



Tacoma Housing Authority Tacoma, WA

Rental Assistance Demonstration Program



To: Harlan Stewart, Director, Office of Public Housing, Seattle, WA, OAPH
//signed//
From: Ronald J. Hosking, Regional Inspector General for Audit, OAGA
Subject: The Tacoma, WA, Housing Authority Generally Satisfied RAD Requirements but Did Not Follow Its Moving to Work Policy by Conducting Annual Tenant Reexaminations for Its RAD Converted Units

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Tacoma Housing Authority's Rental Assistance Demonstration Program (RAD) converted units.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5870.



Audit Report Number: 2019-SE-1001

Date: December 21, 2018

The Tacoma, WA, Housing Authority Generally Satisfied RAD Requirements but Did Not Follow Its Moving to Work Policy by Conducting Annual Tenant Reexaminations for Its RAD Converted Units

Highlights

What We Audited and Why

We audited the Tacoma Housing Authority's Rental Assistance Demonstration Program (RAD), a program area that was a priority for the Office of Audit. We selected the Authority because it had the highest number of completed RAD units (482 at 10 properties) and the second highest number of total RAD units (805, including 323 anticipated at 8 properties) in HUD's Region 10 (Alaska, Idaho, Oregon, and Washington). Our objective was to determine whether the Authority executed the appropriate written agreements for RAD, ensured that project financing sources were secured, obtained physical condition assessments, appropriately used replacement housing factor funding for converting public housing units to RAD, and followed its Moving to Work policy by conducting annual tenant reexaminations for its RAD converted units.

What We Found

The Authority generally executed the appropriate written agreements for RAD, ensured that project financing sources were secured, obtained physical condition assessments, and appropriately used replacement housing factor funding for converting public housing units to RAD. However, the Authority did not always conduct annual tenant reexaminations for its RAD converted units. As a result, the Authority paid \$2,975 in unsupported and ineligible housing assistance for 5 of the 20 sampled tenants.

What We Recommend

We recommend that the Director of the Seattle Office of Public Housing (1) require the Authority to provide support for the \$1,071 in unsupported assistance payments made in 2017 and reimburse its RAD-converted project-based voucher program using non-Federal funds for any amount that remains unsupported, (2) require the Authority to reimburse its RAD-converted project-based voucher program \$1,904 using non-Federal funds for the ineligible assistance payments made in 2017, (3) require the Authority to complete overdue annual reexaminations and reconcile corrections by reimbursing tenants and its RAD-converted project-based voucher program using non-Federal funds, and (4) conduct a review to determine whether the Authority is complying with the reexamination schedule in its Moving to Work policy and incorporate timely reexaminations in the risk management assessment.

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Background and Objective

Tacoma Housing Authority

The Tacoma Housing Authority was established in 1940 by the City of Tacoma, WA. The Authority is governed by a five-member board of commissioners, who are appointed by the mayor of Tacoma. It provides rental assistance to more than 3,700 households through a combination of the U.S. Department of Housing and Urban Development's (HUD) Housing Choice Voucher Program, Authority-owned and managed affordable apartments and homes, and its own Housing Opportunity Program. In total, the Authority serves more than 11,000 people, or about 6 percent of Tacoma's residents, the majority of whom are elderly, disabled, or children.

In 2010, HUD selected the Authority to be a Moving to Work agency. This status gives the Authority flexibility in how it operates its HUD-funded programs by letting it design and test innovative, locally designed strategies for providing low-income families with affordable housing and new paths to economic independence. The Authority must annually submit to HUD for approval a Moving to Work plan, which outlines its planned activities under the program, and submit a report the following year detailing the results of those activities.

Rental Assistance Demonstration Program

Congress authorized the Rental Assistance Demonstration Program (RAD) in fiscal year 2012 to preserve and improve public housing properties and address a \$26 billion nationwide backlog of deferred maintenance. RAD allows public housing agencies to convert public housing and other HUD-assisted properties into long-term, project-based Section 8 rental assistance units. Converting the properties gives the housing agencies access to private debt and equity to address immediate and long-term capital needs.

RAD has two components. The first component allows the conversion of public housing and moderate rehabilitation properties into properties under long-term, project-based Section 8 rental assistance contracts. The second component allows rent supplement, rental assistance payment, and moderate rehabilitation properties to convert tenant protection vouchers into project-based assistance at the end of the contract.

Converted Properties

The Authority converted 10 public housing projects throughout Tacoma to project-based Section 8 rental assistance properties under RAD. In May 2016, the Authority converted 456 units at 9 public housing properties – including E.B. Wilson Apartments (figure 1) and Sixth Avenue Apartments (figure 2) – and spent \$36 million on renovations. In June 2017, the Authority converted an additional 26 units at Bay Terrace I without rehabilitation. The Authority used low-income housing tax credits to assist in the conversion of these 10 properties.



Figure 1 E.B. Wilson Apartments



Figure 2 Sixth Avenue Apartments

Our objective was to determine whether the Authority executed the appropriate written agreements for RAD, ensured that project financing sources were secured, obtained physical condition assessments, appropriately used replacement housing factor funding for converting public housing units to RAD, and followed its Moving to Work policy by conducting annual tenant reexaminations for its RAD converted units.

Results of Audit

Finding: The Authority Generally Satisfied RAD Requirements but Did Not Follow Its Moving to Work Policy by Conducting Annual Tenant Reexaminations for Its RAD Converted Units

The Authority executed the appropriate written agreements for RAD, ensured that project financing sources were secured, obtained physical condition assessments, and appropriately used replacement housing factor funding for converting public housing units to RAD. However, the Authority did not always conduct annual tenant reexaminations for its RAD converted units. This condition occurred because the Authority's staff did not recognize that its Moving to Work policy had a different tenant reexamination schedule for tax credit properties. As a result, the Authority paid \$2,975 in unsupported and ineligible housing assistance for 5 of the 20 sampled tenants.

Generally Satisfied RAD Requirements

The Authority generally followed the RAD requirements reviewed. The Authority executed all of the appropriate written agreements and ensured that project financing sources were secured before conversion. It also obtained all of the necessary physical condition assessments for the 10 properties it converted. In addition, the Authority's use of replacement housing factor funding to repay a bond was appropriate according to its Moving to Work agreement.

Unperformed Annual Tenant Reexaminations

The Authority did not conduct 20 annual tenant housing assistance reexaminations for 14 of the 20 sampled tenants from its RAD converted units. Of the 14 tenants, 6 had more than 1 missing reexamination after RAD conversion, resulting in a total of 20 required reexaminations that were not performed. Instead of conducting the housing assistance reexaminations annually as required, the Authority conducted them every 2 to 3 years.

The Authority's policy generally did not require annual housing assistance reexaminations. Its policy stated that it would reexamine tenant income every 2 years for families earning wage income and every 3 years for elderly or disabled tenants relying on a fixed income. This was how the Authority conducted housing assistance reexaminations for our sampled tenants before the RAD conversion. However, for tax credit properties, the Authority's policy stated that it would follow the Washington State Housing Finance Commission's standards, which required annual tenant income reexaminations. All 10 of the Authority's converted public housing projects became tax credit properties as part of the RAD conversion.

The Authority was also required to conduct annual State tax credit recertifications for its tenants to verify their income.

Not Recognizing Policy

The Authority's staff did not recognize that its policy had a different housing assistance reexamination requirement for tax credit properties than it did for public housing properties. The

Authority's staff members told us that they believed the annual requirement applied only to the State tax credit recertifications. However, as stated above, the Authority's policy required annual housing assistance reexaminations for its converted properties.

Unsupported and Ineligible Housing Assistance

The Authority paid \$2,975 in unsupported and ineligible housing assistance for 5 of the 20 sampled tenants. The amount of rent public housing agencies charge an individual tenant and any rental assistance that tenant receives are based on income. Periodic tenant income reexaminations help ensure that housing agencies are charging tenants the appropriate rent and collecting the right amount of assistance from HUD. Without the annual tenant reexaminations, the Authority was unaware of tenant income changes, resulting in unsupported and ineligible housing assistance.

Many of the tenant files contained current income documentation obtained by the Authority when it completed its annual State tax credit recertifications. We used that documentation to determine whether the missed reexaminations affected housing assistance payments. For 9 of the 14 tenants with missing reexaminations, 8 of the tenants had no significant change to income, while another tenant moved out before the end of the year of conversion. Ultimately, there was no impact on their housing assistance. The Authority paid \$1,071 in unsupported housing assistance and \$1,904 in ineligible housing assistance for the five remaining tenants, one of which had both unsupported and ineligible housing assistance.

The Authority paid the property owners \$1,071 in unsupported housing assistance in the first full year following conversion for 1 of the 20 sampled tenants. For this tenant, the tenant file did not contain adequate current income documentation to support the amount of assistance paid.

Appendix D shows how much housing assistance was unsupported each month for this tenant.

The Authority paid the property owners \$1,904 in ineligible housing assistance in the first full year following conversion for 5 of the 20 sampled tenants. For these tenants, their tenant files contained current income documentation showing that the amount of assistance should have been less than was paid. Appendix D shows how much housing assistance was ineligible for each tenant each month.

Had the Authority conducted the required annual reexaminations, it could have used this additional documentation to calculate and pay the accurate rental assistance.

Recommendations

We recommend that the Director of the Seattle Office of Public Housing

- 1A. Require the Authority to provide support for the \$1,071 in unsupported assistance payments made in 2017 and reimburse its RAD-converted project-based voucher program using non-Federal funds for any amount that remains unsupported.
- 1B. Require the Authority to reimburse its RAD-converted project-based voucher program \$1,904 using non-Federal funds for the ineligible assistance payments made in 2017.

- 1C. Require the Authority to complete overdue annual reexaminations and reconcile corrections by reimbursing tenants and its RAD-converted project-based voucher program using non-Federal funds.
- 1D. Conduct a review to determine whether the Authority is complying with the reexamination schedule in its Moving to Work policy and incorporate timely reexaminations in the risk management assessment.

Scope and Methodology

We performed our audit work between October 2017 and September 2018. We performed our onsite fieldwork at the Authority's office at 902 South L Street, Tacoma, WA. Our audit period was January 1, 2015, through December 31, 2017.

To accomplish our objective, we performed the following steps:

- studied applicable HUD requirements and the Authority's Moving to Work plans,
- interviewed Authority and HUD staff,
- evaluated written agreements and financing sources supporting conversion,
- assessed the HUD funding used in the conversion,
- reviewed occupancy and rent calculation following the conversion,
- examined tenant files before and after the conversion, and
- obtained the physical condition assessments.

Sample Selection

The Authority's records showed that 742 tenants were associated with the 482 converted units during our audit period. Using a random number generator, we randomly selected 20 tenants for our review and found that 3 had declined the units when the Authority offered them. Therefore, we randomly selected three additional tenants to replace them and confirmed that they occupied a converted unit during our audit period. We reviewed our sample of 20 tenants to determine whether the Authority followed its Moving to Work policy by conducting annual tenant reexaminations for its RAD converted units.

We randomly selected these tenants because we wanted our observations to be representative. However, given the amount of time required to review each tenant, selecting larger statistically valid samples would not have been beneficial due to the small size of the universe. Therefore, we did not project the results of this sample to the universe and are reporting only what we found in our sample.

For our conclusions regarding the written agreements, financing sources, physical condition assessments, and use of replacement housing factor funds, we reviewed 100 percent of the supporting documentation.

We did not rely on computer-processed data to support our audit conclusions. All audit conclusions were based on source documentation.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- policies and procedures to ensure that the Authority executed the appropriate written agreements for RAD,
- policies and procedures to ensure that the project financing sources were secured,
- policies and procedures to ensure that the Authority obtained physical condition assessments for each converted property,
- policies and procedures to ensure that the Authority appropriately used replacement housing factor funds for converting public housing units to RAD, and
- policies and procedures to ensure that the Authority followed its Moving to Work policy by conducting annual tenant reexaminations for converted units.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure. Accordingly, we do not express an opinion on the effectiveness of the Authority's related internal controls.

Separate Communication of Minor Deficiencies

We verbally reported minor deficiencies to the auditee during the course of our review.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$1,071
1B	\$1,904	
Totals	1,904	1,071

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



**Tacoma
Housing
Authority**

Executive Director
Michael Mirra

Board of Commissioners
Dr. Minh-Anh Hodge, Chair | Derek Young, Vice Chair
Dr. Arthur C. Banks | Stanley Rumbaugh | Shennetta Smith

November 19, 2018

Mr. Ronald J. Hosking
Regional Inspector General for Audit
Office of Audit Region 10
909 First Avenue, Suite 126
Seattle, WA 98104

RE: Audit Report Number: 2019-SE-1001 DISCUSSION DRAFT AUDIT REPORT

Dear Mr. Hosking:

Thank you for the draft copy of the report of your office's audit of Tacoma Housing Authority's (THA) Rental Assistance Demonstration Program (RAD). And thank you for your invitation that we offer our comments on your findings. I write for that purpose.

The DRAFT Audit Report concludes that THA generally executed the appropriate written agreements for RAD; ensured project financing sources were secured, obtained physical condition assessments, and appropriately used replacement housing factor funding for the conversion. We appreciate your recognition of THA's work in this way.

The DRAFT also concludes that THA did not always conduct annual tenant reexaminations for its RAD converted units. Although THA's policy calls for reexaminations every 2 or 3 years, annual examinations are required for tax credit compliance purposes. By email of November 16, 2018, [REDACTED] of your office amended your draft report to recommend four steps. I reprint them below with our response for each one:

"1A. Require the Authority to provide support for the \$5,204 in unsupported assistance payments made in 2017 and reimburse its RAD-converted project-based voucher program using non-Federal funds for any amount that remains unsupported."

THA thinks the amount of this reimbursement should instead be \$1,282. THA requested and received from Mr. [REDACTED] the written tenant file material he used for this recommendation. THA reviewed the material. We show our response for each tenant in the attached material.

"1B. Require the Authority to reimburse its RAD-converted project-based voucher program \$1,025 using non-Federal funds for the ineligible assistance payments made in 2017."

902 South L St Tacoma, WA 98405

(253) 207-4429 | mmirra@tacomahousing.org | tacomahousing.net

Comment 1

Comment 2

Ref to OIG
Evaluation

Auditee Comments

Comment 3

Mr. Ronald J. Hosking
November 19, 2018
Page 2

We will agree to this recommendation. We do not know if reimbursement is warranted or if the amount is correct. We do not have the time to review the files to make sure.

"1C. Require the Authority to complete overdue annual reexaminations and reconcile corrections by reimbursing tenants and its RAD-converted project-based voucher program using non-Federal funds."

We will agree to this as well.

"1D. Conduct a review to determine whether the Authority is complying with the reexamination schedule in its Moving to Work policy and incorporate timely reexaminations in the risk management assessment."

Comment 4

We are not sure what this further "review" will entail. We will agree to review all RAD tenant files to determine if there are any additional unsupported or ineligible HAP payments. In addition to this, THA has created a more robust compliance program that will include pre-auditing of all Move-ins, regular file audits and thorough staff trainings.

Thank you for your team's work on this audit. Your team began its work on Halloween 2017. We were pleased to host them for the next 9 months and to continue after that to provide additional information. Your audit's main conclusion, and on which your team spent the bulk of its time, was reassuring. We are pleased for your reassurance of no problem with our written agreements, project financing, physical condition assessments, and replacement housing factoring. Audits, however, can also help us improve. We appreciate that after a year's work your team was able to find a way for us to do that. We are grateful.

Thank you.

Cordially,

TACOMA HOUSING AUTHORITY



Michael Mirra
Executive Director

enclosure

OIG Evaluation of Auditee Comments

- Comment 1 Based on the additional supporting documentation and analysis described in Comment 2, we agree with the Authority that the amount of unsupported housing assistance was not \$5,204. While the Authority claimed the amount should be \$1,282, its calculation included a month that was supported by the additional documentation. We found that the unsupported assistance was \$1,071, and we changed the recommendation accordingly.
- Comment 2 Along with its written comments presented here, the Authority provided income documentation for the three tenants with unsupported housing assistance. We recognized these documents from the tenant files we reviewed; however, we had not included them as support for the missing housing assistance reexaminations because they were either created after the missing reexamination due date or too old by that date to serve as support.
- Although the documents were invalid when the missing reexaminations were due, each one documented income for a 12-month period. Therefore, we accepted the income documents as support, and for each month we had originally questioned, we recalculated what the housing assistance should have been based on that support. We made the appropriate changes to the figures in the audit report and Appendix C.
- Comment 3 The original amount of \$1,025 was not correct. The additional supporting documentation described in Comment 2 showed that the Authority paid \$1,904 in ineligible housing assistance for 5 of the 20 sampled tenants in the first full year following conversion. We changed the recommendation accordingly.
- Comment 4 We addressed all of our recommendations to the Director of the Seattle Office of Public Housing. The Office of Public Housing will work with the Authority to carry-out each recommendation. The recommended monitoring by the Office of Public Housing will help ensure that the Authority is in compliance with its Moving to Work policy and reexamination schedule for future housing assistance reexaminations.

Appendix C

Unsupported and Ineligible Housing Assistance by Tenant by Month

Tenant	Month	Assistance	Supported	Unsupported	Ineligible	Notes
1	Jan. 2017	\$790	\$291	\$357	\$142	Reexamination effective July 2017
	Feb. 2017	713	291	357	65	
	Mar. 2017	713	291	357	65	
	Apr. 2017	790	648		142	
	May 2017	713	648		65	
	June 2017	713	648		65	
2	Jan. 2017	734	734			Reexamination effective May 2017
	Feb. 2017	734	734			
	Mar. 2017	734	710		24	
	Apr. 2017	734	710		24	
3	Jan. 2017	211	92		119	Reexamination effective Sept. 2017
	Feb. 2017	211	92		119	
	Mar. 2017	211	92		119	
	Apr. 2017	211	92		119	
	May 2017	211	92		119	
	June 2017	639	639			
	July 2017	639	639			
	Aug. 2017	657	657			
4	Jan. 2017	591	520		71	No reexamination in 2017
	Feb. 2017	591	520		71	
	Mar. 2017	591	520		71	
	Apr. 2017	591	520		71	
	May 2017	591	496		95	
	June 2017		496		(496)	
	July 2017	567	496		71	
	Aug. 2017	609	514		95	
	Sept. 2017	609	514		95	
	Oct. 2017	609	514		95	
	Nov. 2017	609	514		95	
	Dec. 2017	609	514		95	
5	Jan. 2017	615	591		24	No reexamination in 2017
	Feb. 2017	615	591		24	
	Mar. 2017	615	591		24	
	Apr. 2017	615	591		24	
	May 2017	615	591		24	
	June 2017	615	591		24	
	July 2017	615	591		24	
	Aug. 2017	633	609		24	
	Sept. 2017	633	609		24	
	Oct. 2017	633	609		24	
	Nov. 2017	633	609		24	
	Dec. 2017	633	609		24	
Total		24,395	21,420	1,071	1,904	