



# Fort Collins Housing Authority, Fort Collins, CO

## Rental Assistance Demonstration Program

**Office of Audit, Region 8  
Denver, CO**

**Audit Report Number: 2019-DE-1002  
April 18, 2019**

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**To:** Janice Rodriguez, Director, Office of Public Housing, 8APH  
*//signed//*  
**From:** Ronald J. Hosking, Regional Inspector General for Audit, 8AGA  
**Subject:** The Fort Collins Housing Authority, Fort Collins, CO, Administered Its RAD Project in Accordance With HUD Requirements for the Items Reviewed

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 Fort Collins Housing Authority's Village on Redwood's Rental Assistance Demonstration Program (RAD) project.

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-DE-1002**

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**The Fort Collins Housing Authority, Fort Collins, CO, Administered Its RAD Project in Accordance With HUD Requirements for the Items Reviewed**

# Highlights

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## What We Audited and Why

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We audited the Fort Collins Housing Authority's Village on Redwood Rental Assistance Demonstration Program (RAD) project. We selected the Authority because it had completed the entire RAD conversion process with new construction and its Village on Redwood RAD project used the largest amount of Federal funds of the State of Colorado projects. The objective of our review was to determine whether the Authority administered its Village on Redwood RAD project in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations.

## What We Found

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The Authority administered its Village on Redwood RAD project in accordance with HUD rules and regulations for the items reviewed. Specifically, it used Federal funds for eligible purposes, established proper written agreements, maintained its reserve for replacement account, followed requirements for its property disposition, calculated its tenants' rent correctly, maintained separate books and records, and complied with occupancy requirements.

## What We Recommend

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This report contains no recommendations.

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# Background and Objective

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## **Fort Collins Housing Authority**

The Fort Collins Housing Authority is a quasi-municipal corporation that was created in May 1971 to provide safe accommodations to low-income residents of Fort Collins, CO. The Authority owns and operates 70 public housing units, using available Federal, State, and local resources to serve the residents of Fort Collins. The Authority upgrades and maintains its existing housing stock and encourages the construction of new housing, affordable to low- and moderate-income households. The Authority's governing body is its board of commissioners, comprised of seven members appointed by the Fort Collins City Council.

## **Rental Assistance Demonstration Program**

Congress established the Rental Assistance Demonstration Program (RAD) under the Consolidated and Further Continuing Appropriations Act of 2012. The main goal of RAD is the preservation of affordable housing by converting public housing and other U.S. Department of Housing and Urban Development (HUD)-assisted properties to long-term, project-based Section 8 rental assistance and project-based vouchers. This conversion allows public housing agencies and owners to leverage private debt and equity to address their properties' immediate and long-term capital needs. Following the RAD conversion, HUD provides funding to the property through Section 8 housing assistance payment subsidies rather than through the Public Housing Operating Fund and Capital Fund. RAD is administered by HUD's Office of Public Housing.

## **The Village on Redwood**

The Authority entered into a RAD conversion commitment, a RAD use agreement, and a project-based voucher housing assistance payments contract with HUD for 13 units of its Fort Collins A RAD project known as the Village on Redwood. The entire Village on Redwood project includes 72 new units of affordable housing, with 36 townhouse-style units and 36 flats-style units, separated into 12 individual buildings. Funding for the Village on Redwood included more than \$4 million in Federal funds and more than \$2 million from the Authority's public housing disposition. The following picture shows one building of the Village on Redwood project.



Our objective was to determine whether the Authority administered its Village on Redwood RAD project in accordance with HUD rules and regulations.

# Results of Audit

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## **Finding: The Authority Administered Its RAD Project in Accordance With HUD Requirements for the Items Reviewed**

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The Authority administered its Village on Redwood RAD project in accordance with HUD requirements for the items reviewed. Specifically, it used Federal funds for eligible purposes, established proper written agreements, maintained its reserve for replacement account, followed requirements for its property disposition, calculated its tenants' rent correctly, maintained separate books and records, and complied with occupancy requirements.

### **The Authority Used Federal Funds for Eligible Purposes**

For the 3 draws we reviewed, the Authority used its Community Development Block Grant Disaster Recovery (CDBG-DR), Community Development Block Grant (CDBG), and HOME Investment Partnerships (HOME) funds for eligible purposes. The three draws, totaling more than \$2.2 million, were out of the total of 15 draws, totaling more than \$4 million, made by the Authority for this project. The money from the 15 draws was spent for the Village on Redwood's new construction. The 15 draws included 3 CDBG-DR draws totaling more than \$1.9 million, 8 HOME draws totaling more than \$1.5 million, and 4 CDBG draws totaling \$578,274. We reviewed one draw from each fund, including a HOME draw for \$565,759, a CDBG-DR draw for more than \$1.2 million, and a CDBG draw for \$349,322. The Authority used the funds to pay for building permits, site utilities, material testing, construction costs, footing fees, and foundation fees.

### **The Authority Established Proper Written Agreements**

The Authority properly established the documents required by its RAD conversion commitment agreement with HUD. Specifically, the agreement required the Authority to establish a RAD use agreement and a housing assistance payments contract as part of the RAD closing documents. The Authority initiated both written agreements with a 20-year term, and it will renew both agreements at the same time.

### **The Authority Maintained Its Reserve for Replacement Account**

The Authority maintained its reserve for replacement account in accordance with its limited partnership agreement. The limited partnership agreement required an initial deposit of \$25,000, an annual deposit of \$400 per unit, and an increase by 3 percent per year. The Authority funded its reserve for replacement account with an initial amount of \$25,000. It completed new construction of the Village on Redwood in May of 2017 and then started to deposit the required \$400 per unit annual deposit. We reviewed the Authority's reserve account for May 2017 through May 2018 and determined that the Authority had fully funded the account with a balance of more than \$56,000.

### **The Authority Followed Requirements for Its Property Disposition**

For the one property we reviewed, out of a total of five properties disposed of by the Authority, the Authority followed HUD requirements for its property disposition. The Authority received approval from HUD, through a partial release of declarations of trust, to sell some of its public housing properties. It agreed to sell the properties to a third party at fair market value and use the proceeds for a RAD transaction or other affordable housing purposes. We reviewed the sale of one property and verified that the Authority sold the unit and used the proceeds in accordance with its agreement with HUD.

### **The Authority Calculated Its Tenant Rent Correctly**

For the four tenants reviewed, the Authority calculated the tenants' rent as required by its project-based voucher housing assistance payments contract with HUD after the RAD conversion. The contract specified rent and utility amounts that the Authority could charge for the one- and two-family unit sizes. We reviewed the tenant rent rolls to ensure that tenants who moved into the Village on Redwood units did not experience an increase in rent by more than 10 percent, or \$25, due to the RAD conversion, as required by the Office of Public and Indian Housing (PIH) Notice PIH 2012-32 (HA), REV-2. We identified four tenants who experienced an increase in rent costs. We found that a change in utility allowance increased the rents for two tenants; a change in income resulted in a rent increase for one tenant; and changes in income, marital status, exclusions received, and family size increased the rent of one tenant. We did not find instances in which the rent increased as a result of the RAD conversion.

### **The Authority Maintained Separate Books and Records**

The Authority maintained separate books and records for the Village on Redwood project. HUD's financial data schedule reporting requirements for projects converting under RAD, the Authority's annual audited financial statements, and the Authority's limited partnership agreement all require that the Authority maintain separate books and records. The Authority correctly maintained separate bank accounts and separate Internal Revenue Service employer identification numbers for the Village on Redwood project. Additionally, it correctly reported the operations of the Village on Redwood project in its annual financial statements.

### **The Authority Complied With Occupancy Requirements**

The Authority complied with Notice PIH 2012-32 (HA), REV-2 occupancy requirements. It established a project-based voucher waiting list, notified the tenants of its intent to pursue the RAD conversion, and provided the tenants relocation assistance.

### **Recommendations**

This report contains no recommendations.

# Scope and Methodology

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We performed our onsite audit work between October and November 2018 at the Authority, located at 1715 West Mountain Avenue, Fort Collins, CO. Our audit period was January 1, 2016, through May 31, 2018.

To accomplish our objective, we reviewed

- financial records from January 1, 2016, to May 31, 2018,
- applicable RAD rules and regulations,
- policies and procedures,
- tenant files,
- property disposition records, and
- contracts and grant agreements.

Additionally, we interviewed HUD and Authority staff.

For our review of Federal funds, we selected a sample of 3 of 15 draws from the CDBG, CDBG-DR, and HOME funds. We selected the draw that was for the largest amount and had the highest risk of misuse for each of the three funding areas. The three draws amounted to more than \$2.2 million of the Federal funds spent, which represented 54.8 percent of the more than \$4 million universe. We determined that the Authority spent the three draws for eligible purposes by reviewing bank records, receipts, and the regulations regarding the use of the Federal funds.

For our review of the property disposition, we selected 1 property for review from the universe of 5 properties, which consisted of 13 units. We selected the property because it was the only single-family property and the first property that the Authority sold after the RAD conversion. The proceeds from the property sale reviewed totaled \$228,761, which is 10 percent of the total proceeds of the five property sales, amounting to nearly \$2.2 million. Additionally, we reviewed bank records and receipts to verify that the Authority used the proceeds from the property sale for eligible purposes.

We selected this sample to efficiently determine whether there were deficiencies at the Authority that would make it prudent to examine additional transactions. Since this was not a 100% review and was not a review of a statistically selected sample, the results apply only to the items selected and cannot be projected to the universe or population.

For our review of the tenant rents, we selected a 100 percent sample selection of the tenant rent rolls for March through July 2017. We reviewed the tenant rent rolls for all tenants that moved into the 13 RAD units to determine whether any tenants who moved into the RAD units experienced an increase in rent by more than 10 percent, or \$25, due to the RAD conversion. All tenants except one moved into the RAD units in May 2017, and the last tenant moved in June



2017. We reviewed 2 months before and 2 months after the RAD conversion to identify any increases in rent.

We did not rely on computer-processed data to support our audit conclusion. We used computer-processed data as background information and based our conclusions on our review of the source documentation provided by the Authority and HUD.

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

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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:

- Controls to ensure that the Authority used Federal funds for eligible purposes.
- Controls to ensure that the Authority followed requirements for the disposition of its property after the RAD conversion was completed.
- Controls to ensure that the Authority maintained separate books and records from its partners.
- Controls to ensure that the Authority transferred housing assistance payments to all residents of the 13 RAD units and followed occupancy requirements during and after the RAD conversion.

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. We did not design our evaluation of internal controls to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal controls.

# Appendixes





## Appendix A

### Auditee Comments and OIG's Evaluation

Ref to OIG  
Evaluation

#### Auditee Comments

Comment 1



March 25, 2019


Ronald J. Hosking  
Regional Inspector General for Audit  
U.S. Department of Housing & Urban Development  
Office of Audit Region 8  
1670 Broadway, 23<sup>rd</sup> Floor  
Denver, CO 80202

Re: Audit Report Fort Collins Housing Authority  
Rental Assistance Demonstration Program


Dear Mr. Hosking,

On behalf of the Fort Collins Housing Authority, dba Housing Catalyst, I would like to thank the Office of Inspector General (OIG) staff involved in the audit of the Village on Redwood Rental Assistance Demonstration Program (RAD) project. The auditor, [Auditor name] was the utmost professional throughout the process, well representing your office. This particular project was extremely complex with numerous funding layers and the largest amount of Federal funds of the State of Colorado projects to date. OIG staff were eager to learn from us, creating a relationship that allowed us to help them identify and gather everything they needed to perform this audit thoroughly and efficiently.

Sincerely,



Julie J. Brewen  
CEO



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## OIG Evaluation of Auditee Comments

Comment 1 It was a great pleasure to work with the Authority's staff, and we appreciate their cooperation throughout the review process. We redacted the auditor's name mentioned in the letter for privacy.