



Issue Date	June 3, 2008
Audit Report Number	2008-SE-1005

TO: Harlan Stewart, Director, Region X, Office of Public Housing, OAPH
Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region X, OAGA

SUBJECT: Renton Housing Authority, Renton, Washington, Overpaid Rental Assistance
And Did Not Have Sufficient Controls Over Rent Reasonableness

HIGHLIGHTS

What We Audited and Why

We audited Renton Housing Authority (Authority), Renton, Washington. The review was initiated due to a hotline complaint from a Housing Choice Voucher program recipient. The complainant stated that the contract rent was unreasonable because it exceeded the rent for comparable unassisted units on the premises. The audit objective was to determine whether the complaint was valid. We also wanted to determine whether the Authority had controls in place to ensure that rents paid to landlords for its Housing Choice Voucher program were reasonable.

What We Found

The hotline complaint was valid. The contract rent for the complainant's assisted unit was higher than for the comparable unassisted units on the premises by an average of more than \$100 per month. In addition, the Authority did not have sufficient controls in place to ensure rents were reasonable.

What We Recommend

We recommend that the Director, Region X, Office of Public Housing require the Authority to collect \$10,884 from the owner that was overpaid due to unreasonable rent. Of this amount, \$4,212 was paid by the extremely low-income tenant and should be returned. We also recommend that the Director, Region X, Office of Public Housing review the Authority's revised procedures to ensure that rent reasonableness determinations are carried out in accordance with program regulations and requirements.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a copy of the draft report to the auditee on May 12, 2008, and discussed the report with the auditee at the exit conference held on May 14, 2008. The auditee provided its written comments to our draft report on May 28, 2008 and agreed with our findings. The complete text of the auditee's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

Housing Choice Voucher Program

The Housing Choice Voucher program was implemented in October 1999 when the U.S. Department of Housing and Urban Development (HUD) published a final rule implementing the statutory merger of Section 8 tenant-based and certificate programs. The program assists low-income families in obtaining decent, safe, and sanitary housing in the private market. Under the program, the family can choose housing that meets its requirements including single-family homes, townhouses, and apartments. The assistance is often referred to as tenant based because it is attached to the family rather than to a specific unit in a project. The voucher is portable; the tenant family can move from the jurisdiction of its current housing authority to the jurisdiction of another housing authority operating a Housing Choice Voucher program.

Housing authorities are responsible for administering the program and ensuring compliance with federal requirements, including rent reasonableness. A housing authority may not approve a lease until it determines that the initial rent to the owner is a reasonable rent. Also, the housing authority must make additional determinations of reasonable rent before any rent increases. The owner certifies that the rent to the owner is not more than rent charged by the owner for comparable unassisted units on the premises each time the owner accepts a housing assistance payment. The owner must provide information requested by the housing authority on rents charged by the owner for other units on the premises or elsewhere.

The basis for the determination of rent reasonableness must be documented by the housing authority. The documentation begins at initial lease-up with a HUD “request for tenancy” form submitted by the owner, which includes the contract rents for three comparable units that have recently been leased by unassisted tenants. In addition to the form, the Authority must document the analysis and basis of its determination that the rent is reasonable. The rent for an assisted unit cannot exceed the rents for comparable unassisted units on the premises.

Renton Housing Authority

Renton Housing Authority (Authority), located in Renton, Washington, administers the Housing Choice Voucher program funded by HUD. As of December 31, 2007, the Authority had 575 units under contract with annual housing assistance and utility allowance payments of \$5.2 million. Of the 575 vouchers, 289 are portable vouchers administered by the Authority for other housing authorities and are valued at \$2.8 million.

The audit objective was to determine whether the complainant’s contract rent exceeded the contract rent for comparable unassisted units on the premises and was, therefore, unreasonable. We also wanted to determine whether the Authority had controls in place to ensure that rents paid to landlords for housing choice vouchers were reasonable.

RESULTS OF AUDIT

Finding 1: The Authority Overpaid Rental Assistance And Did Have Sufficient Controls Over Rent Reasonableness

The complaint was valid. The contract rent for the complainant's assisted unit was higher than for the comparable unassisted units on the premises. In addition, the Authority did not have sufficient controls over rent reasonableness. This occurred because the Authority failed to ensure that it understood and complied with HUD rent reasonableness requirements and remedies. As a result, HUD and the Authority did not have adequate assurance that contract rents were reasonable.

Rents Paid to the Owner for an Assisted Unit Were Not Reasonable

The owner of Whitworth Lane Apartments charged a higher rent for its assisted unit than the rent charged for comparable unassisted units on the premises by an average of more than \$100 per month. The owner received \$10,884 in ineligible rents from 1999 through 2007. The extremely low-income tenant paid \$4,212 of the total amount overpaid (see appendix D).

While the Authority suspected that the rents were unreasonable, it approved rents as reasonable on a number of occasions. The Authority was initially notified that the rent might be unreasonable in December of 2003 and requested from the owner contract rent information for three comparable units. The owner did not provide the requested information in violation of the housing assistance payments contract. On several other occasions, the Authority requested rent information for comparable units and/or rent rolls for the complex, but the owner did not provide the requested information. The Authority should not have approved rent increases until the three comparable units or rent rolls were provided.

According to its deputy director, the Authority chose not to pursue this issue with the landlord because the tenant did not want to move due to a disability. Further, the Authority did not realize that the housing assistance payments contract included a requirement that the owner provide any information pertinent to the contract including access to all accounts and other records of the owner. The owner's refusal to supply the requested information resulted in an owner breach of contract.

Although the Authority did not take action against the owner at the time, it can recover the overpayments. The contract specifies that the Authority's nonexercise of any remedy

for owner breach of contract does not constitute a waiver of the right to exercise a remedy at any time.

The Authority Did Not Have Sufficient Controls over Rent Reasonableness

The Authority did not sufficiently document that the contract rent for assisted units was reasonable as required by the regulations. The Authority used a commercially available rental survey for Renton, Washington, to determine whether its assisted units had reasonable rents. The survey contains rental information on single-family homes, townhouses, and apartments. However, the survey only provided a rental range for comparable units without information on the quality or location of these units. Without this additional information, there is no way to determine whether the comparables were of the same quality and in the same market as the requested unit.

The tenant files included a request for tenancy for the initial lease of the unit. The owner submits the request for tenancy which includes contract rents for three comparable units recently leased by unassisted tenants. However, the files did not document the basis for the Authority's determination that the rent to the owner was reasonable as required by HUD. HUD requires the Authority to document the analysis and basis of its determination that the rent is reasonable. The tenant files only included the Authority's certification and the page numbers from the commercial rental survey report. Without additional analysis, we were unable to determine whether the rents were reasonable.

Conclusion

The Authority was proactive when notified of our audit findings. It immediately required the owner of Whitworth Lane Apartments to lower the contract rent to the rent of the comparable unassisted units on the premises. In addition, the Authority's deputy director created a team of employees to design and implement an amended administrative plan and detailed procedures to comply with the rent reasonableness requirements. The Authority has implemented the new procedures.

Recommendations

We recommend that the Director, Region X, Office of Public Housing require the Authority to

- 1A. Collect \$10,884 plus interest from the owner of Whitworth Lane Apartments that was overpaid due to unreasonable rents from January 1, 1999, through December 31, 2007.

We also recommend that the Director, Region X, Office of Public Housing

- 1B. Review the Authority's revised procedures to ensure that rent reasonableness determinations are carried out in accordance with program regulations and requirements.
- 1C. Pursue administrative sanctions against the owner of Whitworth Lane Apartments.

SCOPE AND METHODOLOGY

We performed the audit between November 2007 and April 2008. The audit covered Authority housing choice vouchers between 2004 and 2007. We expanded our scope for owners that were paid excessive rents.

To accomplish our audit objectives, we

- Reviewed applicable laws, regulations, and other HUD program requirements;
- Reviewed guidance applicable to HUD's Housing Choice Voucher program;
- Consulted with Region X, Office of Public Housing staff;
- Interviewed Authority staff;
- Reviewed and analyzed the Authority's administrative plan;
- Reviewed tenant files;
- Obtained and reviewed apartment complex rent rolls; and
- Discussed amounts charged with owners and management agents.

We obtained a listing of the tenant files based upon information obtained from HUD data. We selected an assortment of files for tenants in a variety of apartment complexes with private and corporate ownership.

We reviewed 12 of 318 Section 8 Housing Choice Voucher program tenant files that were active during our audit period and had increases in contract rent to determine whether the Authority complied with HUD regulations. All of the 318 files were for tenants in apartment complexes.

We conducted our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Policies and procedures in place to ensure that rent reasonableness determinations are carried out in accordance with applicable laws and regulations.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following item was a significant weakness:

- The Authority did not have policies and procedures in place to ensure that rent reasonableness determinations were carried out in accordance with applicable laws and regulations (finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>
1A	\$10,884

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 polices or regulations.

Appendix B

AUDITEE COMMENTS



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RENTON HOUSING AUTHORITY

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May 28, 2008

Connie S. Hart
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909 First Avenue, Suite 126
Seattle, WA 98104-1000

SUBJECT: Response from RHA to Draft Audit Report

Dear Ms. Hart:

The HUD findings associated with the recent rent reasonableness audit in Renton are correct. Please include this correspondence with your report as RHA's response to the audit.

Taking immediate action on the issues that were raised, RHA staff revised policies and related procedures. RHA has since requested and received rent rolls from all the major complexes and are using them as comparison for comparability in determining rent reasonableness at lease-up and in response to requests for rent increases.

Additionally, RHA is in the process of developing an amenities data base by community. These data will be used, and included in every inspection file: for initials, annuals and rent increases.

RHA benefits from two seasoned inspector(s) with 12 years of Housing Choice Voucher experience within the City of Renton between them and certifications from recognized HQS training programs. Additionally, the Section 8 Coordinator overseeing leasing and HAP contracts joined the RHA staff in 1989, giving her 18 years of professional experience with the Renton rental market.

RHA's rent reasonableness program prior to your recent guidance, was one of reliance on judgment and experience as to whether a requested rent seemed reasonable. Heretofore there was a lack of emphasis on comparability. This emphasis has since changed to be more closely aligned with the federal regulations.

Having said this, we believe the digital library of photographs previously taken and maintained on record by RHA inspectors of each unit, coupled with their notes on the HUD 52580 and inspection response letters to owners did in fact document RHA taking into account location, neighborhood, FMRs & base-rents, amenities, size, condition, recent improvements,

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knowledge of other rental rates in the adjacent units - certainly those previously inspected - the market in general, and the professional analysis of Dupre + Scott. But again, the focus has shifted to comparability with similar unassisted units.

Thank you for your diligence and desire to see that RHA's Section 8 program complies with the letter and spirit of the HUD rules. We are grateful.

Sincerely,


Mark Groppe
Deputy Executive Director
mrg@rentonhousing.org
425-226-1850 x. 223

Cc: Thomas L. Tasa, Executive Director

Appendix C

CRITERIA

- A. Regulations at 24 CFR [Code of Federal Regulations] 982.158(f), Program Accounts and Records**, state, “The PHA [public housing authority] must keep the following records for at least three years... (7) Records to document the basis for PHA determination that rent to owner is a reasonable rent (initially and during the term of a HAP [housing assistance payments] contract); ... ”
- B. Regulations at 24 CFR [Code of Federal Regulations] 982.452, Owner Responsibilities**, state, “(b) The owner is responsible for... (4) Preparing and furnishing to the PHA information required under the HAP contract.”
- C. Regulations at 24 CFR [Code of Federal Regulations] 982.453(b), Owner Breach of Contract**, state, “The PHA rights and remedies against the owner under the HAP contract include recovery of overpayments, abatement or other reduction of housing assistance payments, termination of housing assistance payments, and termination of the HAP contract.”
- D. Regulations at 24 CFR [Code of Federal Regulations] 982.507, Rent to Owner: Reasonable Rent**, state,
- “(a) PHA determination.
- (1) The PHA may not approve a lease until the PHA determines that the initial rent to owner is a reasonable rent.
- (2) The PHA must redetermine the reasonable rent:
- (i) Before any increase in the rent to owner; ...
- (b) Comparability. The PHA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units. To make this determination, the PHA must consider:
- (1) The location, quality, size, unit type, and age of the contract unit; and
- (2) Any amenities, housing services, maintenance and utilities to be provided by the owner in accordance with the lease.
- (c) Owner certification of rents charged for other units. By accepting each monthly housing assistance payment from the PHA, the owner certifies that the rent to owner is not more than rent charged by the owner for comparable unassisted units in the premises. The owner must give the PHA information requested by the PHA on rents charged by the owner for other units in the premises or elsewhere.”

Appendix D

SCHEDULE OF INELIGIBLE RENTS BY YEAR

Year	Contract rent	Comparable rent	Monthly difference	Yearly ineligible	Amount overpaid by tenant
1998*	\$550	\$555	\$ 0		
1999*	\$575	\$555	\$ 20	\$ 240	\$ 240
2000*	\$610	\$555	\$ 55	\$ 660	\$ 480
2001*	\$645	\$555	\$ 90	\$ 1,080	\$ 900
2002*	\$680	\$555	\$125	\$ 1,500	\$ 420
2003	\$695	\$555	\$140	\$ 1,680	\$ 360
2004	\$695	\$595	\$100	\$ 1,200	\$ 360
2005	\$752	\$595	\$157	\$ 1,884	\$ 168
2006	\$752	\$655	\$ 97	\$ 1,164	\$ 516
2007	\$778	\$655	\$123	<u>\$ 1,476</u>	<u>\$ 768</u>
Total				\$10,884	\$4,212

* The owner of Whitworth Lane apartments only provided rental information from 2003 through 2008. Therefore, to be conservative, we used the 2003 comparable unassisted rent for calculating ineligible rent for 1998-2002.