



Talladega Housing Authority, Talladega, AL

Rental Assistance Demonstration Program Section 8 Project-Based Voucher Program

**Office of Audit, Region 4
Atlanta, GA**

**Audit Report Number: 2019-AT-1003
May 8, 2019**





To: Velma M. Byron, Director, Office of Public Housing, 4CPH

From: *//Signed//*
Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: The Talladega Housing Authority, Talladega, AL, Generally Administered Its Rental Assistance Demonstration Conversion in Accordance With HUD Requirements but Did Not Comply With Critical Renovations 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 Talladega Housing Authority's Rental Assistance Demonstration Program conversion.

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 404-331-3369.



Audit Report Number: 2019-AT-1003

Date: May 8, 2019

The Talladega Housing Authority, Talladega, AL, Generally Administered Its Rental Assistance Demonstration Conversion in Accordance With HUD Requirements but Did Not Comply With Critical Renovations Regulations

Highlights

What We Audited and Why

We audited the Talladega Housing Authority's Rental Assistance Demonstration Program (RAD) conversion. We selected the Authority for review as part of our annual audit plan and because it was one of the larger RAD conversions in Alabama, converting 499 units to Project-Based Voucher Program units. Our objective was to determine whether the Authority administered its RAD conversion in compliance with the U.S. Department of Housing and Urban Development's (HUD) requirements.

What We Found

The Authority generally administered its RAD conversion in accordance with HUD's requirements. Specifically, it executed appropriate written agreements, ensured that project-financing sources were secured, maintained separate books and records for the RAD conversion, spent HUD funding for supported and eligible purposes, followed occupancy requirements, and properly calculated tenant rents. It complied with requirements to complete its noncritical renovations within 18 months after the RAD conversion.

However, the Authority did not comply with requirements to complete all critical renovations before the RAD conversion on August 1, 2017, as required by its RAD conversion commitment agreement with HUD. Specifically, it did not install carbon monoxide detectors in six units that were serviced with gas as required. This condition occurred because the Authority did not have adequate controls to verify products shipped by its vendors and the renovation work completed by its contractors. As a result, the Authority received \$36,022 in ineligible housing assistance from HUD, and the tenants in these units were at risk of carbon monoxide exposure while their units lacked carbon monoxide detectors. During the audit, the Authority installed the appropriate detectors.

What We Recommend

We recommend that the Director of HUD's Birmingham Office of Public Housing require the Authority to repay, from non-Federal funds, the \$32,620 in ineligible housing assistance to the program, the \$3,402 in ineligible administrative fees to the Treasury, and establish effective procedures and controls to verify that it receives correct products from its vendors and ensures the proper completion of renovation work by its contractors.

Table of Contents

Background and Objective.....	3
Results of Audit	4
Finding 1: The Authority Generally Administered Its RAD Conversion in Accordance With HUD Requirements.....	4
Scope and Methodology.....	8
Internal Controls.....	10
Appendixes.....	11
A. Schedule of Questioned Costs	11
B. Auditee Comments and OIG’s Evaluation.....	12
C. Relevant Federal Criteria.....	14
D. Ineligible Costs Breakdown For Each Unit.....	16

Background and Objective

The Housing Authority of the City of Talladega, AL, was established and incorporated on February 3, 1941, under the authority of the Alabama secretary of state. The Authority is governed by a five-member board of commissioners appointed by the mayor of Talladega, AL. Its mission is to provide decent, safe, and sanitary rental housing for eligible families and to provide opportunities and promote self-sufficiency and economic independence for its participants. The Authority provides housing and rental assistance to individuals through the administration of its Housing Choice Voucher Program.

The Rental Assistance Demonstration Program (RAD) was authorized in fiscal year 2012 to preserve and improve public housing properties and address a \$26 billion nationwide backlog of deferred maintenance. RAD's purpose is to provide an opportunity to test the conversion of public housing and other U.S. Department of Housing and Urban Development (HUD)-assisted properties to long-term, project-based Section 8 rental assistance properties to achieve certain goals, including preserving and improving these properties by enabling public housing agencies to use private debt and equity to address immediate and long-term capital needs. RAD has two components. The first component allows the conversion of public housing and moderate rehabilitation properties to properties with long-term, project-based Section 8 rental assistance contracts. The second component allows rent supplement, rental assistance payments, and moderate rehabilitation properties to convert tenant protection vouchers to project-based assistance at the end of the contract.

The Authority received its RAD award and commitments to enter into housing assistance payments with HUD on July 14, 2016, agreeing to convert all of its 499 public housing units, scattered among 3 properties in Talladega, AL, to Section 8 Project-Based Voucher Program units. The Authority's board formed THA Communities, LLC, as an instrumentality of the Authority to be the owner of the converted units. Both the Authority and the owner share the same management and board. The RAD owner was required to secure more than \$6.18 million for the RAD conversion. The project had no commercial financing and used the Authority's operating reserves for the conversion. On June 27, 2017, HUD executed RAD use agreements with the owner. The Authority executed housing assistance payments contracts with the owner on August 1, 2017, and converted all 499 units to RAD Project-Based Voucher Program units. The Authority performs all management agent functions on behalf of the RAD owner, including maintenance, tenant recertification, annual and interim unit inspections, and other managerial tasks, and is paid for these services by the RAD owner.

Our objective was to determine whether the Authority administered its RAD conversion in compliance with HUD's program requirements.

Results of Audit

Finding 1: The Authority Generally Administered Its RAD Conversion in Accordance With HUD Requirements

The Authority generally administered its RAD conversion in accordance with HUD requirements. Specifically, it executed proper written agreements, ensured that required project financing was secured, maintained separate books and records, spent HUD funds for eligible and reasonable purposes, followed occupancy requirements, calculated proper tenant rents, and completed its noncritical renovations within 18 months after the RAD conversion.

However, the Authority did not complete all critical renovations before the RAD conversion as required by its RAD conversion commitment agreement¹ with HUD. Specifically, the Authority did not install carbon monoxide detectors in the units serviced with gas as required. This condition occurred because the Authority did not have adequate controls to ensure that its vendor shipped the correct detectors before it began to install them in the units and verify the renovation work completed by its contractors. As a result, the Authority received \$36,022 in ineligible housing assistance from HUD, and the tenants in these units were at risk of carbon monoxide exposure while their units lacked carbon monoxide detectors. During the audit, the Authority installed the appropriate carbon monoxide detectors.

Written Agreements Were Properly Executed

The Authority properly executed written agreements for the RAD project in accordance with HUD requirements. Specifically, it executed the RAD conversion commitment, the RAD use agreements, and housing assistance payments contracts within the established timeline and in the proper order, and these written agreements contained the appropriate information required by the Office of Public and Indian Housing (PIH).² Ground leases were not required and, therefore, not executed because the Authority had indirect legal authority to direct the legal interest of the project owner.³

Financing Sources Were Secured

Based on our review, the Authority secured more than \$6.18 million in sources of funding for the three RAD converted properties as required by HUD.⁴ The RAD conversion was funded from the Authority's operating reserves and capital funds and, therefore, had no commercial financing. We reviewed the general ledger, which identified that only about \$6.17 million was transferred from the Authority funds to the RAD owner, which was \$10,956 less than required. The

¹ The RAD conversion commitment executed with HUD on July 14, 2016, required all critical renovations to be completed before the RAD conversion. This RAD conversion occurred on August 1, 2017, when the housing assistance payments contracts were executed with HUD.

² See appendix C for requirements in Notice PIH-2012-32, REV-2, paragraphs 1.4(A)(11), 1.6(B)(1), and 1.6(B)(4).

³ See appendix C for requirements in Notice PIH-201-32, REV-2, paragraph 1.4(A)(11).

⁴ See appendix C for requirements in Notice PIH-2012-32, REV-2, paragraph 1.9(A).

Authority explained that because it received management fees from the RAD owner, a portion of the secured financing was held in the Authority's account.⁵ In addition, we followed up with HUD, which agreed with this arrangement.

Separate Books and Records Were Maintained

The Authority maintained its books and records separately from those of the RAD owner. Our review of the bank statements and general ledgers for the Authority and the RAD owner showed that the books and records were maintained separately to track expenditures paid from operating and capital funds and other RAD project expenses.

HUD Funds Were Used for Eligible and Reasonable Purposes

The Authority spent HUD funds for eligible and reasonable purposes for the RAD conversion as required. During our review, we selected a sample of RAD-related expenditures, including payments to contractors, suppliers, vendors, and utility providers and petty cash payments to the Authority's executive director. We reviewed source documents for all expenditures selected, including bank statements, invoices, canceled checks, and ledger account entries. Based on this review, we determined that these funds were used for eligible and supported renovation costs and property management expenses.

HUD Occupancy Requirements Were Followed

The Authority administered its RAD conversion in accordance with HUD's tenant occupancy requirements. Specifically, no units were removed as a result of the RAD conversion, the Authority advised tenants of their rights to return with no rescreening,⁶ and it advised tenants of their mobility rights.⁷ Additionally, the Authority provided supporting documentation showing that it conducted the required resident meetings to discuss the RAD conversion.⁸ The Authority properly revised its administrative plan to describe its waiting list procedures for the three properties it converted to Project-Based Vouchers.

Tenant Rents Were Properly Calculated

The Authority properly calculated tenant monthly rents as required.⁹ Specifically, tenant rents did not increase as a result of the RAD conversion. We identified all tenants whose rent increased more than the greater of 10 percent or \$25 after the RAD conversion, reviewed their tenant files, and determined that each tenant's rent increase was proper and not increased due to the RAD conversion.

Noncritical Renovations Were Completed Within 18 Months of the RAD Conversion

The Authority completed its noncritical renovations within 18 months after the RAD conversion as required by the RAD conversion commitment it executed with HUD. Noncritical renovations

⁵ As discussed in the Background and Objective section, the Authority manages the RAD properties and, therefore, is paid management fees from the RAD owner. However, to avoid any appearance of impropriety, the Authority decided to transfer the remaining difference during the audit.

⁶ See appendix C for requirements in Notice PIH-2012-32, REV-3, paragraph 1.4(A)(5).

⁷ See appendix C for requirements in Notice PIH-2012-32, REV-3, paragraph 1.6(D)(9).

⁸ See appendix C for requirements in Notice PIH-2012-32, REV-2, paragraph 2.8.3(A).

⁹ See appendix C for requirements in Notice PIH-2012-32, REV-3, paragraph 1.6(C)(4).

included installing heating and air conditioning condensing units, repairs to the maintenance shop roof and drainage, and constructing community recycling facilities. Our observations on site at the Authority determined that all of the renovations had been completed by the deadline of February 1, 2019, or 18 months after the RAD conversion.

Critical Renovations Were Not Completed Before the RAD Conversion

The Authority did not complete all critical renovations before the RAD conversion on August 1, 2017, as required by the RAD conversion commitment. The agreement required all critical repairs to be completed before the execution of housing assistance payments contracts and conversion to RAD. One of the required repairs included the installation of carbon monoxide detectors for units serviced with gas. Of the 499 units that were converted under RAD, 355 were serviced with gas. Observations of those 355 gas units determined that carbon monoxide detectors were not installed in 6 units.¹⁰

The condition described above occurred because the Authority did not verify shipments from its vendors and renovation work completed by its contractors. Specifically, the Authority did not identify that a vendor incorrectly sent detectors that lacked carbon monoxide detection features before its contractor began to install them in the units. The contractor determined that the detectors installed were smoke only detectors and, therefore, required replacement. Although this shipping error was detected during installation, during the audit, we observed that not all units had received replacements. The Authority should have verified the renovation work completed by its contractor.

As a result of the error noted above, the tenants living in the six units without carbon monoxide detectors lacked proper protection for nearly 14 months. During that time, the Authority received \$36,022 in ineligible housing assistance and administrative fees from HUD as shown in appendix A and D, while the six units were not renovated as required by its agreement with HUD. In September 2018, the Authority installed the appropriate detectors in all six units.

Conclusion

The Authority generally administered its RAD conversion in accordance with HUD's requirements for protecting both the interest of HUD and the tenants. However, it did not complete all critical renovations before the RAD conversion as required because it did not have adequate controls to verify products shipped by its vendors and the renovation work completed by its contractors. By not ensuring that controls were adequate, the Authority received \$36,022 in ineligible housing assistance from HUD, and tenants were at risk for nearly 14 months in units without carbon monoxide detectors.

¹⁰ These units had smoke detectors with no carbon monoxide feature.

Recommendation

We recommend that the Director of HUD's Birmingham Office of Public Housing require the Authority to

- 1A. Repay to the public housing program from non-Federal funds the \$32,620 in ineligible housing assistance it received from HUD.
- 1B. Repay to the Treasury from non-Federal funds the \$3,402 in ineligible administrative fees it received from HUD.
- 1C. Establish effective procedures and controls to verify that it receives correct products from its vendors and ensures the proper completion of renovation work by its contractors.

Scope and Methodology

We performed our audit work between July 2018 and February 2019 at the Authority's office located at 151 Curry Court, Talladega, AL, and at our office in Atlanta, GA. Our review covered the period January 1, 2015, through June 30, 2018. We extended the review period through February 1, 2019, to observe the completion of noncritical renovations and to review the associated expenditures. To accomplish our objective, we

- Reviewed applicable laws, regulations, and relevant HUD program requirements for RAD conversions, including public laws, the Code of Federal Regulations, and PIH notices.
- Reviewed the RAD applications, RAD agreements, closing documents, and physical conditions assessment.
- Interviewed Authority officials, staff, board members, and consultants.
- Consulted with HUD officials on issues identified during the review.
- Reviewed the Authority's certificate of incorporation and bylaws, board minutes, and organizational structure.
- Reviewed the Authority's RAD financial records, chart of accounts, general ledger, and check registers.
- Reviewed the Authority's policies and procedures for compliance with occupancy requirements and the independent third-party rent reasonableness requirements.
- Reviewed the RAD project's general ledgers and ownership structure.
- Reviewed the Authority's organizational charts, administrative plans, housing assistance payment registers, vacated tenant listings, rent rolls, and tenant files.

We reviewed critical and noncritical renovations, including observations of all 355 units serviced with gas, to verify that carbon monoxide detectors had been installed at each property. We also reviewed HUD funds used in the RAD conversion, including operating and capital funds, to determine whether the Authority spent HUD funds for eligible and reasonable purposes. We selected nonstatistical sampling methods to complete certain portions of our audit. Specifically, to determine whether the Authority properly used RAD-designated funds for eligible and reasonable purposes, we selected and reviewed 30 RAD-related expenditures from a total of 1,855 expenditures. Of these 30 expenditures, 18 were randomly selected, 10 were selected to include transactions of more than \$5,000, and 2 were selected to include petty cash transactions.

We also selected a nonstatistical sample, which included 13 tenants from the universe of 94 tenants who moved out after the RAD conversion, and reviewed their tenant files to determine whether tenants were displaced as a result of the RAD conversion. To determine whether the Authority properly calculated tenant rents after the RAD conversion, for each property, we identified all tenants whose rent increased more than the greater of 10 percent or \$25. The results of the review applied only to the specific items reviewed and cannot be projected to the universe of transactions.

Computer-processed data generated by the Authority were not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of these computer-processed data. Instead, our conclusions were based on the supporting documentation obtained during the audit, including but not limited to written agreements, tenant eligibility files, interviews, property site visits, and financial data related to project development expenditures.

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

Internal Controls

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

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

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

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

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 internal controls to ensure that critical renovations were completed before the deadline in accordance with RAD regulations (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/
1A	\$32,620
1B	3,402
Totals	36,022

- 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.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



Talladega Housing Authority

April 29, 2019

Nikita N. Irons
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit Region 4
Richard B. Russell Federal Building
75 Ted Turner Drive, SW Room 330
Atlanta, GA 30303-3388

Re: Audit Report, Housing Authority of the City of Talladega, AL
Rental Assistance Demonstration Program Review

Dear Ms. Irons:

On behalf of the Housing Authority of the City of Talladega, I would like to thank the Office of Inspector General (OIG) staff who were involved in the review of the Authority's Rental Assistance Demonstration Program conversion. The OIG Auditors were very professional, thoughtful and helpful throughout the entire review process and they represented the Office of Audit, Region 4 and themselves very well.

In specific response to the report: We understand how and why our Housing Authority was selected for review and we also understand the purposes of the review. We also understand the finding surrounding the six (6) Carbon Monoxide (CO²) detectors. We have, in response to your recommendations, already met with key Housing Authority Staff and have initiated effective measures which we believe will ensure that this error does not happen in the future.

Sincerely,

Nettie Goodwin
Executive Director
Housing Authority of the
City of Talladega, AL

Comment 1

OIG Evaluation of Auditee Comments

Comment 1 OIG appreciates the Authority’s cooperation and professionalism throughout the audit. We acknowledge the Authority’s plans to initiate effective measures to address internal control weaknesses and will work with HUD during the audit resolution process to ensure recommendations are fully implemented.

Appendix C

Relevant Federal Criteria

Notice PIH-2012-32, REV-2, paragraph 1.4(A)(11), provides that ownership control requirements may be satisfied if the Authority has the direct or indirect legal authority (via contract, partnership share or agreement of an equity partnership, voting rights, or otherwise) to direct the financial and legal interests of the project owner.

Notice PIH-2012-32, REV-2, paragraphs 1.6 B(1) and (2), provide that each Project-Based Voucher Program project must be covered with an initial housing assistance payments contract of at least 15 years with mandatory annual renewal.

Notice PIH-2012-32, REV-2, paragraph 1.6(B)(4), provides that each covered project must have an initial RAD use agreement that agrees with the initial term of the housing assistance payments contract and its renewal terms.

Notice PIH-2012-32, REV-2, paragraph 1.9, provides that the public housing agency must sufficiently consider the long-term preservation needs of the property and the means by which those will be financed.

Notice PIH-2012-32, REV-2, paragraph 2.8.3(A), provides that an owner is required to notify residents in writing of its intent to participate in the demonstration and to hold two meetings with residents.

Notice PIH-2012-32, REV-3, paragraph 1.4(A)(5)(ii), provides that any resident who may need to be temporarily relocated to enable rehabilitation or construction has a right to return to an assisted unit once rehabilitation or construction is completed. Permanent involuntary displacement of residents may not occur.

Notice PIH-2012-32, REV-3, paragraph 1.6(C)(1), provides that residents may not be excluded from occupancy at the covered project based on any rescreening, income eligibility, or income targeting. With respect to occupancy in the covered project, current households in the converting project will be grandfathered for application of any eligibility criteria to conditions that occurred before conversion but will be subject to any ongoing eligibility requirements for actions that occur after conversion.

Notice PIH-2012-32, REV-3, paragraph 1.6(C)(4), provides that if a tenant's monthly rent increases by more than the greater of 10 percent or \$25 as a result of conversion, the rent increase will be phased in over 3 or 5 years.

Notice PIH-2012-32, REV-3, paragraph 1.6(D)(9), provides that one of the key features of the Project-Based Voucher Program is the mobility component, which provides that if the family has elected to terminate the assisted lease at any time after the first year of occupancy in accordance with program requirements, the public housing agency must offer the family the

opportunity for continued tenant-based rental assistance in the form of either assistance under the Housing Choice Voucher Program or other comparable tenant-based rental assistance.

Appendix D

Ineligible Costs Breakdown for Each Unit

Unit	Administrative Fee	HAP	Total
A	\$567	\$5,096	\$5,663
B	567	2,590	3,157
C	567	5,730	6,297
D	567	5,768	6,335
E	567	3,314	3,881
F	567	10,122	10,689
Totals	3,402	32,620	36,022