New Castle County Audit Committee Meeting
Meeting Minutes – Friday May 10, 2024
8:30 a.m., Administration Conference Room and via Zoom

I. The 5/10/2024 Audit Committee meeting was convened at 8:36 a.m. by County Auditor, Mr. Bob Wasserbach. Audit Committee members present: Linda Bailey, Dr. Karl Brockenbrough, and Steve Cordano.

Also present were Community Services GM Carrie Casey, Community Services Department Finance Officer Michael Kapa, Rinku Banerji (Audit), A.J. Flynn (Audit) and others.

II. Mr. Wasserbach asked the Committee members if there was a motion to approve the minutes from the previous 11/28/23 meeting. Dr. Brockenbrough made a motion to approve the minutes and Ms. Bailey seconded the motion. The motion was passed unanimously.

III. Mr. Wasserbach presented the Down Payment Settlement (DPS) Loan Program audit report.

Mr. Wasserbach explained that the Community Services Department offers deferred payment loans to enable low and moderate income households to purchase their first home by providing a loan to aid in reducing the cost of down payment and/or settlement charges. Down payment settlement (DPS) loans are funded by the U.S. Department of Housing and Urban Development (HUD) through Community Development Block Grant (CDBG) funding. He also stated that there are weaknesses in the system of internal controls over the assessment of DPS loans, the decisions made on what to do about such loans, and the potential write-off of such loans. Much of this stems from not following existing policies.

Mr. Wasserbach also stated that the maximum amount of these loans is $10,000, the interest rate is 0%, and the loan term is 15 years segmented into two periods: period 1 being the first two years, when loans are deferred and payments are optional, and then the remaining 13 years, when monthly payments are required on the loan. He also added that he will be adding an additional sentence to the Overview in the audit report stating that the total outstanding principal amount of these DPS loans was about $3.2 million as of this week. Ms. Casey clarified that the $3.2 million amount is the total outstanding principal loan amount and not the delinquent amount.

Mr. Wasserbach then moved on to Comment #1 of the report which he stated deals with not following existing policies. There were three policies that were being looked at: Policy #'s 335, 336, and 604. There are multiple bullet points in the report that point out noncompliance with policy and, in the recommendations, some suggestions have been given for revising these policies, which the Community Services Department has committed to do. They will submit an updated copy of each policy within 90 days, they are going to re-establish loan committee meetings, they are going to determine if those meetings will be monthly or quarterly, they are going to update the definition of a delinquent loan and a defaulted loan and the process for writing off a loan in the system called ABS, and the Department Finance Officer, Michael Kapa, is going to be responsible for ensuring these policies are followed.

Ms. Casey explained and clarified that there is still a Loan Committee, they just don't meet. In cases where they must write off a DPS loan, they walk through that process and get written confirmation via email from the Loan Committee members.

Dr. Brockenbrough asked how the Loan Committee knows if what they are approving is in compliance with the policies, and noted that the policies are outdated. Mr. Kapa said that when a decision is made to write off any loan, the Loan Committee members receive paperwork from those in the department who are involved with the loans. So, whether it's a bankruptcy, sheriff sale, etc., they have all the backup information before a decision is made. Dr. Brockenbrough asked if all that information is shared with the members who are voting. Mr. Kapa replied "yes" and that it is all currently being done electronically through email. Ms. Casey also stated that they get that information before they vote. Ms. Bailey asked if the Loan Committee members are New Castle County employees in the department. Ms. Casey replied "yes." Mr. Wasserbach added that Dr. Brockenbrough was probably alluding to the lack of discussion and collaboration in the absence of the committee members actually meeting. Dr. Brockenbrough agreed. Mr. Kapa also added that all backup and all the voting forms are a part of the individual's file that is kept at Community Services. Ms. Casey and Mr. Kapa said that the majority of the loans looked at were sheriff sales, so there is no way to even deliberate because there is no excess funds once the property goes through the sheriff sale. Ms. Casey added that the Community Services mission is to keep people in their homes so what they have been working on is how to balance trying to get funding so that the department can continue to loan money without threatening sheriff sale. She explained they are not going to put someone in a sheriff sale for a $10,000 DPS loan, but they do need people to pay if they are able. Dr. Brockenbrough asked once these policies are revised, who approves the revised policies? Ms. Casey said that they go through an internal review and the general manager ultimately signs off on it, but she suggested that before she approves them, she could bring them back to the Audit Committee members or have Mr. Wasserbach review them. Dr. Brockenbrough said as long as someone outside of the department reviews them, he's fine with that and that person could be Mr. Wasserbach.

Mr. Wasserbach moved on to the second comment in the audit report which related to segregation of duties. He said that in the auditing world, it's important to have segregation of duties so that one person is not responsible for all facets of a transaction. In this particular situation, a single individual was able to generate a lien satisfaction, take that to the Recorder of Deeds office to be recorded, and delete the loan from the ABS system which should not have happened (should have instead remained on the ABS system at a zero balance; this happened eventually). Next, he recommended that management work with the ABS System provider to develop a management report for the Fiscal Manager that would identify any transactions deleting a loan from the system or bringing a loan principal balance to zero. Such items in that report should be reviewed by the Fiscal Manager for propriety. Management responded that they have now separated duties relating to lien satisfactions and the Department Finance Officer will not sign unless the reason for the lien satisfaction is given.

Mr. Cordano stated that the first sentence of that comment should say "a single individual on the Community Services staff" was able to do all those things. He followed up by asking if only one person had the ability to do all that or if it was several people. Mr. Kapa said that for ABS it is one individual, but for a whole process to be complete, the Finance Officer must sign off on the lien satisfaction. Ms. Bailey asked if it is more than one individual that can go into ABS. Mr. Kapa replied "yes", stating about five individuals have access to ABS. The reason for that is because clients do come in to make payments and they want to know their loan balance or payoff statement and since not everyone is in the office every day, there is a need to have other individuals available to provide that information and take payments. Ms. Bailey followed up by asking if some type of reconciliation is performed where it states the balance at the beginning of the year, payments, loans written off, etc. Mr. Kapa replied "yes", that is done at the end of the year and each month. Ms. Bailey asked if the Loan Committee then sees that report. Mr. Kapa replied if they ask, that information is provided. He also added that every time an individual touches the ABS system, there is an audit trail with who touched it, the date, the time, and any adjustments they made. Dr. Brockenbrough said that there is a difference between having the ability to provide information to the customer versus a person who has the ability to make changes to the system. Mr. Kapa stated that if changes are made, they would not reconcile at the end of the year. Ms. Bailey asked if it is possible systematically for someone to have inquiry access and another person to have deletion/change access. Mr. Kapa replied not that they know of as of now. Mr. Wasserbach stated that a loan should not be deleted, but instead brought to a zero balance. There should be a report that management can review showing a loan that was either deleted from the system or brought to a zero balance. Mr. Kapa again stated that if a loan is deleted, then they would not be able to reconcile. Ms. Bailey asked if there is a policy for these reconciliations. Mr. Kapa said he will check and see if there are procedures. Dr. Brockenbrough asked if the reconciliation is done monthly or yearly. Ms. Casey explained that it is done each month and again at the end of the year. Mr. Kapa added that the loan balances are provided to Finance for the financial statements. Dr. Brockenbrough asked if the Loan Committee will receive copies of these reports. Mr. Kapa replied “yes”, that can be ensured.

Ms. Bailey asked Mr. Wasserbach what led him to doing this audit. Mr. Wasserbach stated that he was requested to conduct this audit and would explain more in the executive session. Ms. Casey stated that Mr. Wasserbach has been very helpful in looking at the issues and loans with Community Service. Mr. Kapa said a lot of the loans in that loan balance are totally deferred and that there are no payments required until the property changes owners. Ms. Casey stated that most of our clients, at least with the rehab loans, are people that cannot get a bank loan. So, the County defers until the home transfers or sells and then we get our payment at that time. Dr. Brockenbrough noted that this is like a revolving loan because you are getting money back and lending it out. Ms. Casey replied “yes.” Mr. Kapa said that in the budget for fiscal year 2024, they project $350,000 in program income. That consists of loan payoffs or payments. If that amount is exceeded, they can appropriate the extra funds back into the program. Dr. Brockenbrough asked how long this program has been in effect. Ms. Casey said probably around 40 years. She added that they’ve been able to get private funding and it just goes right back into the program, but they do have people that don’t pay and that’s been their conundrum. So, there is a lot of work that Community Services is doing on trying to requalify people or to see if they can get payment back so they can keep putting money in. Mr. Kapa added that, once a year, they send out about 500 letters (with coupons) to people who owe money so they could pay on a monthly basis. Mr. Cordano asked if it is safe to say that the majority of applicants qualify and receive a loan close to the maximum amount or at the maximum amount. Ms. Casey replied “yes”; for the downpayment program the maximum amount is $10,000 and for the rehab program it is more. Dr. Brockenbrough asked if they know what the delinquency rate is for the loan program versus the rehab part of the program. Mr. Kapa said that we receive payments for about 30% of DPS loans and that the other 70% is delinquent and there is interest accruing on those loans. Mr. Wasserbach added that they do have policies and procedures for following up on delinquent loans. Ms. Bailey asked whether in case of a delinquency, there is a lien placed on the property. Mr. Kapa said that as soon as the loan is issued, there is a lien on the property.

There were no further questions or comments from the members of the Audit Committee or from the members of the public.

Mr. Wasserbach then went over the two changes to the audit report discussed by the committee and asked the Committee members if there was a motion to approve the audit report with the changes. Mr. Cordano made a motion to approve, and Dr. Brockenbrough seconded the motion. The motion was passed unanimously.

IV. Next on the agenda, Mr. Wasserbach went over the 2024 Audit Plan and the status of audits. He noted, per Delaware Code, that the County Auditor’s office is required to perform follow-up audits. So, the Auditor’s office will schedule some follow-up audits in areas that had revealed Areas of Particular Concern in previous audits. Giving the status of audits, he explained that his office has completed the audit for the Down Payment Settlement Loan Program and looked at the County’s contractual relationship with Hersha Hospitality Management to operate the Hope Center. Next, the County Lodging Tax and Recorder of Deeds Office audits are both close to completion. Also, the Workers’ Compensation follow-up audit is in progress now, while the construction contracts audit is just beginning. He also mentioned looking into Neighborhood Improvement Districts Management Association funds and the surcharges collected for the Emergency Reporting system account. Mr. Cordano noted that it seemed like Mr. Wasserbach’s office was getting back to business as usual after spending a lot of time working on the CARES Act Audit previously.

Mr. Wasserbach asked the Committee members if there was a motion to approve the 2024 Audit Plan. Mr. Cordano made a motion to approve the Audit Plan and Ms. Bailey seconded the motion. The motion was passed unanimously.

V. Status of Audits: Mr. Wasserbach explained that he discussed this part of the agenda along with the FY 2024 Audit Plan.

VI. Mr. Wasserbach said that the next meeting will probably take place in late June. He stated that he would reach out to the committee members to check their availability for the next meeting.

Dr. Brockenbrough asked Mr. Wasserbach if he has considered meeting with the finance or fiscal officers of New Castle County maybe once a year where he can express to them some of the audit issues that he may have encountered and stress the importance of internal controls.

Mr. Wasserbach replied he thought that it would be a great idea to go into each department and emphasize how important internal controls are. He mentioned that, a few years back, he had given a presentation at one of the County Executive's meetings with the departmental heads. Dr. Brockenbrough suggested, with Mr. Wasserbach's large schedule and small staff, that maybe just meeting with the fiscal officers together would be better than meeting with every department individually.

Mr. Wasserbach agreed.

Ms. Casey then added that she wanted to thank Mr. Wasserbach and his staff for all of their help with the Hersha Hospitality transition. Ms. Bailey appreciated Ms. Casey's comments and noted that having worked with Mr. Wasserbach over the years, she knows that he likes to create partnerships with the auditees to get issues resolved.

VII. At 9:42 a.m., Mr. Wasserbach, his staff, and the Audit Committee members went into an executive session. When the executive session was complete, the Audit Committee members returned to the regular meeting and the meeting was adjourned.

Respectfully submitted by A.J. Flynn, Associate Auditor.