



Housing Authority of Snohomish County, Everett, WA

Section 8 Project-Based Vouchers



To: Harlan Stewart, Director, Office of Public Housing, Seattle, WA, OAPH

From: //signed//
Ronald J. Hosking, Regional Inspector General for Audit, OAGA

Subject: The Housing Authority of Snohomish County, Everett, WA, Did Not Always Administer Its Section 8 Project-Based Voucher Program in Accordance With HUD Regulations

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 Housing Authority of Snohomish County's Section 8 project-based voucher 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 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: 2017-SE-1002

Date: September 29, 2017

The Housing Authority of Snohomish County, Everett, WA, Did Not Always Administer Its Section 8 Project-Based Voucher Program in Accordance With HUD Regulations

Highlights

What We Audited and Why

We selected the Housing Authority of Snohomish County for audit based on a referral from the U.S. Department of Housing and Urban Development's (HUD) Office of Labor Standards Enforcement in Seattle, WA. The referral alleged that when the Authority assigned 24 project-based vouchers to the recently constructed Monroe Family Village, it did not properly execute an Agreement To Enter Into Housing Assistance Payments Contract (forms HUD-52531-A and HUD-52531-B) with the owner. The Authority told us that it treated all of its project-based voucher projects that also received assistance through the Sound Families Initiative the same. Therefore, we reviewed all of the Authority's Sound Families Initiative projects. Our objective was to determine whether the Authority executed agreements for newly constructed or rehabilitated projects.

What We Found

The Authority did not execute agreements with owners of eight of nine newly constructed or rehabilitated projects that received Section 8 project-based vouchers and Sound Families Initiative funds. As a result, it did not ensure that owners followed Federal requirements before and during construction of the projects.

What We Recommend

We recommend that the Director of HUD's Seattle Office of Public Housing review the Authority's non-Sound Families Initiative project-based voucher projects to determine whether it executed the agreement with the owners of new construction projects and assist the Authority in obtaining any training needs identified by the review. We also recommend that until the Director believes the Authority understands and is consistently complying with the requirements, the Director should require the Authority to submit evidence and its board of directors to certify that it has complied with regulatory requirements for each new project-based voucher project.

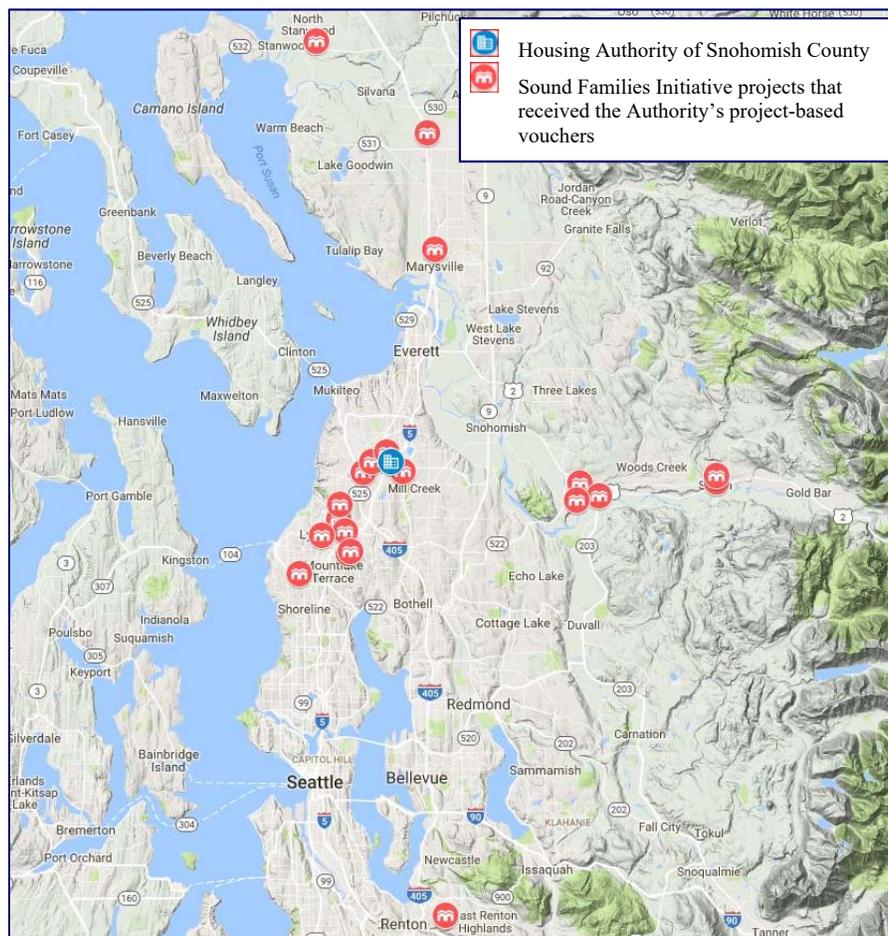
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Background and Objective

Housing Authority of Snohomish County

The Housing Authority of Snohomish County was established in 1971 and provides vouchers to more than 3,600 households throughout Snohomish County, WA. The Authority assists more than 400 of these households with project-based vouchers. It also partners with social service agencies to offer supportive services to its participants. In conjunction with the Sound Families Initiative, the Authority provided 295 project-based vouchers to 20 different properties.



The Authority's Sound Families Initiative projects

Project-Based Vouchers

Project-based vouchers are a component of the U.S. Department of Housing and Urban Development's (HUD) Housing Choice Voucher program. The program assists very low-income families, the elderly, and the disabled by providing rental assistance payments to their landlords. Most vouchers are tenant based and follow the tenants if they move to another property. However, a public housing agency may project-base up to 20 percent of its vouchers

and assign them to specific units instead. To do this, an agency enters into a housing assistance payments contract with the project owner and identifies the units that will receive rental assistance. There are different contracts for existing housing projects and for those that are newly constructed or rehabilitated housing.

For newly constructed or rehabilitated housing, the public housing agency and owner must sign an Agreement to Enter Into Housing Assistance Payments Contract (forms HUD-52531-A and HUD-52531-B) before starting construction. In this agreement, the agency agrees to set aside a certain number of vouchers for the project and promises to sign a housing assistance payments contract to provide the rental assistance once the project is complete. In exchange, the owner agrees to construct or rehabilitate the units in accordance with various Federal development rules and regulations. This agreement is not required for existing projects.

Sound Families Initiative

In 2000, the Bill and Melinda Gates Foundation launched the Sound Families Initiative, a \$40 million program aimed at tripling the amount of available transitional housing in King, Pierce, and Snohomish Counties and pairing it with support services. By the time it closed in 2008, the Initiative had helped create more than 1,400 transitional homes for families emerging from homelessness, and its awards continue to fund supportive services in the Greater Seattle area.

Our objective was to determine whether the Authority executed agreements for newly constructed or rehabilitated projects.

Results of Audit

Finding: The Housing Authority of Snohomish County Did Not Always Execute Agreements for Newly Constructed or Rehabilitated Projects

The Authority did not always execute agreements for newly constructed or rehabilitated projects under the Sound Families Initiative. This condition occurred because the Authority misunderstood a HUD waiver. As a result, it did not ensure that property owners followed Federal requirements before and during construction.

The Authority Did Not Execute Agreements

The Authority did not always execute agreements for newly constructed or rehabilitated projects at which it provided Section 8 project-based vouchers under the Sound Families Initiative (see the Background and Objective section of this report for information about the Sound Families Initiative). Federal regulations at 24 CFR (Code of Federal Regulations) 983.152(b) state that a public housing agency must enter into the agreement with the owner of a project in the form prescribed by HUD for project-based assistance. Paragraph 152(c) states that the agreement must be executed before the start of any new construction or rehabilitation. The Authority should have executed the agreement for 9 of the 20 Sound Families Initiative projects reviewed. It failed to execute the agreement for eight of the nine projects.

- The Authority executed five housing assistance payments contracts for existing housing but should have executed contracts for new construction or rehabilitation. Federal regulations at 24 CFR Part 983 identify newly constructed housing as units that do not exist on the proposal selection date and are developed after the date of selection under the agreement. Four of these five projects were built after the proposal selection date. For the other project, 6 of the 14 project-based units were built after the proposal selection date. The Authority should have executed agreements with the owner of these projects.
- The Authority executed one housing assistance payments contract for the Section 8 certificate program, but it should have executed the contract for new construction or rehabilitation since the project was not substantially complete until 2½ months after the contract was executed. The Authority should have executed the agreement with the owner of this project.
- The Authority properly executed two housing assistance payments contracts for new construction or rehabilitation since these projects were not built until after proposal selection. The contracts for these projects also stated, “The owner certifies that the contract units have been completed in accordance with the Agreement...Completion and acceptance of the units is subject to the provisions of the Agreement.” The Authority should have executed agreements with the owner of these projects but did not.

The Authority Misunderstood a HUD Waiver

On August 7, 2001, the Authority, along with six other local public housing agencies, asked HUD to waive the requirement for advertising and competitive selection for placing Section 8 project-based vouchers in Sound Families Initiative projects. In its request, the Authority argued that these requirements were unnecessary and repetitive since the Sound Families Initiative had already conducted an open, competitive process that exceeded the requirements of the Authority's normal competition. HUD waived this requirement on November 8, 2001, and agreed that these projects had already been selected under a formal, open, competitive, and widely advertised request for proposals. In its waiver, HUD reminded the Authority that all other requirements of 24 CFR Part 983 would still apply, specifically stating that public housing agencies that provide project-based assistance for rehabilitation or new construction projects should continue to use the agreement.

However, the Authority believed there was no proposal selection date before it entered into the housing assistance payments contracts. Citing the waiver, the Authority claimed there was no selection date for these projects before construction and that it did not formally select the projects until they were under a signed housing assistance payments contract. This interpretation of the waiver ignores that HUD only waived a second, duplicative proposal selection process, not selections altogether. HUD's waiver allowed the Authority to rely on the initial Sound Families Initiative selection without having to repeat the process. Therefore, the Authority should have used the Sound Families Initiative selection date when determining which projects must be built under the agreement.

The Authority Did Not Ensure That Owners Followed Federal Requirements

The Authority did not ensure that the property owners followed Federal requirements before and during construction. Under the agreement, the Authority was responsible for ensuring that the owners complied with requirements associated with the construction of the units to be project based. Since the Authority did not execute the agreement, there was no mechanism in place through which it could monitor the construction of the projects and ensure that all Federal requirements, including those below, were complied with.

- The owner must comply with equal opportunity requirements with respect to training, employment, and contracting opportunities for businesses and lower income persons.
- Construction contractors must pay laborers and mechanics employed in the construction of the projects not less than the wages prevailing in the locality under the Davis-Bacon Act.
- The owner must certify to the Authority that the work was completed in accordance with the agreement.
- Construction contractors must not discriminate against any employee or applicant for employment because of race, color, creed, religion, sex, or national origin.
- The owner must disclose to the Authority any interest that would violate the agreement or housing assistance payments contract.
- The owner will not contract with any construction contractor not eligible to participate in Federal programs.

Conclusion

The Authority did not always comply with HUD regulations when providing Section 8 project-based vouchers to newly constructed or rehabilitated projects. It did not execute agreements for newly constructed or rehabilitated projects because it misunderstood HUD's waiver. As a result, it did not ensure that property owners followed HUD regulations before and during construction.

Recommendations

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

- 1A. Review the Authority's non-Sound Families Initiative project-based voucher projects to determine whether it executed the agreement with the owners of new construction projects.
- 1B. Assist the Authority in obtaining any training needs identified by the review in recommendation 1A.
- 1C. Require the Authority to submit evidence and its board of directors to certify to the Director of the Seattle Office of Public Housing that it has complied with regulatory requirements for each step of the project-based voucher process for each new project-based voucher project until such time as the Director of the Seattle Office of Public Housing believes the Authority understands and is consistently complying with the requirements.

Scope and Methodology

We performed our audit work between September 2016 and August 2017. We performed our onsite work at the Authority offices at 12625 and 12711 4th Avenue West, Everett, WA, and Housing Hope at 5830 Evergreen Way, Everett, WA. Our audit period was January 1, 2001, through December 31, 2015.

To accomplish our objective, we performed the following steps:

- Reviewed applicable regulations and HUD guidance.
- Obtained and reviewed contracts between the Authority and the project owners.
- Examined project documents related to the Sound Families Initiative.
- Interviewed HUD staff as well as Authority and project employees.

Sample Selection

The Authority provided project-based vouchers to 20 projects that also received assistance under the Sound Families Initiative. This was our universe. We reviewed all 20 projects due to the small size of the universe. We reviewed the agreements and housing assistance payments contracts between the Authority and the owners as well as other documents related to the Sound Families Initiative and the projects to determine whether the Authority should have executed agreements with the owners of newly constructed or rehabilitated projects.

Some of the projects entered the Sound Families Initiative as early as 2001, and five of the projects no longer receive project-based vouchers. Due to these factors and the State's records retention policies, we were unable to obtain documentation to determine whether the Authority should have executed agreements for 6 of the 20 projects.

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. 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 new construction or rehabilitation projects are developed in accordance with Federal requirements and the agreement.

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.

Significant Deficiency

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

- The Authority did not have adequate controls to ensure that it entered into the required agreements and that owners developed new and rehabilitated projects in compliance with Federal requirements (finding).

Separate Communication of Minor Deficiency

We reported a minor deficiency to the auditee in a separate management memorandum, dated January 5, 2017.

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

To: Ronald J. Hosking, Regional Inspector General for Audit, OAGA
From: Duane Leonard, Executive Director, Housing Authority of Snohomish County (HASCO)
Subject: HASCO Comments on HUD OIG's September 6, 2017 Draft Audit Report on HUD OIG's Review of HASCO's Section 8 Project-Based Voucher Program
Date: September 18, 2017

The Housing Authority of Snohomish County ("HASCO") appreciates the opportunity to provide written comments on Audit Report No. 2017-SE-100X (the "Audit Report") from the U.S. Department of Housing and Urban Development Office of Inspector General ("OIG"). As explained below, HASCO respectfully disagrees with OIG's findings that HASCO failed to enter into required agreements and lacked sufficient internal controls. Instead, HASCO acted in compliance with applicable requirements and effectively implemented its understanding of those requirements. At the very least, HASCO acted reasonably under a unique, one-time regulatory waiver from the U.S. Department of Housing and Urban Development ("HUD").

HASCO also respectfully disagrees with OIG's recommendations for corrective action. To the extent any such action is needed, it should be focused on ensuring HUD provides greater clarity for any similar waivers in the future, rather than requiring HASCO to obtain general training. At the very least, HASCO should be allowed to demonstrate compliance in its more recent projects before any such training is required. For any requirements that are imposed, interference with HASCO's pending projects is unwarranted and should be avoided.

1. HASCO respectfully disagrees with OIG's findings regarding the need for new construction agreements and an alleged lack of internal controls.

The Audit Report's findings are based on OIG's interpretation of a special waiver that HUD granted to HASCO and six other public housing authorities in 2001. The waiver exempted the housing authorities from competitive selection requirements when awarding Section 8 project-based vouchers to projects funded under the Bill and Melinda Gates Foundation's Sound Families Initiative ("SFI"), which included its own competitive process for selecting housing projects for SFI funding. Under the waiver, housing authorities could select SFI-funded projects to receive project-based vouchers without the housing authority conducting a separate competitive process. The Audit Report finds that HASCO failed to execute proper agreements for SFI projects and lacked adequate internal controls to ensure that the proper agreements were executed. As explained below, HASCO respectfully disagrees with both of these findings.

A. HASCO Was Not Required to Execute "New Construction" Contracts When It Awarded Project-Based Vouchers to Already Existing Projects.

**Ref to OIG
Evaluation**

Auditee Comments

Comment 1

OIG’s Audit Report faults HASCO for failing to enter into an “Agreement to Enter Into Housing Assistance Payments Contract” (an “AHAP”), or what the Audit Report refers to as “the agreement,” when HASCO selected certain SFI-funded projects to receive project-based vouchers. HASCO respectfully disagrees with OIG that an AHAP was required for the projects at issue. As the Audit Report acknowledges, there “are different contracts for existing housing projects and for those that are newly constructed,” and the AHAP is part of the contracting process only for new construction projects, i.e., projects that have not yet been built at the time that the housing authority selects them for project-based vouchers. Draft Audit Report at 4. As HASCO has explained to OIG, the SFI projects at issue were already built when HASCO selected them to receive project-based vouchers, and thus, they qualified as existing housing rather than new construction requiring an AHAP.

Comment 2

In particular, HASCO did not select SFI projects for project-based vouchers until the time HASCO executed contracts with the projects for that purpose. This allowed HASCO to maintain desired flexibility over the allocation of project-based vouchers in its jurisdiction. For SFI projects, HASCO reserved the right to determine, prior to selecting a project for project-based vouchers, whether the project would comply with applicable federal and housing authority requirements—especially any requirements that were not covered in SFI’s competitive process—and best promote HASCO’s local policies and goals. As HASCO demonstrated to OIG, on one occasion it refused to award project-based vouchers to an SFI project due to concerns that the project had not received sufficient capital and service funding to be financially sustainable. On a different occasion, HASCO refused an SFI project’s request for a preliminary commitment that the project would receive project-based vouchers. As these examples show, HASCO did not select SFI projects for project-based vouchers until the time HASCO executed contracts with them. And when such contracts were executed, the units already existed, and HASCO did not—and was not required to—use an AHAP.

Comment 3

Comment 4

Nothing in HUD’s waiver indicated otherwise. The waiver itself, memorialized in an internal HUD memorandum, exempted the housing authorities from competitive selection because such a “duplicative” process would be unnecessary and wasteful. In a subsequent letter transmitting the memorandum to the housing authorities, HUD relayed its decision and provided some additional documents. As referenced in the Audit Report, this letter specifically stated that housing authorities “providing . . . [for] new construction projects should continue to use the...AHAP...” What the Audit Report fails to mention, however, is that the letter also clarified that housing authorities “providing [] for existing housing are not required to enter an AHAP.” Attached to the letter were form contracts, one “for existing housing projects,” and another “for new construction,” to be used as appropriate.

Comment 5

Ignoring the way HASCO awarded project-based vouchers to SFI projects and the contents of HUD’s waiver letter, the Audit Report suggests that HASCO was required to enter into an AHAP whenever it awarded project-based vouchers to any SFI projects built after SFI selected the projects for funding. See Draft Audit Report at 6. But the relevant selection date was when HASCO selected a project for vouchers, not when SFI selected a project for SFI funding. The Audit Report misconstrues HASCO’s position on this point,

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Evaluation**

Auditee Comments

Comment 6

which is that HASCO selected each project by executing “a signed . . . contract,” *not* that the projects were never selected at all. Draft Audit Report at 6. HUD’s newer regulations are consistent with HASCO’s understanding, namely, that the voucher selection date was separate from SFI’s competition and determined which agreement to use. *See* 24 C.F.R. § 983.51(b)(2) (providing analogous exception for prior competitive process and distinguishing between date of prior “competitive selection” and ultimate “proposal selection date”); 24 C.F.R. § 983.3 (defining “existing housing” as “units that already exist on the proposal selection date,” namely, the “date when the [housing authority] gives written notice of [voucher] selection”).

Comment 7

The Audit Report’s insistence that an AHAP was required for all SFI projects built after SFI selected the project for funding also ignores the course of performance between HUD and all seven housing authorities under the waiver. To HASCO’s understanding, and as it has explained to OIG, all housing authorities operating under the waiver used a similar process for awarding project-based vouchers to SFI projects, including the use of existing housing contracts as appropriate. The Audit Report makes no mention of this broader course of performance, which supports HASCO’s approach as both correct and reasonable. Similarly, HUD audited HASCO’s project-based voucher program numerous times over the years—and presumably the programs of the other six housing authorities—without raising any concerns over the contracts used for SFI projects that were awarded project-based vouchers.

Comment 8

In sum, HASCO awarded project-based vouchers to SFI projects only after the housing units at the project were ready for occupancy, and existing housing contracts—which HUD’s waiver specifically contemplated would be used—applied in precisely such circumstances. HASCO, the other six housing authorities, and HUD all acted accordingly under the special waiver. OIG’s finding that this violated applicable regulations is unsupported.¹

B. HASCO Implemented Its Understanding of Applicable Requirements and Did Not Lack Internal Controls to Ensure Compliance.

After finding that HASCO violated HUD regulations by failing to execute AHAPs for SFI projects, the Audit Report also concludes that HASCO had a “deficiency in internal

Comment 9

¹ OIG initially decided HASCO’s conduct did not warrant any finding, and OIG communicated that decision to HASCO—before it abruptly reversed course and ultimately issued the findings at issue here. OIG’s original determination shows that HASCO’s use of existing housing contracts was at the very least reasonable and did not involve any fraud or abuse. In light of this and other circumstances surrounding the audit, it remains unclear to HASCO whether this audit—which seems akin to an enforcement proceeding or other program operation—properly falls within OIG’s limited jurisdiction. *See* 5 U.S.C. App. 3, § 2 (establishing OIG’s role to conduct “independent” audits related to “fraud” or “abuse” in HUD programs); 5 U.S.C. App. 3, § 9(a)(2) (clarifying that HUD cannot assign any “program operating responsibilities” to OIG); *see also, e.g., United States v. Montgomery Cnty. Crisis Ctr.*, 676 F. Supp. 98, 98-99 (D. Md. 1987) (finding nature and scope of Inspector General investigation unlawful); *Truckers United for Safety v. Mead*, 251 F.3d 183, 189-90 (D.C. Cir. 2001) (same).

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Evaluation**

Auditee Comments

Comment 10

control,” specifically that HASCO “did not have adequate controls to ensure that it entered into” such AHAPs. Draft Audit Report at 9. This finding is based entirely on HASCO’s decision to use existing housing contracts for the projects at issue: the Audit Report does not identify any separate internal process, or control, that was deficient. Accordingly, this finding is duplicative and a misstatement.

Comment 11

An internal control is not a policy, legal interpretation, or decision. Instead, an internal control is a distinct process established within an organization intended to promote compliance with the organization’s set policies, whatever they may be. *See, e.g.*, Webster’s Third New Int’l Dictionary at 1180 (3d ed. 1993) (defining “internal control” as “a system or plan...within a business...[for] policing previously adopted rules, procedures, and policies as to compliance and effectiveness”); 31 U.S.C. § 7501(a)(10) (defining “internal controls” as “a process...designed to provide reasonable assurance regarding the achievement of objectives”).

Comment 12

Here, HASCO made a decision to use existing housing contracts based on its understanding of HUD’s waiver and the applicable legal requirements and standards. HASCO then acted consistent with its decision. Thus, there was no failing of internal controls. To the contrary, HASCO used the contracts it intended to use.

2. HASCO respectfully disagrees with OIG’s recommended corrective actions.

Comment 13

As explained above, HASCO’s conduct pursuant to HUD’s waiver was legally proper and at the very least reasonable under the circumstances. Even if HASCO’s conduct had been improper, however, corrective action against HASCO would still not be warranted. That is because the circumstances at issue are unlikely to recur, and because increased clarity in any future HUD waivers would prevent misunderstandings. At the very least, HASCO should be allowed to demonstrate recent compliance with applicable requirements before any training or other corrective action is imposed. Moreover, for any corrective actions that are imposed, interference with HASCO’s pending projects would be unwarranted and should be avoided.

A. Any Corrective Action Should Be Focused on Clarity in Future Waivers.

Comment 14

Corrective action is unnecessary in part because of the unique nature of the prior waiver at issue here. HASCO’s treatment of SFI projects under the waiver was distinct and different from its contracting process for other projects. Outside the SFI context, HASCO has entered into numerous AHAPs for new construction projects in recent years, including as a result of HASCO’s normal competitive selection procedures. OIG has not disputed HASCO’s approach to these projects. Moreover, SFI closed in 2008 and is no longer funding any new projects. The waiver thus no longer applies to any more project selections. HUD has also codified a specific exemption to competitive selection, minimizing the potential that HUD will issue another special waiver for that purpose. *See* 24 C.F.R. § 983.51(b)(2).

Otherwise, to whatever extent HUD intends to issue any similar waivers in the future, it should take steps to ensure that such waivers are clear and sufficiently detailed. In the case of SFI, HUD’s waiver created a unique scenario not spelled out in its

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Evaluation**

Auditee Comments

Comment 15

regulations. The waiver did not add clarity, and in particular did not specify when an existing housing contract versus a new construction contract (starting with an AHAP) should be used. Although HASCO proceeded in good faith and applied the waiver and regulations in a reasonable manner, the waiver itself could have provided greater clarity, which might have prevented any dispute over the propriety of HASCO's conduct. Accordingly, to the extent any corrective action is taken going forward, HUD should ensure any future waivers explain in detail HUD's expectations regarding the use of AHAPs, or any other pertinent expectations or standards.

B. HASCO Should Be Allowed to Show Recent Compliance Before any Further Corrective Action Is Imposed on It.

Comment 13

Rather than focus on the clarity HUD could provide in any future waivers, the Audit Report instead recommends that HASCO be required to (1) "obtain project-based voucher training before proceeding with more project-based voucher projects," and (2) then continually certify compliance with applicable project-based voucher requirements until HUD is satisfied. Draft Audit Report at 7. Requiring such training and certification would be premature, however, and might also unduly interfere with pending and important housing projects.

Comment 14

As noted above, HASCO has been abiding by project-based voucher requirements for some time, including the use of AHAPs for new construction projects. HASCO's policies for awarding project-based vouchers to SFI projects, in contrast, were distinct, based on special circumstances, and are no longer relevant. With that in mind, HASCO should at least be given the opportunity to demonstrate recent compliance with project-based voucher program requirements before any additional burdens are imposed.

Comment 13

Even if training is required of HASCO, suspending HASCO's program-related activities pending completion of such training could be unduly harsh. For one thing, it is not obvious what training would be available or how long it would take to be completed. Moreover, HASCO is regularly working on awards and contracts for project-based voucher projects for the community, which are often time sensitive. In light of the overall reasonableness of HASCO's disputed conduct, no significant interference would be warranted.

Comment 13

In sum, the issues surrounding HUD's waiver were unique and are unlikely to recur, HASCO has been following program requirements outside of that special context, and any future waiver could provide greater clarity regarding HUD's expectations. There is no basis to require HASCO to conduct general training, which would be irrelevant to the unique circumstances at issue here. Regardless, any requirements that are imposed should not interfere with HASCO's ongoing projects.

OIG Evaluation of Auditee Comments

Comment 1 The Authority stated the projects at issue were already built when it selected them to receive project-based vouchers. However, the Bill and Melinda Gates Foundation, under the Sound Families Initiative, had selected the projects before the waiver was granted and before many of the units were built. What the Authority refers to as its “selection” was not a proposal selection in accordance with program regulations at 24 CFR 923.51. In accordance with the waiver, the Authority relied on the Foundation’s selection process to ensure compliance with these regulations and did not conduct a separate open proposal selection process of its own. Since the Foundation selection was the only selection made in accordance with program regulations, it defines the proposal selection date for determining whether a project is new construction and subject to the agreement.

In addition, the Authority’s intention to provide project-based vouchers to many of the units was clear in contracts and in other documents executed before the units were built. For example, the Authority entered into the contract for existing housing, effective August 1, 2008, for 87 units at Woods Creek Village (14 units), Lincoln Hill Village (24 units), Monroe Family Village (24 units), and at a to-be-determined site in Snohomish County (25 units). Further, an agency agreement for supportive affordable housing between the Authority and the project owner, signed in July 2008, stated that the Authority agreed to provide project-based vouchers to these units. As of August 1, 2008, only 8 of Woods Creek Village’s 14 units existed, and none of the units at the other three projects existed.

Comment 2 The Authority stated that for Sound Families Initiative projects, it did not select the projects before entering into contracts with the owners because it reserved the right to determine whether the projects would comply with applicable Federal and housing authority requirements; especially any requirements that were not covered in the Sound Families Initiative’s competitive process. However, this is precisely what the agreement is for. The agreement defines requirements for development of housing to be assisted with project-based vouchers. In the agreement, the owner also agrees to develop the contract units to comply with housing quality standards.

The agreement is required before new construction begins to help ensure the project owners meet these requirements throughout construction. The Authority’s comments suggest that its motivation for not signing the agreements was to maintain its flexibility in case some of the projects failed to comply with applicable Federal and housing authority requirements. However, it could have addressed this concern by entering into the agreement and ensuring these requirements were enforced during development and construction.

Comment 3 The Authority stated that it refused to award project-based vouchers to a project that had not received sufficient funding. The Authority also refused to provide a preliminary commitment of project-based vouchers to another project, proving it

had not selected the projects until it executed contracts with the owners. At that time, it stated, the units existed. However, the Authority selected these projects long before executing the contracts (see comment 1) and it should have executed agreements with the owners. Further, if the agreement had been executed, the Authority would not be bound to execute the contract for any units not completed in accordance with the agreement.

Comment 4 The Authority stated that HUD's waiver did not indicate that the use of the agreement was required since the units already existed. However, the waiver stated that although HUD would waive requirements for the Authority with respect to advertising and competitive selection, all other requirements of 24 CFR 983 would still apply. We understand that the agreement is not needed for existing projects, but, as stated in comment 1 above, not all of the units at these projects existed on the proposal selection dates.

Comment 5 The Authority stated that the audit report suggests that it was required to enter into an agreement whenever it awarded project-based vouchers to any Sound Families Initiative project after the Foundation selected the project for funding. The waiver let the Authority rely on the Foundation's selection of the owner proposals under the Sound Families Initiative, which included a planned number of project-based vouchers. According to the waiver, the seven participating housing agencies indicated that the projects they would subsidize with project-based vouchers had already been selected.

In addition, the Authority entered into agency agreements for supportive affordable housing with the project owners before the units existed. The Authority also signed contracts that listed the number of vouchers that non-existent projects would receive once they were built. (see comment 1) Therefore, since the units did not exist at the time the Foundation selected the proposals or when the Authority listed the non-existent projects in agency agreements and contracts, the Authority should have used the new construction or rehabilitation contract and should have entered into the agreement for these projects.

Comment 6 The Authority stated that the new regulations are consistent with its understanding that the voucher selection date was separate from the Foundation's competition and determined which agreement to use. The current regulations make a distinction between the competitive selection of proposals by another entity, such as was done by the Foundation, and the project-based voucher proposal selection date. In this case, the Authority did not request or review proposals for the project-based voucher program but relied on the Foundation's proposal selection.

Comment 7 The Authority stated that all the housing authorities that operated under the HUD waiver used a similar process for awarding project-based vouchers to the Sound Families Initiative projects and that the audit report does not address this. The Authority was our auditee and we did not perform any audit steps with respect to any other housing authorities. Therefore, we cannot comment on what the other authorities did or did not do.

Comment 8 The Authority stated that HUD audited the Authority's project-based voucher program over the years without raising any concerns. As in comment 7 above, we did not audit HUD's reviews of the Authority and cannot comment on the appropriateness of what HUD did or did not do.

Comment 9 The Authority stated that we initially decided its conduct did not warrant any finding and that we communicated this decision to the Authority. This determination was a preliminary determination and was before we had finished compiling evidence and conducting our internal review process. As soon as we reached our final conclusions, we communicated our decision to the Authority and explained the reasons for it.

The Authority questioned whether this audit falls within the Inspector General's jurisdiction in conducting independent audits related to fraud or abuse in HUD programs. However, the Inspector General's role in conducting independent audits is not limited to those related to fraud or abuse. The Inspector General Act of 1978 authorizes the Inspector General to initiate, carry out, and complete all financial, performance, and external audits relating to the programs and operations of HUD. The Inspector General is also authorized to recommend policies for and to conduct, supervise, or coordinate other activities for the purpose of promoting economy and efficiency in the administration of HUD programs and operations.

Comment 10 The Authority stated that the reported internal control deficiency is based on its decision to use existing housing contracts for the projects at issue. This is correct. Regardless of how it interpreted the HUD waiver, the Authority did not have adequate controls to ensure that it entered into the new construction or rehabilitation contracts and the agreement for new construction projects. In addition, this is not a duplicative finding but is a deficiency noted as a result of the finding.

Comment 11 The Authority stated that an internal control is not a policy, legal interpretation, or decision. Instead, it is a distinct process established within an organization intended to promote compliance with the organization's set policies, whatever they may be. As noted in the report, a deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent detect, or correct violations of laws and regulations on a timely basis.

Comment 12 The Authority stated that it made a decision to use existing housing contracts based on its understanding of HUD's waiver and the applicable legal requirements and standards and that it then acted consistent with its decision. However, the Authority was not consistent with its identification of existing projects and its use of the agreement. In contrast to the projects discussed in the finding, the Authority correctly executed the agreement and the new construction or rehabilitation contract for one project after it received the waiver. Further, one staff member correctly executed a new construction or rehabilitation contract for two projects before learning the Authority's process.

- Comment 13 Although the Authority believed these circumstances are unlikely to recur, it is possible since the current regulations at 24 CFR 983.51(b)(2) allow selection based on a previous competition. However, since the Sound Families Initiative and the need for the waiver has ended, we amended our first recommendation and suggest that HUD allow the Authority to demonstrate compliance with program requirements through its execution of its non-Sound Families Initiative projects. We did not amend our second recommendation. If, after implementation of the first recommendation, HUD is not immediately convinced the Authority understands and is consistently complying with requirements, this recommendation should be implemented.
- Comment 14 The Authority stated that we did not dispute the Authority's approach with respect to its non-Sound Families Initiative projects. We did not review any non-Sound Families Initiative projects and do not have an opinion on whether these projects were processed appropriately.
- Comment 15 The Authority suggested that any corrective action should focus on what HUD includes as part of its future waivers. Since this was an audit of the Authority and not of HUD, we cannot make recommendations in this report with respect to any future waivers HUD might issue.