



Homewood Terrace Mutual Homes, Auburn, WA

Section 8 Housing Assistance Payments Program



To: Thomas W. Azumbrado, Director, San Francisco Multifamily Housing Hub,
9AHMLAP

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From: Ronald Hosking, Regional Inspector General for Audit, OAGA

Subject: Homewood Terrace, Auburn, WA, Did Not Always Conduct Timely
Reexaminations, Properly Request Assistance Payments, or Verify Income
Information

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Homewood Terrace Mutual Homes' Section 8 housing assistance payments program.

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 Web site. 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: 2016-SE-1001

Date: March 3, 2016

Homewood Terrace Did Not Always Conduct Timely Reexaminations, Properly Request Assistance Payments, or Verify Income Information

Highlights

What We Audited and Why

We audited Homewood Terrace Mutual Homes' Section 8 housing assistance payments program due to concerns over poor financial reporting and potentially inappropriate involvement by one of its board members. Our objective was to determine whether Homewood Terrace conducted timely reexaminations, correctly calculated and requested assistance payments, and verified income information.

What We Found

Homewood Terrace did not always conduct timely reexaminations, properly request assistance payments, or verify income information. As a result, the U.S. Department of Housing and Urban Development (HUD) paid more than \$5,900 in ineligible housing assistance and more than \$3,000 for assistance that was not fully supported by the necessary income documentation. In addition, Homewood Terrace has received approximately \$72,000 less in assistance payments than it was entitled.

What We Recommend

We recommend that the Director of the Office of Multifamily Housing Programs' San Francisco Hub require Homewood Terrace to (1) hire, train and maintain sufficient staff to adequately perform its housing assistance payment functions; (2) repay HUD from non-Federal funds \$5,928 in ineligible housing assistance; (3) perform all past-due reexaminations, determine the correct amount of housing assistance due to Homewood Terrace, and adjust the next request for assistance to account for these corrections; and (4) verify the unsupported income amount, reimburse HUD up to \$3,087 for any assistance amount that remains unsupported, and adjust the next request for assistance to account for the appropriate amount.

Homewood Terrace declined the opportunity to provide a written response.

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Background and Objective

Homewood Terrace Mutual Homes, Inc.

Homewood Terrace Mutual Homes is a residential cooperative association with a 162-unit complex in Auburn, WA. As a housing cooperative, Homewood Terrace is owned by its resident members and is governed by a five-person board of directors. The U.S. Department of Housing and Urban Development (HUD) made housing assistance payments to Homewood Terrace under 3 Section 8 contracts that covered 89 units. During our audit period, HUD provided Homewood Terrace more than \$514,000 in Section 8 housing assistance payments.

Section 8 – Housing Assistance Payments Program

The project-based Section 8 housing assistance payments program provides rental assistance to low-income individuals and families, enabling them to live in affordable, decent, safe, and sanitary housing. HUD makes the assistance payment to the owner of an assisted unit on behalf of an eligible family, defined as having income at or below 80 percent of the area median income adjusted for family size. The family pays the higher of (1) 30 percent of its monthly adjusted income, (2) 10 percent of its monthly income, (3) welfare rent (if applicable), and (4) \$25 minimum rent. The owner or management agent calculates the amount of the assistance payment, which is the difference between the contract rent and the family's share of the rent. The owner is responsible for reexamining the family's income and composition at least once each year and adjusting the amount of assistance payments accordingly.

Our objective was to determine whether Homewood Terrace conducted timely reexaminations, correctly calculated and requested assistance payments, and verified income information.

Results of Audit

Finding: Homewood Terrace Did Not Always Conduct Timely Reexaminations, Properly Request Assistance Payments, or Verify Income Information

Homewood Terrace did not always conduct timely reexaminations, properly request assistance payments, or verify income information. This condition occurred because Homewood Terrace did not ensure it always had adequate staffing to perform its housing assistance payment functions. As a result, HUD paid more than \$9,000 in housing assistance based on inadequate and outdated reexaminations, and Homewood Terrace has received approximately \$72,000 less in assistance payments than it is entitled.

Unperformed Reexaminations

Homewood Terrace did not conduct timely reexaminations of income and family composition. According to 24 CFR (Code of Federal Regulations) 886.124, Homewood Terrace must reexamine the income and composition of all families at least once each year. However, beginning around April 1, 2015, Homewood Terrace stopped conducting annual reexaminations while continuing to certify and request monthly assistance payments from HUD.

As a result, HUD paid housing assistance of more than \$5,900 for seven families whose assistance amounts were outdated. Since Homewood Terrace did not conduct its annual reexaminations on time, the assistance amounts it requested for these seven families were more than a year old and, thus, ineligible. Appendix D shows how much assistance HUD paid each month that was based on past-due annual reexaminations. As of November 2015, 22 members had past-due reexaminations. If Homewood Terrace does not fix this problem, ineligible assistance for these families over the next year would total more than \$105,000.

Unrequested Assistance

Homewood Terrace did not submit all of its monthly requests to HUD for housing assistance payments for July through November 2015. Its housing assistance payments contracts with HUD require the owner to submit these monthly requests. However, Homewood Terrace stopped submitting monthly payment requests for one of its Section 8 contracts after June 2015, and HUD received the last requests for the other two contracts for July 2015.

As a result, Homewood Terrace has received approximately \$72,000 less in assistance payments than it is entitled. To estimate how much housing assistance was not requested, we assumed that the assistance amounts on Homewood Terrace's final requests were a fair approximation of what would have been requested in the following months and may be due to Homewood Terrace if it requests past assistance. See appendix D for the monthly breakdown of this estimate.

Unverified Income Information

Homewood Terrace processed one annual reexamination without the necessary verification. HUD Handbook 4350.3 requires owners to verify each family's income, assets, expenses, and deductions as part of the annual recertification process. However, when processing this annual reexamination, Homewood Terrace's former office manager copied the income from an earlier interim reexamination without verifying it.

As a result, HUD paid unsupported housing assistance of more than \$3,000. The housing assistance payment calculated at the annual reexamination was \$343 per month. Since none of the income for this reexamination was verified, the entire assistance amount was unsupported. The effective date of the annual reexamination was October 1, 2014, and requests for this unit continued through June 2015. Therefore, HUD paid the unsupported \$343 assistance amount each month for 9 months.

Manager Vacancy and Turnover

Homewood Terrace did not ensure it always had adequate staffing to perform its housing assistance payment functions. Homewood Terrace had high staff turnover and had not had an office manager since September 2015. That month, Homewood Terrace contracted with a consultant to help bring its reexaminations up to date and assist the project in filling the office manager position, but this position remained vacant as of November 2015. Without an office manager, there was no one on staff to conduct reexaminations or request assistance payments for the last few months of our audit period.

At the exit conference on February 17, 2016, Homewood Terrace informed us that the office assistant received the necessary training in January and started performing the reexaminations and submitting the requests for assistance to HUD. However, Homewood Terrace was still interviewing applicants for the full-time office manager position.

Recommendations

We recommend that the Director of the Office of Multifamily Housing Programs' San Francisco Hub require Homewood Terrace to

- 1A. Hire, train and maintain sufficient staff to adequately perform its housing assistance payment functions.
- 1B. Repay HUD from non-Federal funds the \$5,928 in ineligible housing assistance received after April 1, 2015, that was based on past-due annual reexaminations.
- 1C. Perform all past-due reexaminations and determine the correct amount of housing assistance due to Homewood Terrace since April 1, 2015, for the 22 members who did not receive timely reexaminations and adjust the next request for assistance to account for these corrections. By implementing this recommendation, \$105,324 in housing assistance payments will be better used in the next year by providing the correct amount of assistance to families.
- 1D. For the member whose October 1, 2015, reexamination relied on unverified income information, determine the appropriate housing assistance payment

amount for that reexamination date by verifying and supporting the member's income at that time, reimburse HUD up to \$3,087 for any amount that remains unsupported, and adjust the next request for assistance to account for the appropriate amount.

Scope and Methodology

The audit period initially covered April 1, 2013, through March 31, 2015, but we later extended this period to November 30, 2015. We performed our fieldwork in October and November 2015 at Homewood Terrace's office located at 30030 38th Avenue South, Auburn, WA.

To accomplish our objective, we performed the following steps:

- Reviewed applicable requirements.
- Interviewed staff from HUD, Homewood Terrace, and HUD's contract administrator.
- Obtained and reviewed housing assistance payment data.
- Recalculated the amount of housing assistance supported by the sampled unit files.
- Determined the amount of housing assistance paid for units with past-due reexaminations.
- Determined the amount of housing assistance that was not requested.

Sample Selection

While the assistance contracts cover 89 units at any one time, Homewood Terrace requested housing assistance for 94 different units over the course of the initial audit period. These units received a total of \$453,209 during the initial audit period, and we separated them into three strata: those that received assistance payments each month of the initial audit period, those that did not receive assistance payments during that audit period, and those that had some months of assistance and some months without. From these three strata, we randomly selected six, two, and four units, respectively.

We selected these 12 units to determine whether Homewood Terrace correctly calculated the assistance payments for each of the unit types defined by our strata. We assigned different sample sizes based on the risk presented by the different strata. We randomly selected these units because we wanted our observations to be representative. However, given the amount of time required to review each unit, selecting a larger statistically valid sample would not have been cost effective. Therefore, we did not project the results to the universe and are only reporting what we found in our sample.

Funds To Be Put to Better Use

By the end of our audit period, 22 members had annual reexaminations that were past due. We estimated the amount of funds to be put to better use based on the recommendation for Homewood Terrace to resume performing these annual reexaminations. We assumed that the lack of an office manager would mean that Homewood Terrace would not have updated the housing assistance amounts after its last requests and that the assistance amounts for these 22 members would remain outdated. The assistance payments for these 22 members totaled \$8,777 each month. We multiplied this total by 12 months to determine the amount of funds that would be put to better use over the next year.

We relied on computer-processed data when calculating the assistance payments made for units with past-due reexaminations, but we confirmed the validity of these data by testing against the documentation in the sampled unit files. We did not rely on computer-processed data for our other conclusions but, rather, relied on supporting documentation in the sampled unit files and from HUD's contract administrator.

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. 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 implemented to ensure that the correct housing assistance payments were requested.

We assessed the relevant controls identified above by evaluating the available policies and procedures. We also reviewed assistance payment data and the files of the sampled units, which demonstrated the effectiveness of the controls.

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.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- Homewood Terrace did not ensure it always had adequate staffing to perform its housing assistance payment functions. (finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1B	\$5,928		
1C			\$105,324
1D		\$3,087	
Total	\$5,928	\$3,087	\$105,324

- 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.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, by implementing this recommendation, \$105,324 in housing assistance payments will be better used in the next year by providing the correct amount of assistance to families.

Appendix B

Criteria

24 CFR 886.119 – Responsibilities of the owner

- a) The Owner shall be responsible for management and maintenance of the project in conformance with requirements of the Regulatory Agreement. These responsibilities shall include but not be limited to:
 - 3) Performance of all management functions, including the taking of applications; determining eligibility of applicants in accordance with part 5 of this title; selection of families, including verification of income, in accordance with part 5 of this title, obtaining and verifying Social Security Numbers submitted by applicants (as provided by part 5, subpart B, of this title), obtaining signed consent forms from applicants for the obtaining of wage and claim information from State Wage Information Collection Agencies (as provided in part 5, subpart B, of this title), and other pertinent requirements; and determination of the amount of tenant rent in accordance with HUD established schedules and criteria;
 - 6) Preparation and furnishing of information required under the Contract;
 - 7) Reexamination of family income and composition, redetermination, as appropriate, of the amount of Tenant Rent and the amount of housing assistance payment in accordance with part 5 of this title; collection of rent; obtaining and verifying participant Social Security Numbers, as provided by part 5, subpart B, of this title; and obtaining signed consent forms from participants for the obtaining of wage and claim information from State Wage Information Collection Agencies, as provided by part 5, subpart B, of this title;
 - 8) Redeterminations of amount of Tenant Rent and amount of Housing Assistance Payment in accordance with part 5 of this title as a result of an adjustment by HUD of any applicable Utility Allowance; and
 - 9) Compliance with equal opportunity requirements.

24 CFR 886.124 – Reexamination of family income and composition

- a) *Regular reexaminations.* The owner must reexamine the income and composition of all families at least once each year. Upon verification of the information, the owner must make appropriate adjustments in the Total Tenant Payment in accordance with part 5 of this title and determine whether the family's unit size is still appropriate. The owner must adjust Tenant Rent and the Housing Assistance Payment to reflect any change in Total Tenant Payment and carry out any unit transfer required by HUD. At the time of the annual reexamination of family income and composition, the owner must require the family to disclose and verify Social Security Numbers. For requirements regarding the signing and submitting of consent forms by families for the obtaining of wage and claim information from State Wage Information Collection Agencies, see part 5, subpart B, of this title. At the first regular reexamination after June 19, 1995, the owner shall follow the requirements of part 5, subpart E, of this title concerning obtaining and processing evidence of citizenship or eligible immigration status of all family members. Thereafter, at each regular reexamination,

the owner shall follow the requirements of part 5, subpart E, of this title concerning verification of the immigration status of any new family member.

HUD Handbook 4350.3 – Occupancy Requirements of Subsidized Multifamily Housing Programs

5-12(B) – Timeframe for Conducting Verifications

Owners conduct verifications at the following three times.

1. Owners must verify income, assets, expenses, and deductions and all eligibility requirements prior to move-in.
2. Owners must verify each family's income, assets, expenses, and deductions as part of the annual recertification process. Refer to Chapter 7, Section 1 for information on annual recertifications.
3. Owners must verify changes in income, allowances, or family characteristics reported between annual recertifications. Refer to Chapter 7, Section 2 for information on interim recertifications.

7-6 – Overview of Annual Recertification Procedures

It is the owner's responsibility to process all recertifications in a timely manner. HUD Headquarters will terminate assistance payments if a new recertification is not submitted within 15 months of the previous year's recertification anniversary date. HUD has instructed Contract Administrators to terminate assistance payments to an owner if a new annual recertification has not been completed and submitted through TRACS [Tenant Rental Assistance Certification System] within 15 months after the previous year's anniversary date. Owners must repay, by making an adjustment to the voucher, the assistance collected for the 3-month period from the date the annual recertification should have been effective through the end of the 15th month when assistance was terminated. Once the new certification is processed, owners must follow the guidance in paragraph 7-8 for determining the effective date for changes in the Total Tenant Payment, tenant rent and assistance payment when the recertification is delayed.

Housing Assistance Payment Contract

5.e – Owner's Monthly Requests for Payments

1. The Owner shall submit monthly requests to HUD or as directed by HUD for housing assistance payments. Each request shall set forth: (i) the name of each Family and the address and/or number of the unit leased by the Family; (ii) the address and/or the number of each unit, if any, not leased to Families for which the Owner is claiming payments; (iii) the Contract Rent as set forth in Exhibit A for each unit for which the Owner is claiming payments; (iv) the amount of rent payable by the Family leasing the unit; and (v) the total amount of housing assistance payments requested by the Owner.
2. Each of the Owner's monthly requests shall contain a certification by it that to the best of its knowledge and belief (i) the dwelling units are in decent, safe, and sanitary condition, (ii) all the other facts and data on which the request for funds is based are true and correct, (iii) the amount requested has been calculated-in accordance with the provisions of this Contract and is payable under the Contract, (vi) none of the amount claimed has been previously claimed or paid under this Contract, and (v) the Owner has not received

and will not receive any payments or other consideration from the Family, the PHA [public housing agency], HUD, or any other public or private source for the unit beyond that authorized in this Contract and the lease.

3. If the Owner has received an excessive payment, HUD in addition to any other rights to recovery, may deduct the amount from any subsequent payment or payments.
4. The Owner's monthly request for housing assistance payments are subject to penalty under 18 U.S.C. [United States Code] 1001, which provides, among other things, that whoever knowingly and willfully makes or uses a document or writing containing any false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States, shall be fined not more than \$10,000 or imprisoned for not more than five years, or both.

9.c – *Eligibility, Selection, and Admission of Families*

- 5.i The Owner shall make a reexamination of Family income, composition, and the extent of medical or other unusual expenses incurred by the Family at least as often as required by HUD regulations or other requirements, and appropriate redeterminations shall be made by the Owner of the amount of Family contribution and the amount of housing assistance payment, all in accordance with applicable HUD regulations and requirements.

Appendix C

Housing Assistance Payments After Reexaminations Stopped

Month	Housing assistance paid (net)	Housing assistance paid based on past-due reexaminations (ineligible)	Percentage of housing assistance paid	Approximate housing assistance not requested
April 2015	\$16,423	\$0	0%	\$ 0
May 2015	\$16,702	\$1,376	8%	\$ 0
June 2015	\$16,702	\$1,863	11%	\$ 0
July 2015	\$11,478	\$2,689	23%	\$5,224
August 2015	\$ 0	N/A	N/A	\$16,702
September 2015	\$ 0	N/A	N/A	\$16,702
October 2015	\$ 0	N/A	N/A	\$16,702
November 2015	\$ 0	N/A	N/A	\$16,702
Total	\$61,305	\$5,928	10%	\$72,032