up purchase order and payments amounts to each project based on the stated project description. We wanted to tally project amounts into one cumulative cost tabulation for each project. But without the benefit of having an actual project number to tie all of these amounts together, it was difficult, if not extremely time consuming, to determine the overall amount spent on the project without verifying each pay requisition. As such, OIG Auditors then turned to the annual budgets that were provided to us for further audit testing.

A thorough examination of five annual budgets revealed instances where proposed capital projects had been canceled and the funds were reallocated to new projects with little or no support being provided. Therefore, it was challenging to determine a project's funding and expenditures from one fiscal year to the next and whether the project was canceled or completed. We do not imply that these projects were not part of the NMCRA-approved redevelopment plan; however, the frequent moving of funds from one project to another may be evidence that little or no planning took place.

Table 4 below, tracks capital project funding, as described in the approved budgets, over four years. It starts with one project with a budget allocation of $500,000 and shows how—year-after-year—that same funding is reallocated to other projects without reasonable explanation.

Table 4: FY 2013 through FY 2016 Capital Project Funds Allocations and Reallocations

Project Descriptions	Proposed Adopted FY 2013 (A)	Amended FY 2013 (B)	Proposed Adopted FY 2014 (C)	Proposed Adopted FY 2015 (D)	Proposed Adopted FY 2016 (E)
Capital Improvements - Streetscaping	$500,000(1)	$-	$-	$-	$-
Capital Improvement Project per District		$715,000(2)	$-	$-	$-
Strategic Land/Property Acquisition			$715,000(3)(4)	$-	$-
Downtown Parking Lot				$1,000,000(5)	$500,000(6)
Total Project Amount	**$500,000**	**$715,000**	**$715,000**	**$1,000,000**	**$500,000**

(1) Included in the overall total of $856,000 in the budget line item of Infrastructure and Capital Improvements.
(2) Included $500,000 reallocated amount from the Capital Improvements - Streetscaping project (Column A) and $215,000 from other reallocated funds.
(3) Footnote in budget line identified as "Carry-over Funds – Capital Improvement Projects in FY 2012-13" (see Column B).
(4) Budget line item identified funds being previously allocated to FY 2013 project, Small Business Incubator.
(5) Identified as multi-phase project which include as a seven–story parking garage with retail and office spaces.
(6) Project description changed to Capital Project P3. Scope remained the same while funding decreased.

Column A, from Table 4 above, shows that $500,000 was proposed in FY 2013 for the Capital Improvements – Streetscaping (Streetscaping) project.[16] However, in the amended FY 2013 budget,[17] the Streetscaping project was defunded and the $500,000 was reallocated to a new project, Capital Improvement Project per District, whose total

[16] The Streetscape project was one of three projects that amounted to the $856,000 budget line item for Infrastructure and Capital Improvements. The other two projects were Wayfinding Signage for $256,550 and Sidewalk Resealing for $99,450. The Wayfinding Signage project remained in the amended FY 2013 budget. However, $99,000 from the Sidewalk Resealing project was allocated to two new projects (Pioneer Blvd and 4 Circles District 3) due to the City obtaining a grant to complete the sidewalk resealing project.
[17] The FY 2013 proposed budget was adopted by the County on February 5, 2013. It was later amended on October 7, 2014 due to underreporting of carryover funds ($207,639) and a reduction in interest revenue ($1,376). Both the FY 2013 amended budget and FY 2014 proposed budget were presented to the BCC as one agenda item for approval on October 7, 2014.

budget allocation was $715,000. The new project was described as "earmarked for capital improvements in each of the CRA districts." The reason for the Streetscaping project being canceled was not stated. For the next fiscal year, the FY 2014 adopted budget identified the $715,000 as being reallocated to another project, Strategic Land/Property Acquisition in the Downtown Area (Land/Property Acquisition) (Column C). Again, an explanation for the defunding of the prior year project was not stated and a scope describing the new project was not provided.

A further review of FY 2014 budget line items alludes to the $715,000 being allocated to yet another project, Property Acquisition – Small Business Incubator, prior to the same funding being reallocated to the Land/Property Acquisition project. A review of the NMCRA Board meetings supports that the $715,000 was in fact reallocated to the Small Business Incubator project although not identified in the amended FY 2013 budget. The NMCRA Board meeting minutes showed that the Small Business Incubator project was presented as a purchase of commercial property to be used as a business incubator[18] as well as house the NMCRA office. This project was presented to the NMCRA Board twice, before failing to achieve approval in September 2013.[19] However, NMCRA never identified the proposed Small Business Incubator project in its amended FY 2013 budget.

In the FY 2015 proposed budget, the Land/Property Acquisition project proposed in FY 2014 was defunded, and a new project, Downtown Parking Lot (Column D), was proposed for $1 million. This budget allocation of $1 million, included the same $715,000 that has been allocated to three previous projects. Again, no explanation was provided as to why the previous project was being canceled. The Downtown Parking Lot project was described as a "contribution towards a public/private partnership (P3) for the construction of a mixed-use seven-story parking garage in downtown North Miami." Both the prior project and the current project were identified as separate projects in the budgeted line items. However, according to the current NMCRA staff, both projects were in fact, the same. The NMCRA staff added that the Land/Property Acquisition project, identified in the FY 2014 budget, was a conceptual plan for the Downtown Parking Lot (FY 2015) and the current P3 capital project (FY 2016); only the names have changed. The OIG observed that there were no notations or explanations in the budget to identify that the FY 2014 Land/Property Acquisition project was in fact the proposed Downtown Parking Lot project. However, a later review of project documents show the connection between the two, and that this multi-year project is currently in its design phase.

[18] The CRA Executive Director's memo to the NMCRA Board defines a business incubator as "an access center that will house an incubator where start-up businesses share space, a computer lab where business owners, clients, and residents can have online access,…"
[19] This project's agenda item was pulled from the March 2013 NMCRA Board meeting due to the seller's withdrawal of the sale of the property. In September 2013, another property was presented to the NMCRA Board for purchase; however, it failed to gain approval.

As noted in Florida Statute Section 163.387(7)(d), any funds remaining at year end that have been appropriated for a specific redevelopment project, should be completed within three years of the funds being appropriated. Therefore, for the NMCRA to be compliant with the statutes, it should properly identify the annual funding, expenditures, and year-end funds allocated to this capital P3 project. [20]

As for the cancelation and reallocation of project funding in prior fiscal years, NMCRA staff told OIG Auditors that they do not have the documentation to support why the prior years' projects were canceled and the funds reallocated. They explained that previously, the City procured, managed, and later billed the NMCRA for capital improvement projects, and as such, the prior NMCRA staff did not always keep track of capital project budgets and expenditures. NMCRA staff added that currently they are more involved in managing the NMCRA's capital improvement program—expenses are being charged directly to its general ledgers and payments are being made from its operating bank account. But because the current financial system is not able to track and provide key reports on its capital projects, NMCRA staff explained that it is in the process of implementing a new software program (Neighborly Software), which will be able to track and report project allocations and expenditures. This new system was in the design phase during the audit's fieldwork.

Recommendations

3. When a project is cancelled or its description changes, the NMCRA should properly identify and disclose such changes, if not within the proposed budget, then at least within supporting documentation.

4. The NMCRA should accurately track and reconcile funding and expenditures of its capital projects, especially multi-year projects.

Finding No. 3: Several commercial grants were not in compliance with grant guidelines and agreements.

To help drive economic growth and investment within the designated CRA area, NMCRA distributes commercial grants to business and property owners through an application review and approval process. Grant applications have to meet certain requirements noted in the grant guidelines, before being presented to the NMCRA Board for consideration. Some of the requirements include that the project must be located within the CRA district, be in blighted condition, and that expected work be pre-approved and permitted by the City, as well as be performed by a licensed contractor. Prior to

[20] For the FY 2017 budget, the Capital Project P3 had a proposed funding of approximately $636,000. For the FY 2018 budget, the amount increased to $1.9 million for estimated cost of obtaining memorandum of understanding for available land usage. In FY 2018, the NMCRA obtained memorandum of understandings with neighboring land owners for the proposed parking garage location.

FY 2018, the NMCRA provided commercial grants ranging from $10,000 to $80,000, to both new and existing businesses for expansion, renovation, and/or retention within the area. Certain projects may go above the standard $80,000 limit, if NMCRA Board waiver is obtained. Grant funds are paid to the grantee upon proof of work completed, city-approved final inspection, and payments to the contractor. This program started in 2007. From FY 2012 to FY 2016 (the period audited), 30 grants were approved, collectively totaling $1.4 million.

The OIG's testing of selected grant files showed that several projects were not completed within the grant funding period, and one grant property, although renovated, has remained vacant for several years. According to the agreement, the NMCRA's obligation to fund the grant terminates 15 months after the agreement's execution date. Any portion of the grant for which a reimbursement request has not been submitted within the 15 month period is forfeited. Additionally, the agreement states that once a project is completed, 50% of the leasable commercial space must be leased for at least one year, and if not, the grantee is required to repay 100% of the grant amount.

OIG Auditors reviewed grant files for eight businesses that were awarded amounts ranging from $15,000 to $320,000. These grants were for beautification and rehabilitation of the interior and exterior of commercial properties. One grant for $25,000 was cancelled because the grantee failed to take possession of the leased property and commence renovations. For grants tested that exceeded $80,000, the OIG Auditors reviewed the NMCRA Board approved waivers for the grant amounts and any additional requirements of the grantees. These added requirements included, but were not limited to, that priority be given towards the hiring of CRA/City residents as employees, the non-transferability of properties, and the maintenance of CRA-funded improvements made on the properties. These requirements normally last for a five-year period, beginning at the completion of the project.

Audit testing revealed that four of the eight grants were not in compliance with requirements. This included renovations that were not completed within the grant funding period of 15 months, and the non-leasing of commercial space within a specific time period after renovations were completed. The four businesses were an ice cream shop, two restaurants, and a clothing store. The ice cream shop never opened and the property has been vacant for several years. Subsequent to our audit fieldwork, one of the restaurants ceased operations, while the second restaurant and the clothing store were still conducting business. These grants were issued in 2008, 2011 and 2015. Table 5, beginning on the next page, details the eight commercial grants included in our review.

Table 5: Review of NMCRA's Commercial Grants

#	Grantee Name	Grant Amount Awarded	Grant Agreement Date(s)	Grant Waivers	Grant Amount Paid	Grant Status	Compliant with Grant?	Comments
1	Pollo Tropical	$250,000	10/25/11	Yes	$250,000	Closed 7/2017	Yes	As part of the grant waiver, restaurant was required to provide semi-annual employee reports for 5 years identifying at least 50% of staff as City residents.
2	Moca Café North Miami	$170,000	2/24/11 for $145,000; 2/14/12 amended for an additional $25,000	Yes	$170,000	Closed 8/2017	**No;** Lease terminated - business closed	Project was not completed timely due to contractor issues. –NMCRA released grantee from default on grant (5 year compliance or repayment of 100% of grant).
3	La Chateau Restaurant	$25,000	2/12/12	None	$-	Terminated 10/2012	N/A	Grant agreement was terminated and amount rescinded since grantee did not take possession of lease property and commenced renovation of property.
4	Captain Jim's Restaurant / Dixie Hwy Enterprises	$172,000	9/22/14 for $57,664; 11/17/15 amended for an additional $114,337	Yes	$172,000	Expires 12/2020	Yes	--Of the $114,337, $22,337 increased the $57,664 to $80,000 for interior work and added cost due to termination and hiring a new contractor. The balance of $92,000 was for exterior work. --No added requirement for grant waiver.
5	Café Crème / Choquettes LLC	$320,000	8/07/15 for $250,000 3/15/17 for $70,000	Yes	$320,000	Expires 10/2021	Yes	--Restaurant required to provide semi-annual employee reports for 5 years identifying at least 30 City residents on staff. --An additional $70,000 was approved and paid for cost overruns.

#	Grantee Name	Grant Amount Awarded	Grant Agreement Date(s)	Grant Waivers	Grant Amount Paid	Grant Status	Compliant with Grant?	Comments
6	Starfire Enterprises LLC/Cosmic Cones	$80,000	11/29/08	None	$80,000	Terminated 1/2017; Reinstated 2/2018; Expires 2/2023	No	--Project was not completed timely. --Leasing requirement not met; no signed lease agreement since project completed in August 2015. --In February 2018, NMCRA extended grant compliance period for an additional 5 years.
7	El Kiosko Latin Café	$15,000	12/08/11	None	$15,000	Closed 12/2017	No	--Project was not completed timely due to permit and contractor issues.
8	Saavedra LLC/Prisa	$15,000	7/28/15	None	$13,825	Terminated 12/2017	No	--Project was not completed timely due to contractor issues. –NMCRA terminated grant agreement and rescinded the balance of $1,175 in December 2017.
	Total	**$1,047,000**			**$1,020,825**			

Moca Café North Miami

Moca Café North Miami (Moca Café) received a commercial grant of $145,000 in February 2011 to expand the restaurant. A year later, in February 2012, the NMCRA Board increased the grant amount by $25,000, due to underestimated construction costs, thereby making the total grant agreement $170,000. A certificate of occupancy from the City was issued in October 2012 and was later rescinded in December 2013, due to work being done without a permit.[21] A final certificate of occupancy was issued in January 2015. Approximately 2½ years later, in June 2017, Moca Café ceased operations.

The initial grant agreement included the building owner's consent for the NMCRA to file a UCC lien[22] for security interest in Moca Café's restaurant fixtures and equipment.

[21] The December 27, 2013 Notice of Violation from the City stated that "interior work, VIP stage and overhead lights" were being performed and/or installed without a permit.
[22] A UCC (Uniform Commercial Code) lien is a legal form that a creditor files to give notice that it has a financial interest in the personal property of a debtor. The NMCRA UCC lien for Moca Café is dated 9/27/2016 and is valid for five years.

The grant agreement also stipulated that for a five-year period, from the date of project completion, Moca Café must remain in business and maintain the improvements to the renovated property. If the additional stipulations are not met, 100% of the grant amount must be repaid.

In June 2017, Moca Café went out of business and its lease agreement for the property was terminated. The NMCRA gave notice to Moca Café for breach of its grant agreement, i.e., to remain in business for five years, and its intent to pursue the UCC lien. However, the NMCRA did not pursue the repayment of 100% of the grant amount. According to the NMCRA staff, it did not make financial sense to pursue repayment of the $170,000 grant or enforce the UCC lien. The NMCRA opted instead, for Moca Café to pay all outstanding City utility bills and fees to the landlord (approximately $2,200).

Starfire Enterprises, LC. / Cosmic Cones LLC

On November 29, 2008, Starfire Enterprises, LC. (Starfire) received an $80,000 grant for exterior improvements on property that was expected to be an ice cream shop (Cosmic Cones). Records showed that the exterior renovation was not completed until October 2012, and the City did not issue a certificate of completion until 2015. The ice cream shop never opened and the property has remained vacant. According to the grantee (Starfire), the delay in the opening the ice cream shop was due to "financial-related issues."

The grant funds were to be used to renovate the exterior façade of the property, which included new storefront frames, glass doors, a granite façade, and painting. Records showed that renovations were not completed within the grant funding period of 15 months, i.e. February 2010. In fact, the contractor did not complete the renovations until October 2012. Nearly three years later in 2015, the NMCRA Board requested Starfire to appear before it and provide a status on the project. Shortly thereafter, the City issued a Certification of Completion and the remaining grant balance of $20,000 was given to Starfire.

Moreover, Starfire has not complied with the second of the grant's requirements—that upon completion of the project, 50% of the "leasable" commercial space must be leased for at least one year, or proof of a lease must be provided within 180 days after final inspection. To date, Starfire has not provided a signed lease agreement for the renovated property, although the NMCRA has requested one. Corporation records filed with the State of Florida indicate that the registered owners for Starfire, Cosmic Cones, and the contractor all share the same mailing address with Cosmic Cones and the contractor sharing the same last name.

OIG Auditors visited the vacant ice cream shop and met with a Starfire representative who stated that they have a lease for the property and that the tenant, Cosmic Cones, is paying rent. However no documentation of this nature was provided to the OIG or the NMCRA. The Starfire representative added that the ice cream shop is not in operation due to the tenant's need for additional funds to renovate the interior of the property.

In January 2017, during the course of the audit, NMCRA staff sent Starfire a termination of agreement letter for noncompliance with grant requirements as well as a demand for repayment of the $80,000 grant. In May 2017, NMCRA staff followed up with a second letter to Starfire requesting repayment of the $80,000 and advising of legal action if repayment is not made. However, in February 2018, NMCRA staff gave Starfire a five-year extension to become compliant with the grant agreement and extended its security interest on the property with the expectation that if the grantee sells or refinances the property, it will recoup the $80,000 grant.

El Kiosko Latin Café

El Kiosko Latin Café received a beautification grant of $15,000 in December 2011 for renovations, which included new flooring, interior painting, bathroom renovations, and new roofing at the rear of the restaurant. Records show that there was unfinished work on the roof due to permit and contractor issues. In June 2015, the NMCRA Board approved extending the grant balance of $6,000 and the funding period to September 30, 2015, in order for the grantee to finish the work. The remaining grant amount was fully disbursed to the grantee in September 2016; however, the close out of the grant was not finalized until November 2017, when the City issued its final inspection on the property. Although the business is currently in operation, the grant funds were not administered in accordance with program requirements.

Saavedra LLC/PRISA

Saavedra LLC received a beautification grant of $15,000 in July 2015 for exterior improvements to the property, which included painting, stucco, removal of a concrete ramp, and the replacement of fencing and gates. Records show that the grantee was paid approximately $13,800; however, there was unfinished work (fencing) due to contractor issues. As a result, the grant has been outstanding beyond the funding period of 15 months, i.e., October 2016. During audit fieldwork, the NMCRA staff stated that it was working with the grantee and the contractor to complete the remaining work and close out the grant. Documentation later provided by NMCRA staff showed that in December 2017 it advised the grantee that the grant agreement was terminated and that the outstanding grant balance of $1,175 was rescinded. The business is currently in operation.

As the OIG conducted its audit fieldwork and brought some of these non-complaint practices to the NMCRA staff's attention, staff reached out to grantees regarding their current compliance statuses.

Recommendations

5. The NMCRA should be more proactive in the tracking, oversight, and overall administration of its grant projects to ensure that projects are completed within the required agreement period and that any issues that arise can be addressed timely.

6. The NMCRA should be more vigilant in pursuing grant repayment, including pursuing any UCC liens that it filed, from defaulting grantees. Releasing grantees from their grant requirements should require NMCRA Board approval.

Subsequent Events

Subsequent to the close of our audit period, additional commercial grants collectively totaling over $2.5 million have been distributed. Approximately $959,000 was awarded to 13 businesses in 2017, with amounts varying from $14,000 to $199,000. Currently in 2018, approximately $1.6 million have been awarded to 14 businesses with amounts varying from $23,000 to $606,000. OIG Auditors were made aware of a recent grant awarded to a former member of the NMCRA Advisory Committee. Specific concerns were voiced by community members regarding the size of the grant amount (first proposed at $1.2 million, which was eventually reduced to $606,000 to be allocated over two fiscal years). Another concern was that the grantee was a member of the Advisory Committee, until he was asked to resign as a condition of the grant. The grantee did resign from the NMCRA Advisory Committee before consideration of the award by the same committee. Thereafter the proposed grant—at the reduced amount of $606,000—was approved by the NMCRA Board with a waiver because the grant exceeded the program cap of $100,000.[23] This grant will be independently reviewed outside of this audit.

IX. OIG's Observations on NMCRA's Administration and Recent Forgiveness of Home Loans

During FY 2008 through FY 2012, NMCRA issued two types of home loans to low income residents under its Affordable Housing Program. Loan recipients were selected through a prequalified application process. The applicants had to reside within the CRA's boundaries, and the loan proceeds had to be used on a home that was the applicant's primary residence or would serve as the primary residence. The two types of home loans given were the *First Time Home Buyer & Single Family Rehabilitation Loans*

[23] In FY 2018, the NMCRA increased the commercial grant maximum amounts. Rehabilitation grants (maximum) without obtaining a waiver were increased from $80,000 to $100,000. New business attraction and expansion grants (maximum) without obtaining a waiver were increased from $80,000 to $150,000.

and the *Homeowner Foreclosure Prevention Loans.* In February 2018, the NMCRA Board passed resolutions to make both loans forgivable, i.e., treated as grants.[24]

First Time Home Buyer & Single Family Rehabilitation Loans

A total of $450,000 ($50,000 each) were given to nine low income individuals; five were issued during 2008, three in 2009, and one in 2012. Eight of the loans were used towards the purchase of a home; one loan was used to rehabilitate an existing home. The loans were recorded as second or third mortgages. The loans had an annual interest rate of 3% and a maturity of 10 years. As a continuing requirement of the loan agreement, the property must remain as the recipient's primary residence for the duration of the loan (10 years). The loans are payable in full upon default, sale, refinance, and/or transfer of the property. One of the nine properties was foreclosed in 2014.

The loan agreements allowed homeowners to defer monthly payments via a demonstration of financial hardship, which was to be assessed on an annual basis. A review of the loan files showed that all the borrowers received an annual deferment on their loan payments for each year since their loan has existed. The deferment occurred even absent documentation of the financial hardship. The loan terms were not clear on what was expected at the end of 10 years; however, the Lender (NMCRA) could, at its discretion, extend the loan for additional years beyond the 10-year term. These loans were expected to mature in July 2018 through February 2022. Table 6 below, lists all nine loans amount, maturity dates, and support (or the lack thereof) for the annual deferment of payment.

Table 6: First Time Home Buyer and Single Family Rehabilitation Loans Review

No.	Loan Amount	Loan Type	Loan Maturity Date	Payments	Annual Deferment Documents	Issues Noted
1	$50,000	Home Purchase Subsidy	7/08/2018	None	Incomplete	Annual deferment documents missing for 2011, 2012 & 2013. **Property foreclosed in 2014.**
2	$50,000	Home Purchase Subsidy	7/31/2018	None	Incomplete	Annual deferment documents missing for 2011 & 2012.
3	$50,000	Home Purchase Subsidy	7/31/2018	None	Incomplete	Annual deferment documents missing for 2011 & 2012.
4	$50,000	Home Purchase Subsidy	9/11/2018	None	Incomplete	Annual deferment documents missing for 2011 & 2012.

[24] See NMCRA Board Resolutions No. 2018-003 & No. 2018-004.

No.	Loan Amount	Loan Type	Loan Maturity Date	Payments	Annual Deferment Documents	Issues Noted
5	$50,000	Home Purchase Subsidy	10/27/2018	None	Incomplete	Annual deferment documents missing for 2011 & 2012.
6	$50,000	Home Purchase Subsidy	6/09/2019	None	Incomplete	Annual deferment documents missing for 2011 & 2012.
7	$50,000	Home Rehabilitation Loan	6/24/2019	None	Incomplete	Annual deferment documents missing for 2011 through 2015.
8	$50,000	Home Purchase Subsidy	9/11/2019	None	Incomplete	Annual deferment documents missing for 2011, 2012 & 2015.
9	$50,000	Home Purchase Subsidy	2/02/2022	None	Incomplete	Annual deferment documents missing for 2013 through 2015.

OIG Auditors review of loan files and deferment documents revealed that seven of the nine loan recipients had some, but not all, of the required annual income and assessment records. For the remaining two files, one had income assessment support for 2010 only (see Loan No. 7), while the other had no support at all (see Loan No. 9). We note that in March 2015, NMCRA staff reached out to all homeowners via certified letters, requesting proof of household income and property insurance. Six homeowners provided proof of income; however, three certified letters sent to the remaining homeowners were returned as undeliverable. Additionally, one of the three properties was foreclosed on in July 2014 (see Loan No. 1).

OIG Auditors independently verified ownership as well as homestead exemptions on the eight remaining properties and noted that all properties were in the loan recipient's name.[25] One property, however, did not have a homestead exemption and this homeowner had not provided the NMCRA with any support of annual household income, as noted above (see Loan No. 9). OIG Auditors requested that the NMCRA staff contact the homeowner to confirm primary residency, as well as homestead exemption. Apparently, the homeowner responded and NMCRA staff provided documentation to the OIG on the homeowner's residency and household income for 2015. However, support for prior years' proof of income were not provided. The reply also indicated that the homeowner was unaware of the homestead exemption and has since applied and obtained the homestead exemption.

Regarding Loan No. 7 (where the file only had income verification for 2010) additional research conducted by OIG Auditors showed that one of the two individuals listed on the loan documents had died in 2014, while the surviving spouse's driver's

[25] Information was verified via public records from both the Miami-Dade County Property Appraiser webpage and the County Clerk of the Courts webpage.

license showed an out-of-state address since 2015. At the conclusion of the audit fieldwork, OIG Auditors requested NMCRA staff to contact the homeowner in order to verify primary residency, as well as determine whether the homeowner's loan is in default. (As of the final report date, support for these NMCRA requests remain outstanding and are now moot in light of the fact that all the loans were forgiven.)

OIG Auditors questioned NMCRA staff on their understanding of how the loans would be retired once they matured. NMCRA staff could not ascertain whether monthly installments or a lump-sum amount would be required. However, NMCRA staff relayed to us that repayment of these loan amounts is unlikely.

In February 2018, prior to any of the loans reaching their maturity, the NMCRA Board authorized that all the loans be forgiven. The recitals in the resolution explained, in part, that 1) these loans were made pursuant to the NMCRA's 2005 Redevelopment Plan, which required that the residential programs be structured as loans, but that the City of North Miami's Home Buying Program authorized similar loans to be forgiven after seven years; 2) the NMCRA's "2016 Redevelopment Plan" allows for future housing initiatives to follow the City's Housing guidelines and as such all future programs would be forgivable loans; and 3) converting these loans to grants is consistent with the City's housing rules, especially since these borrowers still qualified as low income residents.

During the NMCRA Board meeting, NMCRA staff explained that none of the loans (other than the foreclosed property) are in default, but that upon reaching their maturity, payment will become due in one lump-sum payment, which will create a hardship on the homeowners. Staff added that a resolution formally forgiving the loans was required due to a deficiency in the prior 2005 NMCRA Redevelopment Plan because it did not allow for forgivable loans.

Home Foreclosure Prevention Loans

During 2009, NMCRA issued eight loans, in varying amounts, to eight low income homeowners. These loans, totaling $29,937, were to provide financial assistance to eligible residents who were in jeopardy of losing their homes due to imminent foreclosure. Recipients were selected in a process similar to the *First Time Homebuyer & Single Family Rehabilitation Loans*. The *Home Foreclosure Prevention Loans* had an annual interest rate of 0%, a deferment of five years, and a requirement that the principal be repaid within 36 months after the deferment period. Thus, the loans, which were all issued in 2009, should have been fully repaid by 2017. Table 7, on the next page, provides a breakdown of individual homeowner loan amounts and payments, if any, as of December 2017. These loans were also forgiven by the NMCRA in February 2018.

Table 7: Homeowner Foreclosure Prevention Loan Program Review

No.	Loan Amount	Maturity Date	Payments Made as of 12/2017	Current Loan Balance	OIG's Concerns	In Compliance
1	$ 4,568	2/05/14	$ -	$ 4,568	**No payment made to date**.	**No**
2	$ 4,328	2/11/14	$4,328	$-	Payment made on 11/14/16 due to sale of property.	Yes
3	$ 2,194	3/03/14	$ -	$ 2,194	**No payment made to date.**	**No**
4	$ 2,650	6/08/14	$2,650	$ -	Four payments made 10/12/14 through 5/17/17.	Yes
5	$ 4,778	8/11/14	$ 200	$ 4,578	One payment made on 11/12/14.	**No**
6	$ 4,021	9/02/14	$ 700	$ 3,321	11 payments made 10/15/14 through 2/01/16.	**No**
7	$ 4,529	9/03/14	$1,453	$ 3,076	26 payments made 5/8/15 through 12/19/17.	**No**
8	$ 2,869*	9/20/14	$ -	$ -	**Property foreclosed in 2014. This is the same property as Loan No. 1 listed Table 6. No payment made to date.**	**No**
Total	**$29,937**		**$9,332**	**$17,737**		

* Amount is not included in current loan balance due to property being foreclosed and amount deemed uncollectible.

Two loans had already been paid off by the time the other six loans were forgiven. One of the six outstanding loans had the property foreclosed on and, thus, will need to be written off. For the five remaining loans, the total loan balance outstanding was $17,737. Of these five loans, three borrowers had made some payments (see Loan Nos. 5, 6 and 7); and the remaining two borrowers have never made a payment (see Loans Nos. 1 and 3).

As for the one borrower's loan whose property had been foreclosed on in 2014, this same borrower had been a recipient of a $50,000 loan in 2008 (see Loan No. 1 in Table 6, on page 23 and 24). The foreclosure prevention loan was provided to the borrower in September 2009, only one year after the home purchase subsidy was provided.

Similar to their work on the *First Time Home Buyer & Single Family Rehabilitation Loans*, in March 2015, NMCRA staff sent certified letters to the homeowners/borrowers to determine whether they were making payments on their loans, and if not, to set up a payment plan with them. OIG Auditors also independently verified ownership as well as homestead exemptions on the remaining properties and noted that all properties were in the loan recipient's name and had homestead exemptions. Regardless of the fact that one borrower had made a payment as recently as December 2017, the recitals in the resolution authorizing said loan forgiveness concluded that the remaining balances were uncollectable. Based on the same rationale as employed with the *First Time Home Buyer*

& Single Family Rehabilitation Loans, in February 2018, the NMCRA Board voted to forgive the foreclosure loans.[26]

OIG Comments

While the OIG does not take issue, under the circumstances, with the eventual resolutions passed by the NMCRA Board to forgive these two sets of loans, we can understand how these historical uses of TIF funds adds to the public outcry over CRA abuses. The expenditure of almost $480,000 went to only 16 individuals. Excluding the *Homeowner Foreclosure Prevention Loans*, which were of significantly lower dollar amounts, $450,000 went to the benefit of only nine individuals. The location of these nine properties were scattered throughout the boundary of the CRA. Eight of the nine loans certainly assisted individuals in purchasing their first home, but it begs the question of how much impact this had in eradicating slum and blight.

We also recognize that the funding of these programs occurred under the prior NMCRA administration. OIG Auditors were advised by current staff that in late FY 2014, after the administrative transition was complete, that they were not even aware that these loans existed. They advised that they learned of both loan types through the reconciliation of their internal accounts as well as from a Miami-Dade County audit report issued in 2012.

In its forgiveness of these loans, NMCRA's resolution cites to the seven-year forgiveness policy contained in the City's housing guidelines. Moreover, as explained to OIG Auditors, future expenditures from NMCRA's Affordable Housing Program will directly fund the City's Housing Improvement Program,[27] which will follow these guidelines. These guidelines, we believe, address the optics of slum and blight in that funds are directed to exterior improvements, e.g., exterior painting; replacing deteriorated fascia, soffits, and gutters; and replacing exterior doors and windows. The guidelines also lay out strict qualifying criteria for the applicant homeowner, including the condition of the inhabited property. We believe this new arrangement should enhance accountability for how TIF funds are used—at least regarding residential housing initiatives.

Although the collection efforts and other administrative actions since FY 2015 are commendable, better terms should have been established at the origination of the loans in order to enhance collection or forgiveness efforts. As evidenced by the noted observations, the random distribution of TIF funds did not achieve the NMCRA's objectives—to eliminate slum and blight.

[26] NMCRA Resolution No. 2018-004.
[27] City of North Miami Resolution No. 2017-R-84

X. CONCLUSION

Overall, the current NMCRA staff has taken initiatives to enhance compliance and reporting of its programs and activities, such as maturing home loans, past due home foreclosure loans, and business grants. However, the OIG believes that additional measures, such as program milestones and formalized policies should be implemented, which would address the allocation and timely usage of capital project funding. We are hopeful that the new milestones added into the amended ILA will enhance accountability. Additionally, with the implementation of its new tracking software, capital projects and business grant funding and expenditures can be clearly identified and tracked over fiscal periods.

* * * * *

The OIG appreciates NMCRA's acceptance of all recommendations. The OIG would like to thank the staffs of NMCRA, the City of North Miami, and the County's Office of Management and Budget for their cooperation and for the courtesies extended to the OIG throughout this audit.

MIAMI-DADE COUNTY

OFFICE OF THE INSPECTOR GENERAL

FINAL AUDIT REPORT

Appendix A

North Miami CRA's Response

Audit of the North Miami Community Redevelopment Agency

IG15-0039A

NORTH MIAMI CRA

COMMUNITY REDEVELOPMENT AGENCY

August 13, 2018

Inspector General Mary T. Cagle
Miami-Dade County Office of the Inspector General
601 NW 1st Court
Transit Village South Tower, 22nd Floor
Miami, Florida 33136

Re: North Miami Community Redevelopment Agency Response to Revised OIG Draft Audit Report (IG15-0039A) dated July 9, 2018

Dear Ms. Cagle:

Pursuant to and in accordance with Section 2-1076(f) of the Code of Miami-Dade County, the North Miami Community Redevelopment Agency ("NMCRA") submits this response to the Revised OIG Draft Audit Report (IG15-0039A) dated July 9, 2018 (the "OIG Draft Audit Report"), and requests that this response be included in the final report. Any defined terms not defined in this letter shall have the meanings set forth in the OIG Draft Audit Report.

Generally, the findings in the OIG Draft Audit Report are consistent with the discoveries made by the current NMCRA administration and staff during the 2014-15 reorganization of the NMCRA. During and since that time, the NMCRA remediated the shortfalls of the prior administration, as well as redirecting and retasking the NMCRA by, among other things, (i) modifying and updating the NMCRA Community Redevelopment Plan to reflect relevant and economically driven goals and objectives and (ii) negotiating its extension past the October 2016 deadline. The extension for an additional 28 years to July 13, 2044, also included an amendment to the ILA which incorporated all 13 provisions set forth in BCC Resolution No. R-499-16, which require certain enhancements to all new and existing CRAs with the County. It is noteworthy that the NMCRA is the first CRA in the County to adopt and implement these provisions and guidelines.

Management Responses

Finding No. 1

Management concurs with the finding and recommendation made by the OIG. In past years while carryover funds were allocated to multi-year capital projects, the budget format utilized by prior administration did not properly document the carryover allocation. Management has since revised its budget format and corrected the issue.

Finding No. 2

Management concurs with the finding and recommendation made by the OIG. With regard to the recommendation about project modifications, the NMCRA has modified its budget format and will incorporate the additional disclosure. Additionally, it should be noted that NMCRA was previously administered with a separate Executive Director and administrative staff, as part of the reorganization plan the NMCRA systematic financial oversight process, internal controls and financial systems utilized are being provided through City of North Miami and the recommended reconciliation of capital projects are already in place.

Finding No. 3

Management concurs with the finding and recommendation made by the OIG. NMCRA along with the City of North Miami Administration has taken on a new internal system of contract compliance oversight. A new system called Laserfiche has been installed and full implementation is expected by the beginning of the 2019 fiscal year.

The NMCRA would like to express its appreciation to the OIG for recognizing the strides and demonstrable improvements in the operations and mission of the NMCRA. As noted in the OIG Draft Audit Report, there have been a significant changes in leadership in the NMCRA and these changes in leadership have enabled the NMCRA to step in the correct direction in order to accomplish its goals.

Sincerely,

Larry M. Spring, Jr.
Executive Director

cc: NMCRA Board
Rasha Cameau, MBA, FRA-RP, NMCRA Director
Steven W. Zelkowitz, Esq., NMCRA Attorney