

**DEPARTMENT OF ADMINISTRATIVE  
SERVICES**

**AUDIT OF  
PROPERTY MANAGEMENT AGREEMENT**

**February 2001**

Prepared by:  
Internal Audit Division  
Clerk of the Circuit Court

February 6, 2001

The Honorable Dick Van Der Weide,  
Chairman  
The Board of County Commissioners  
Seminole County, Florida  
1101 East First Street  
Sanford, FL 32771

Dear Mr. Chairman:

I am very pleased to present you with the attached audit of the property management agreement between Seminole County and Central Florida Hands Realty, Inc.

The Seminole County Administrative Services Department is in the process of sending a letter to Central Florida Hands, enclosing a copy of the audit report and demanding payment for the money owed Seminole County. Management's responses and corrective actions have been incorporated into the final report. Based on those responses, management is responding to the conditions noted in the report.

I would like to thank the men and women of the Department of Administrative Services, for their cooperation and assistance throughout the course of this audit. The assistance is deeply appreciated. With warmest personal regards, I am

Most cordially,

Maryanne Morse  
Clerk of the Circuit Court  
Seminole County

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**DEPARTMENT OF ADMINISTRATIVE SERVICES**

**AUDIT OF  
PROPERTY MANAGEMENT AGREEMENT  
BETWEEN  
SEMINOLE COUNTY AND  
CENTRAL FLORIDA HANDS REALTY, INC.  
(SHENANDOAH VILLAGE APARTMENTS)**

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed an audit of an agreement with Central Florida Hands Realty, Inc. (hereafter Hands Realty, Inc.) for the management of Shenandoah Village Apartments. Ms. Jamie Croteau, the director of the department of Administrative Services, requested this audit.

**PURPOSE**

The purpose of the audit was to determine if Hands Realty, Inc. is operating in compliance with the property management agreement with the county for maintenance, administration and general supervision of the Shenandoah Village Apartments. In addition, the audit was performed to determine if the administrative controls are adequate and operating as intended in compliance with applicable laws, regulations, and other Seminole County policies and procedures.

**BACKGROUND**

On November 23, 1999, Seminole County, as owner of Shenandoah Village Apartments, 4220 U.S. Highway 17-92, Sanford, FL 32773, entered into agreement with Hands Realty, Inc., 2211 E. Hillcrest Street, Orlando, FL 32803, for the maintenance and operation of the 98-unit apartment complex. Hands Realty, Inc., was the previous owner of the property.

Hands Realty, Inc. was hired to operate and maintain the apartment complex on behalf of Seminole County for a period of one (1) year, or until all leases in the complex terminated or all units were vacated, whichever came first. Hands Realty, Inc., was authorized by the agreement to hire an onsite manager, one full time maintenance technician and one part-time maintenance technician. As manager of the property, it also was authorized to enter into contracts on behalf of the County for water, electric, gas, fuel oil, telephone, trash removal and other necessary services; and to purchase equipment, tools, appliances, office equipment, materials and supplies. However, Hands Realty, Inc., also was

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required to secure the county's approval for any purchase order or service contract exceeding the sum of \$500.00.

As manager, Hands Realty, Inc., was responsible for collecting all monies for rent due from tenants. The manager was directed, by way of the contract, to open operating and security deposit bank accounts, and to maintain a comprehensive system of office records, books and accounts for the apartment complex. Hands Realty, Inc., also was required to submit on or before the 15<sup>th</sup> day of each calendar month, a detailed written report of all receipts and disbursements recovered by the manager in the previous calendar month. The manager also was responsible for providing on a monthly basis a balance sheet and a profit and loss statement showing the results of operations.

### **SCOPE OF WORK**

The scope of this audit included a review of records from the inception of the contract to May 2000. During that time, Hands Realty, Inc., on behalf of Seminole County, collected rental fees of \$77,947.80.

Our audit coverage included:

- Review of the property management contract between Seminole County and Hands Realty, Inc.;
- Review of the closing agreement for the purchase of the property;
- Review of procedures by Hands Realty, Inc., to ensure that all rents received, deposits on record, and all costs related to the apartment complex were accurately recorded and accounted for in a timely manner;
- Review of bank statements, invoices, check copies, and rent receipts records;
- Review of the financial statements for Hands Realty, Inc.;
- Review of records being maintained by the County Department of Administrative Services;
- Interviews of key personnel; and,
- Other such review procedures considered necessary in the circumstances.

The audit was conducted by Pat Tindel and Bill Carroll.

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## OVERALL EVALUATION

Our review disclosed that Hands Realty, Inc., made payment out of the bank account set up on behalf of Seminole County for expenses incurred prior to the execution of the contract; incurred, in fact, prior to the sale of the property to Seminole County. Hands Realty, Inc., owes the County \$21,454.37 for payments made for bills owed by Hands Realty, Inc., for expenses incurred before the sale of the property.

Details of the findings and recommendations follow:

### FINDING NO. 1

*Bills incurred by Hands Realty, Inc. (the previous owner) prior to the December 17, 1999 closing date were paid out of the operating account set up on behalf of Seminole County (the new owner).*

The previous owner (Hands Realty, Inc.) prior to the December 17, 1999 closing incurred the following bills. Hands Realty, Inc., paid these bills out of the operating account set up on behalf of Seminole County.

Check No.	Check Date	Description	Amount
0001	12-21-99	Phone bill	\$ 9.18
0002	12-21-99	Phone bill	262.58
0003	12-21-99	Payroll	1,119.22
0004	12-21-99	Water and sewer	6,602.87
0005	12-21-99	Annual maintenance	89.80
0006	12-21-99	Electricity	324.83
0008	12-21-99	Payroll	1,058.02
0012	12-29-99	Applicant screening	14.00
0013	12-29-99	Water extraction	155.00
0014	12-29-99	December 1999 newsletter	31.03
0015	12-29-99	Water management services	210.88
0016	12-29-99	Window glass	8.92
0017	12-29-99	Plumbing	228.00
0018	12-29-99	Petty cash	93.26
0019	12-29-99	November lawn maintenance	825.00
1002	01-14-00	Phone bill	11.04
1003	01-14-00	Water extraction	240.00
1004	01-14-00	Maintenance supplies	103.14
1005	01-14-00	Water and sewer	4,144.69
1007	01-14-00	Plexiglass	17.12
1008	01-14-00	December lawn maintenance	425.76
1009	01-14-00	Electricity	220.86
1010	01-14-00	Soundcard	94.34

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1012	01-18-00	December management fee	954.88
1014	01-28-00	Carpet cleaning	530.00
1016	01-28-00	Water and sewer	2,579.50
1018	01-28-00	Monthly maintenance/lift station	65.00
1019	01-28-00	Rent roll 2000 initial license fee	18.48
1021	01-31-00	Newsletter	31.03
1025	02-14-00	Directory charges	155.93
1031	02-14-00	Utilities	128.61
1033	02-14-00	Drain cleaning	90.00
1038	02-25-00	Expense reimbursement	99.40
1046	03-07-00	Windows	<u>512.00</u>
		Total	\$21,454.37

By passing on these pre-existing bills to the County, Hands Realty, Inc., has enhanced its profit on the sale by more than \$20,000.

### **Recommendation**

Seminole County should demand payment of \$21,454.37 immediately.

### **Management Response**

We concur with your recommendation that we should demand payment of \$21,454.37. Administrative Services will be sending a letter to Central Florida Hands, enclosing a copy of the audit and the final invoice received from Central Florida Hands and demanding payment of the difference. The letter will indicate a specific date for payment and if this is not met, the County Attorney's office will assume the collection process.

### **FINDING NO. 2**

*County management was not notified of an existing lease for the laundry facility at the time of the closing.*

In a letter dated March 3, 2000, the Seminole County Department of Administrative Services was notified by Coinmach that, as the new owner of the Shenandoah Village Apartments, it was subject to the terms and conditions of an existing lease concerning the laundry facility at the complex. According to Coinmach, this lease is in full force and effect until May 6, 2011. The county received a copy of a letter addressed to Shenandoah General Corporation listing the total buy-out of the lease to be approximately \$92,000. Internal Audit reviewed all the documents in the closing agreement for the property and found no documentation in the file indicating that the lease had been disclosed to the County.

We also reviewed the financial statements prepared by Hands Realty, Inc., for the months of December 1999 through May 2000 and found that Coinmach was remitting some laundry revenue to Hands Realty, Inc. Specifically, in January 2000, Hands received a check from Coinmach for \$500.58; and in February for

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\$404.67. Hands Realty, Inc. deposited these two checks into the account established for Seminole County. The deposits would indicate that Hands Realty, Inc., knew of this source of income, and of the lease; and, as the previous owner of the property, should have disclosed this lease to the county.

County management has referred this issue to the county attorney's office for appropriate action.

### **Recommendation**

We also recommend that on future land and building contracts, the county requires a full disclosure by the seller of all leases and outstanding obligations. The seller should certify this disclosure statement.

### **Management Response**

The lease disclosure document was required as part of the closing document for the sale of the Shenandoah property to the County. Central Florida Hands certified in the disclosure that only certain tenant leases still existed at the time of the closing. Central Florida Hands did not mention the existence of the Coinmach lease, although it appears that they were aware of the lease and accepting lease payment at that time. In the event of a lawsuit by Coinmach, the County will rely on Central Florida Hands' disclosure statement to indemnify the County against Coinmach.

## **FINDING NO. 3**

*Certified rent rolls were not always in agreement with tenant leases.*

At the closing, Hands Realty, Inc., as seller of the property, was required to disclose a certified listing or "rent roll" of all rents due each month, and when the leases are due to expire. To validate that the rent rolls are accurate, Internal Audit made a comparison of the certified rent rolls to the lease agreements. The following errors were noted:

- a. Ten of 98 names on the rent rolls were not listed in the signed lease agreements;
- b. Seven of 98 units on the rent rolls had rent amounts listed on the lease agreements that differed with the amount on the rent rolls;
- c. Nine of 98 units on the rent rolls had different amounts for the security deposits than those listed in the lease agreements;
- d. Thirty-two of 98 units on the rent rolls had different start and end dates of leases than those listed in the lease agreements.

These conditions are indications that the data submitted by Hands Realty, Inc., is not accurate.

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**Recommendation**

Prior to entering into similar contracts, revenues and expenses of the business should be audited to ensure that potential outstanding liabilities and potential litigation is uncovered.

**Management Response**

The inconsistencies should be brought to Central Florida Hands attention and all accounting for rents owed the County should be based upon lease terms rather than Hands' rent rolls. Although we agree with the auditors that revenue and expenses should be confirmed prior to entering into a contract, this particular purchase was unusual. It is not the practice of Seminole County to purchase property that requires on-going operation and maintenance along with a revenue - producing stream from tenants. Shenandoah Village was purchased for future expansion for the County and not for its revenue potential and continued operation.

**FINDING NO. 4**

*The County could be entitled to additional rent receipts as approximately \$56,000 in unpaid rent has been turned over to a collection agency.*

Hands Realty, Inc., provided to Internal Audit a listing of accounts turned over to a collection agency. The report indicated that some tenants had been making small payments to Shenandoah Village Apartments on these past due amounts.

We were informed that during the first phase of collection, the collection agency sends the tenant a series of five letters asking "softly" for payment. If the former tenant makes payment, 100 percent of this money is deposited into the operating account established for the county. We did note evidence that payments made by two former tenants had been deposited into the operating account established for the county. The second phase of collection is referred to as "hard collection." Hard collection is when the accounts are assigned to a collection agency and stronger action is taken to collect the money. If the former tenant makes payment, the county would receive credit for 50 percent of the money. The chief financial officer of Hands Realty Inc. stated to us that approximately 99 percent of these accounts would remain uncollectable.

**Recommendation**

Hands Realty, Inc. should provide a full accounting of all money collected by the collection agency until it has been determined that no more receipts are probable. The agreement with the collection agency should be amended to state that all future collections be remitted to Seminole County.

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**Management Response**

We will be sending a letter to Central Florida Hands, requesting the immediate full accounting of all money collected by the collection agency to date, and requesting all future collections should be submitted to Seminole County. We will work with your office and the County Attorney's office to ensure compliance.

**FINDING NO. 5**

*Operating and security deposit bank accounts are not held in the name of Seminole County.*

Per the contract, Hands Realty, Inc. was directed to open up operating and security deposit accounts on behalf of Seminole County. All rents received, bills paid, and security deposits returned after December 17<sup>th</sup> were to be processed by these accounts. Hands Realty, Inc., established the bank accounts in its own name, not Seminole County's.

It is our understanding that the Department of Administrative Services entered into this contract with the objective of contracting with an outside company to manage the complex in its entirety and furnish the county with a statement of operations. Although this concept is a reasonable method to operate by, the Seminole County Finance Department was not involved with establishing the bank accounts in the name of Seminole County, nor involved with establishing the financial controls over this contract.

**Recommendation**

After all remaining bills are paid, liquidate and close out the existing bank accounts. Prior to entering into similar contracts, the director of county finance should have the sole responsibility for establishing the bank accounts in the name of Seminole County and should be involved with establishing the financial controls over this contract.

**Management Response**

We agree with the audit findings, that all accounts should be closed out immediately, and any remaining balance should be sent to County Finance. A letter to that effect will be sent.