



# Civic Towers and Civic Tower Senior, Miami, FL

## Section 8 Project-Based Housing Assistance Payment Program



**To:** Reuben J. Brooks, Multifamily Director, Office of Housing, 4AHMLA

**//Signed//**

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

**Subject:** The Owners of Civic Towers and Civic Towers Senior in Miami, FL, Generally Corrected Section Eight Housing Assistance Payments To Address Duplicate Benefits and Ensured That the Payments Were Eligible and Supported

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 Civic Towers, LLLP, and Civic Towers Senior, LLLP, Section 8 project-based housing assistance payment 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 404-331-3369.



**Audit Report Number: 2019-AT-1001**

**Date: December 14, 2018**

**The Owners of Civic Towers and Civic Towers Senior Generally Corrected Section Eight Housing Assistance Payments To Address Duplicate Benefits and Ensured That the Payments Were Eligible and Supported**

## Highlights

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### What We Audited and Why

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We audited the Civic Towers, LLLP, and Civic Towers Senior, LLLP, Section 8 project-based housing assistance payment (HAP) program. We selected the Civic Towers and Civic Towers Senior Section 8 project-based properties for review based on a referral from our Office of Investigation regarding a potential duplication of benefits between the U.S. Department of Housing and Urban Development (HUD) and the Federal Emergency Management Agency (FEMA). Our audit objective was to determine whether the owners administered the Section 8 project-based housing assistance payment program in accordance with HUD regulations. Specifically, we determined whether (1) any duplication of benefits existed between HUD and FEMA as a result of damage caused by Hurricane Irma and (2) housing assistance payments were paid for eligible tenants and properly supported.

### What We Found

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The owners generally corrected its HAP to address duplicated benefits and ensured HAP was eligible and supported. Although we identified units from these projects that were approved for HAP during the same period they received FEMA assistance, the owners made adjustments to account for these periods. However, we identified weaknesses in the relocation process. We also identified four instances in which the HAP was calculated incorrectly due to conflicting income information, miscalculated annual income, underreported tenant income, and an unsupported elderly deduction. These conditions occurred because the owners lacked adequate policies and procedures to fully track displaced tenants and ensure accurate billing to HUD and failed to provide adequate oversight of its contractors responsible for the relocation of tenants and calculation of the HAP. Failing to address these conditions could put future HUD funds at risk in the event of another disaster that results in displaced tenants, and result in HAP miscalculations, unreliable data being reported to HUD, and inaccurate subsidies being paid to the owners.

### What We Recommend

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We recommend that HUD require the owners to (1) revise policies and procedures to address weaknesses in relocation procedures, (2) conduct a review of recertification documents to determine the correct HAP calculations and repay HUD from nonproject funds for any overpayments as a result of the recalculation, and (3) provide appropriate oversight and training to staff to ensure that HAP calculations are accurate and adequately supported.

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# Background and Objective

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The Civic Towers and Civic Towers Senior apartment buildings in Miami, FL, are U.S. Department of Housing and Urban Development (HUD) Section 8 project-based buildings. The two buildings were purchased in February 2017 by Civic Towers, LLLP, and Civic Towers Senior, LLLP (owners), respectively. The buildings are located at 1855 Northwest 15<sup>th</sup> Avenue, with 195 units, and 1400 Northwest 19<sup>th</sup> Street, with 150 units under contract with HUD. Both buildings have Section 8 housing assistance payments (HAP) contracts with HUD for the next 20 years (effective date February 1, 2017), with estimated HAP totaling more than \$2.3 million for the 345 units from February 2017 to February 2018.

The Section 8 program was authorized by Congress in 1974 to provide rental subsidies for eligible low-income tenants to reside in apartment projects. For the Section 8 project-based program, HUD provides the Section 8 rental subsidies to the owners of multifamily rental properties under a Section 8 HAP contract. The HAP contract specifies the number of units that the owners will make available for eligible low-income tenants. The contract administrator, North Tampa Housing Development Corporation, is the entity responsible for administering the HAP contracts.<sup>1</sup> HUD makes HAP to owners equal to the difference between the HUD-approved rent amounts on the HAP contracts and the required tenant portion of the rent. The required tenant portion of the rent is the higher of (1) 30 percent of the tenant's family monthly adjusted income, (2) 10 percent of the tenant's monthly gross income, and (3) welfare rent.

The owners planned<sup>2</sup> to renovate both buildings and entered into contracts with an external contractor in July 2016 to start temporarily relocating tenants to other locations, with renovations set to begin shortly thereafter. However, in September 2017, Hurricane Irma further damaged both buildings, rendering the buildings unsafe. As a result, the remaining tenants in the buildings were displaced and had to be relocated. Some of these tenants were provided temporary or transitional shelter assistance by the Federal Emergency Management Agency (FEMA). FEMA is part of the United States Department of Homeland Security and is responsible for coordinating the Federal Government's role in preparing for, mitigating the effects of, responding to, and recovering from all domestic disasters, whether natural or man made.

The owners were responsible for relocating tenants displaced before the storm and tracking relocations following Hurricane Irma. In addition, the owners are responsible for reexamining the tenant's income and family composition at least annually to calculate the HAP due from HUD and the required tenant portion of the rent due from the tenant. Interim reexaminations may also be required for changes in the tenant's income and family composition that occur between annual reexaminations, which would change the HAP amount and tenant portion of the

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<sup>1</sup> HUD is allowed to subcontract some or all of its responsibilities for the contract administrator.

<sup>2</sup> Communication with Managing Partner supports that construction began February 14, 2017.

rent. The owners are also responsible for ensuring that the tenants are low-income qualified, based on annual HUD-published income limits. In October 2017, the owners contracted with a new management firm to handle day-to-day operations, effective November 2017.

Our audit objective was to determine whether the owners administered the Section 8 project-based HAP in accordance with HUD requirements and regulations. Specifically, we determined whether (1) any duplication of benefits existed between HUD and FEMA as a result of damage caused by Hurricane Irma and (2) housing assistance payments were paid for eligible tenants and properly supported.

# Results of Audit

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## **Finding: The Owners Generally Corrected HAP To Address Duplicate Benefits and Ensured HAP Was Eligible and Supported**

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The owners of Civic Towers and Civic Towers Senior generally corrected HAP to address duplicate benefits and ensured HAP was eligible and supported. Specifically, units from these projects were approved for HAP during the same period they received FEMA assistance as a result of damage caused by Hurricane Irma. Although adjustments were made to HAP to account for these periods, weaknesses were identified in the relocation process. This occurred because the owners did not provide adequate oversight for its contractors responsible for the relocation process and did not have adequate policies and procedures in place. If the weaknesses identified are not addressed, it could put future HUD funds at risk in the event of another disaster that results in displaced tenants. In addition, we identified four instances in which the HAP was calculated incorrectly. Specifically, we identified conflicting income information, miscalculated annual income, underreported tenant income, and an unsupported elderly deduction. This condition occurred because the owners did not have adequate oversight for its management firm responsible for the calculation of HAP. Not conducting adequate reviews during the recertification results in HAP miscalculations, unreliable data being reported to HUD, and inaccurate subsidies being paid to the owners.

### **HAP Adjustments Were Made on Units With Households That Received FEMA Assistance**

During our review, we identified HAP amounts that were approved for units during the same period<sup>3</sup> in which the units were checked into FEMA temporary housing.<sup>4</sup> Specifically, we reconciled HUD and FEMA data and identified 133 Civic Tower units and 85 Civic Tower Senior units for which the owners was approved for HAP during the same period in which the units were checked into FEMA temporary housing. However, HAP should not have been paid on units for tenants receiving FEMA housing assistance. For these 218 units, we reviewed HUD financial data documenting adjustments made to previously approved HAP to determine whether a duplication of benefits occurred. In September 2018, we were provided additional reports to support adjustments made in March and April 2018 to the HAP approved between October<sup>5</sup> 2017 and February 2018. Since total adjustments addressed the majority of the HAP provided during the same period as the FEMA assistance, no amounts were questioned in the report.

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<sup>3</sup> Based on FEMA reports, Civic Tower and Civic Tower Senior households units were checked into FEMA temporary housing from September 2017 through March 2018.

<sup>4</sup> FEMA also informed us that some tenants may have received funds directly to assist with temporary shelter.

<sup>5</sup> HUD Handbook 4350.1, REV-1, CHG-2, paragraph 38-32A, states that Section 8 must be suspended on a vacated apartment beginning the following month after the resident has been displaced unless headquarters approves otherwise.

Based on the relocation plan submitted to HUD for the initial renovations before the disaster, the owners required the contracting firm<sup>6</sup> to develop and submit monthly and quarterly reports that would document all relocation activity and submit a final report at the end of the project. The owners were unable to provide adequate reports to HUD to identify the location and status of displaced tenants. Although the adjustments generally resolved the issue, we determined that it was the result of the owners' lack of oversight of its contractor hired to complete relocation activities before the disaster and the lack of sufficient procedures to ensure that (1) HAP was accurately billed to HUD and (2) displaced tenants were adequately tracked following a disaster. This condition impacted the owners' ability to adequately track where the tenants were relocated and which agencies were paying for their temporary relocation, resulting in the need for adjustments to the HAP inappropriately applied for.<sup>7</sup> If procedures are not revised to address weaknesses in the relocation process, HUD funds could be put at risk in the event of future disasters that result in displaced tenants.

### **The Owners Generally Calculated HAP Correctly and Ensured That Tenants Met Low-Income Eligibility Requirements**

We reviewed 26 tenant files to determine whether HAP were calculated correctly and to ensure that tenants met the low-income eligibility requirement. Of the 26 tenant files reviewed, all tenants were low-income eligible, and the HAP was calculated correctly for 22 tenants with adequate support in the files. However, four tenants' HAP was not calculated correctly. Specifically, we identified

- Conflicting income data and excluded income - We identified conflicting employment income documents and Social Security income that was inappropriately excluded. The annual recertification was for June 2017. HUD Handbook 4350.3, section 5-4, states that tenant annual income includes all amounts received and anticipated to be received during the 12-month period following admission or annual recertification. Section 5-5 states that the project must use current circumstances to anticipate income. In using the Enterprise Income Verification (EIV) system, the owner must confirm with the tenant that the employment information reported in EIV is correct, and the project must use the EIV income report and tenant-provided documentation to support the annual income. A nonemployment affidavit signed by the tenant in March 2017<sup>8</sup> certified that the tenant had been unemployed for the past 12 months. However, the EIV report supported that income was earned by the tenant during the last 3 quarters of 2016 and the first quarter of 2017, thus indicating a false certification on behalf of the tenant. There was no other documentation (verification of employment, termination letter, etc.) found to support

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<sup>6</sup> The contract between the owners and the relocation firm required the firm to maintain relocation records and develop and implement relocation tracking systems. The contract was effective from July 19, 2016, to October 31, 2017.

<sup>7</sup> Regulations at 2 CFR (Code of Federal Regulations) 200.302(b)(2) state that the financial management system of each non-Federal entity must provide for the accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements.

<sup>8</sup> The tenant file included two nonemployment affidavits, dated March 2017 and June 2017, which both showed that the tenant was unemployed.

additional third-party verification of the tenant's current employment status and income to resolve the conflicting information as required.<sup>9</sup>

In addition, the tenant file contained a Social Security letter, dated June 2017, supporting that monthly payments to the tenant of \$455 would start July 2017. However, the Social Security income was excluded from the HAP calculations without an explanation or support for excluding this income.

- Miscalculated annual income - The tenant income was miscalculated as monthly income instead of weekly income. Specifically, the weekly income from child support payments totaling \$95 was calculated as monthly. Therefore, the income used for the HAP calculation was understated.
- Underreported tenant income - The tenant monthly income was underreported by \$550. The tenant reported annual self-employment income of \$4,800 in November 2016, although the 2016 tax return filed in January 2017 showed annual income of \$11,399 (a difference of \$6,599 annually, or \$550 monthly). Documentation was not included in the file to support using the lower amount of income or additional verification obtained as required.<sup>10</sup> The annual recertification was for February 2017. HUD Handbook 4350.3, paragraph 7-13D, states that if the tenant does not comply with interim reporting requirements and the owner discovers that the tenant failed to report the change, the owner must initiate the interim recertification and any resulting rent increase would be retroactive to the first of the month following the date on which the action occurred.
- Unsupported deduction - The tenant was provided the elderly family deduction, but there was no support to show that the tenant qualified for this deduction. HUD Handbook 4350.3, paragraph 5-10E, states that one \$400 elderly family deduction is allowed per family to be deducted from annual income if the head, spouse, or cohead is at least 62 years of age or has disabilities. The tenant file showed the family composition as one head of household, who was 33 years of age, and two minor children with no support for any disabilities as of the August 2017 interim recertification.

The owners explained that a highly experienced property management firm was contracted to handle the day-to-day operations, which included leasing and compliance, and the owners were not directly involved in the day-to-day operations and were not aware of the issues found with the tenant files. Therefore, we determined that these issues occurred due to the owners' lack of oversight of the management firm contracted to complete these tasks. Not conducting adequate reviews during the recertification results in HAP miscalculations, unreliable data being reported

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<sup>9</sup> HUD Handbook 4350.3, section 9-10, states that the owner must obtain an independent third-party verification directly from the source if there is an EIV income discrepancy reported or incomplete EIV employment or income data and the owner needs additional information. Section 8-18 outlines the procedures for addressing discrepancies and errors.

<sup>10</sup> See footnote 9.

to HUD, and inaccurate subsidies being paid to the owners. The property management firm in question no longer works on the Civic Towers project and has been replaced by another property management firm contracted in November 2017. The new firm is reviewing and rectifying the issues cited. Due to the conflicting and unsupported information in the files, we could not determine whether the HAP was supported, overpaid, or underpaid.

### **Conclusion**

Although the owners generally corrected HAP to address duplicate benefits and ensured HAP was eligible and supported, weaknesses identified place HUD funds at risk of undisclosed duplication of benefits, unreliable data reported to HUD, and miscalculations of HAP. As of November 2017, the owners had contracted with a new property management firm, and it was addressing the issues noted with the tenant files. However, failing to (1) implement adequate policies and procedures over its relocation process and HAP calculations and (2) providing appropriate oversight of its contractors, will continue to place HUD funds at risk of fraud, waste, and abuse.

### **Recommendations**

We recommend that that the Director of the Atlanta Office of Multifamily Housing Programs require Civic Towers, LLLP, and Civic Tower Senior, LLLP, to

- 1A. Revise policies and procedures to address weaknesses in the owners' relocation procedures to include adequate oversight and monitoring of contractors responsible for relocation activities, compliance with reporting and tracking requirements, appropriate billing to HUD, and adequate identification of tenants receiving other Federal assistance following natural disasters.
- 1B. Conduct a review of the recertification documents to determine the correct HAP calculations and repay HUD from nonproject funds for any overpayments as a result of the recalculation.
- 1C. Revise procedures to address weaknesses in the owners monitoring procedures to include adequate oversight of contractors and staff hired to manage the daily operations of the project including recertifications.
- 1D. Provide training to staff to ensure that HAP calculations are accurate and adequately supported.

# Scope and Methodology

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We performed our audit work between February and September 2018 at our Miami, FL, and Atlanta, GA, offices<sup>11</sup>. Our audit period was February 1, 2017, through February 28, 2018. We expanded the audit period to include our review of HAP adjustments that were made through April 2018 for periods within our initial scope<sup>12</sup>.

To accomplish our audit objective we did the following:

- Interviewed the auditees' staff to obtain an understanding of the controls significant to the audit objective and assist in our review of the files.
- Reviewed relevant background information, including HAP contracts between HUD and Civic Towers, LLLP, and Civic Towers Senior, LLLP.
- Reviewed HUD and owner financial reports and data for tenant units.
- Reviewed financial reports provided by the contract administrator to support HAP payments and adjustments.
- Reviewed tenant files, including form HUD-50059, Owner's Certification of Compliance With HUD's Tenant Eligibility and Rent Procedures; lease agreements; income documents; and supporting documents, to verify low-income eligibility requirements.
- Reviewed applicable laws, regulations, and relevant HUD program requirements related to tenant eligibility and the administration of Section 8 project-based HAP.
- Reviewed FEMA data related to assistance provided to tenants following Hurricane Irma.
- Reviewed the auditees' organizational charts; relocation plans; disaster, emergency, and recovery plans; and policies and procedures.

To determine whether a duplication of benefits existed, we matched FEMA and HUD data to identify units for which the households were checked into FEMA housing during the same period HAP was approved. For these 218 units, we reviewed financial reports, including the HUD-52670 reports,<sup>13</sup> to identify adjustments to approved HAP. Since we reviewed all units during this period, no sample testing was warranted.

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<sup>11</sup> We did not perform work at the auditee's office because the project was under construction.

<sup>12</sup> As discussed in the finding section, HAP adjustments were made in March and April 2018 to the HAP approved between October 2017 and February 2018.

<sup>13</sup> These reports include the Housing Owner's Certification and Application of Housing Assistance Payments and the Adjustments to Schedule of Tenant Assistance Payments Due.

We selected a nonstatistical sample of units from Civic Towers and Civic Towers Senior to review tenant files to determine whether the tenants were income eligible and the HAP was calculated correctly. For Civic Towers, there were households from 133 units<sup>14</sup> checked into FEMA temporary housing during the same period in which HAP was approved. Of the 133 units, 24 units were approved for HAP for more than 3 months during the same period as FEMA assistance was provided. For these 24 units, we sorted to show the highest to lowest HAP amounts and selected 16<sup>15</sup> units to review. For Civic Towers Senior, there were households from 85 units that were checked into FEMA temporary housing during the same period HAP was approved. Of the 85, we selected all units with more than 1 month of HAP approved during the same time as the units were checked into FEMA housing, totaling 17 units. We selected the first 10 units with at least 2 months of HAP made during the same period in which the units were checked in with FEMA. The results of our review apply only to the sampled transactions and cannot be projected to the universe.

Computer-processed data generated by the owners were not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of these computer-processed data.

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.

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<sup>14</sup> Due to inconsistent data with tenant names on the FEMA reports, we used the tenant unit numbers from the damaged dwellings (Civic Towers and Civic Towers Senior) to reconcile the FEMA and HUD data.

<sup>15</sup> We selected these 16 units based on the amounts of the HAP to identify both larger and smaller HAP amounts to include in the review.

# 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:

- Effectiveness and efficiency of operations – Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives.
- Relevance and reliability of information – Policies and procedures that management has implemented to provide reasonable assurance that operational and financial information used for decision making and reporting is relevant, reliable, and fairly disclosed in reports.

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. Our evaluations of internal controls was not designed 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 Civic Towers and Civic Tower Senior's internal controls.

# Appendixes

## Appendix A

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

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November 15, 2018

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Dear Ms. Irons:

First and foremost, we appreciate the professionalism and efficiency of the HUD Audit Team. We agree with the draft report's conclusion (p.1) that the owners generally corrected its HAP to address duplicated benefits, and as described below, the owners took extraordinary measures on behalf of the residents in the aftermath of Hurricane Irma.

As you know, the owners addressed the policies and procedures that HUD determined needed to be strengthened by changing property managers. The HUD Audit Team's interaction with the new management company should provide support for the proposition that policies and procedures will be strengthened and complied with.

Although perhaps it need not be said, Hurricane Irma struck Miami and displaced thousands of residents, impacting economically challenged residents such as those at Civic Towers and Civic Towers Senior (collectively "Civic Towers" or the "Projects") particularly hard. The storm created havoc and made both buildings uninhabitable and dangerous. Despite these conditions, ownership exercised herculean efforts to relocate the residents of Civic Towers into temporary housing and, despite the dangerous conditions, entered the Projects to retrieve their belongings. As you know, the owners took it upon themselves to negotiate with the extended stay facilities to ensure that Civic Towers residents were properly housed and accommodated. Moreover, the owners paid for temporary housing for more than three hundred families displaced by Hurricane Irma, as FEMA support was not provided to all residents and, when it was provided at all it, was often provided intermittently, and fully expired in March 2018, well before the damage caused by Hurricane Irma could be repaired. Without the owners' efforts, hundreds of families would not have had safe and decent housing for much of the last year.

We disagree that there were weaknesses in the relocation process. While monthly reports were not provided by the contracted agent, actual oversight by ownership was more frequent and recurring, as information regarding resident whereabouts was shared real time. Importantly, the relocation contractors paid for by ownership played a critical role throughout the displacement, helping residents to interact with FEMA, translating as needed, and coordinating with temporary housing to make sure that the residents had access to housing (including providing transport and emergency

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Comment 1

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Nikita N. Irons

Regional Inspector General for Audit - 2 -

November 15, 2018

housing for elderly residents who were released from hospitals in the middle of the night). Please remember that this all happened in the immediate aftermath of a Presidentially Declared Disaster, when many government-provided services were stretched thin. Unfortunately, in such situations low-income families can easily slip through the cracks; here, ownership worked unbelievably hard to ensure that this was not the case. Currently, ownership, the relocation contractor, and property manager have weekly calls to discuss the displaced residents and plan for their imminent return to fully renovated apartments.

Due to significant timing differences in the way that FEMA support and HAP vouchers are processed, adjustments to payments after the fact are unavoidable. FEMA funds are provided directly to the housing provider (in this case Extended Stay America) and can change on a nightly basis. Because HUD vouchers are processed a month in advance for a month of housing, an inevitable timing imbalance occurs that cannot be corrected by policies or procedures or any effort on the part of ownership. As the audit points out, the owners corrected HAP payments as soon as practicable. Critically, information regarding FEMA support of residents was only provided to ownership on an ad hoc basis by the housing provider, as FEMA was unable to communicate with the owners about any support being provided to residents.

The report highlights the following owner responsibilities:

1. "The owners were responsible for relocating tenants displaced before the storm and tracking relocations following Hurricane Irma"
2. "In addition, the owners are responsible for reexamining the tenant's income and family composition at least annually to calculate the HAP due from HUD and the required tenant portion of the rent due from the tenant"
3. "interim reexaminations may also be required"
4. "the owners are also responsible for ensuring that the tenants are low-income qualified an annual HUD-published income limits"

Importantly, ownership was only responsible for relocating residents that were relocated as part of the scheduled renovation and only for the period before the storm. After the hurricane, a Presidentially Declared Disaster, ownership responsibilities changed, and Chapter 38 of the HUD Asset Management Handbook governs. Per Chapter 38, relocation responsibility falls to HUD or other government bodies, yet ownership stepped in to provide housing when other options were not available. Due to the Presidentially Declared Disaster ownership has more limited responsibilities than indicated above. Ownership complied with these responsibilities and went much farther by providing temporary housing for residents. Furthermore, ownership directed the management company to continue to review tenant income and family composition as required by the HAP contract and has tracked the relocations it sponsored following Hurricane Irma and did so via various tools. Additionally, the owners' property managers have followed HUD requirements for re-certification and procedures to ensure residents are qualified.

Although it was difficult to adjust for FEMA payments, since those payments went to other parties, the owners obtained whatever information was available, and, as is the custom and practice in the industry, retroactively adjusted the HAP formula and payments to take into consideration the FEMA payments, that the owners and its management company were aware of, to eliminate potential duplication. (p.5)

Comment 2

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 3

Nikita N. Irons  
Regional Inspector General for Audit

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The owners retained reputable and experienced managers, which were approved by HUD, whose responsibility was to track tenant relocation, calculate HAP, assess the standards for HAP eligibility, and other similar tasks. The owners were in frequent contact with the managers to ensure these tasks were being addressed. Ultimately, ownership changed management agents shortly after the storm and while we do not agree that ownership did not provide adequate oversight, ownership has and continues to work with the current managers to ensure adequate policies and procedures are in place and followed. (p.5)

We agree that the owners adequately addressed the potential duplication of payments by HAP and FEMA and no amounts are being questioned in the report. (p.5)

Comment 3

We do not agree that the owners had a lack of oversight regarding tracking of residents, though it would be reasonable for owners to delegate that responsibility to on-site professionals. To the extent there is that concern, the owners did exercise oversight and the current property manager has helped correct any issues that may have existed with prior contractors. (p.6)

1. The new property manager has had procedures that the owners believe were adequate and has instituted adequate policies and procedures to address any concerns and is coordinating with your office and the program office to confirm acceptance of those procedures.

Comment 4

We agree with the draft audit report's conclusion that the owners generally tracked HAP correctly and ensured that tenants met low-income eligibility. (p.6)

1. As to the 4 tenants where HAP was purportedly not calculated correctly, we will thoroughly review the HAP calculations and determine if any adjustment is necessary. (p.6)
2. In one situation, the draft audit report states that a tenant affidavit in March of 2017 certified that the tenant had been unemployed for the previous 12 months, while the Enterprise Income Verification (EIV) system reported that income had been earned by the tenant for the last 3 quarters of 2016. In addition, a Social Security letter indicated the tenant would receive \$455 monthly starting in July 2017 but that was not considered in the HAP calculation.
  - (a) The owners will ensure that the managers re-calculate HAP, based on this information and make any appropriate adjustments.
  - (b) Moreover, the owners have instructed its managers to take into account and reconcile any conflicting information.
  - (c) The new manager has assured the owners that its policies and procedures will address any such inconsistencies and will resolve them.
3. As to the tenant income calculated monthly, as opposed to weekly, possibly understating income for the HAP calculation, the owners have requested the managers recalculate and adjust as required. (p.7)
4. With respect to tenant monthly income being under-reported by \$550, the owners will request the manager analyze the data, recalculate, and adjust accordingly.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 5

Comment 6

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Regional Inspector General for Audit

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- (a) As to the purported need for an interim recertification, the new manager has assured the owners that its policies and procedures will address this issue. (p.7)

- 5. With respect to the tenant who purportedly was provided an "elderly families" deduction with no support to establish qualification for such deduction, the owners have requested the manager to assess the pertinent data, recalculate, and adjust accordingly.

- (a) The new manager has assured the owners that verification for the "elderly family" deduction will be reviewed and will be covered by its policies and procedures.

While we agree with the conclusion that a highly experienced property management firm was contracted to handle the day-to-day operations, which included leasing and compliance, and the owners were not directly involved in the day-to-day operations and were not aware of the issues found in the tenant files (p.7), we do not agree that any lack of information or application of policies or procedures were due to the owners' lack of oversight.

- 1. The management firm in question was reputable and highly experienced. The owners rightfully relied on their expertise. In the wake of rehabilitating both buildings, only to be interrupted by a devastating hurricane, the few issues identified (which will be addressed) speaks volumes to the owners' oversight, pro-activeness and compliance. Simply put, not all mistakes or omissions by a property manager are due to lack of oversight by the owners.
- 2. Having said that, the owners have replaced the prior management company and have given strict instructions to its current manager to:
  - (a) Review, understand and address all issues in the draft audit report, and
  - (b) Review its policies and procedures to ensure they are adequate going forward.
- 3. As the draft audit report recognizes "the new firm is reviewing and rectifying the issues cited." (p.8)

With respect to the recommendations in the draft audit report, the owners have:

- 1. Instructed the new manager and its relocation contractor to:
  - (a) 1A – Review and revise policies as necessary to address weaknesses in the relocation procedures, including reporting and/or other methodologies for oversight and monitoring of contractors, compliance with reporting and tracking requirements, appropriate billing to HUD, and adequate identification of tenants receiving other federal assistance following natural disasters.
- 2. Instructed the new manager to:

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Nikita N. Irons  
Regional Inspector General for Audit

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November 15, 2018

- (a) 1B – Conduct a review of the recertification documents to determine the correct HAP calculations and repay (from non-project funds) any overpayment, if any.
- (b) 1C – Ensure that the procedures for owners monitoring and oversight of contractors, including recertification, are adequate.
- (c) 1D – Provide adequate training to staff to ensure that HAP calculations are accurate and adequately supported.

We fully appreciate the time and effort that has gone into the audit and the opportunity to comment.

Sincerely,



Marty Steinberg

Partner  
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## OIG Evaluation of Auditee Comments

Comment 1 The owners disagreed that there were weaknesses in their relocation process. The owners stated while monthly reports were not provided by the contracted agent, actual oversight by ownership was more frequent and recurring, as information regarding resident whereabouts was shared real time.

Based on the relocation plan submitted to HUD for the initial renovations before the disaster, the owners required the contracting firm to develop and submit monthly and quarterly reports that would document all relocation activities and submit a final report at the end of the project. The owners were unable to provide adequate reports to HUD to identify the location and status of displaced tenants as discussed in the audit report. In addition, the audit team was not provided adequate relocation records to support appropriate oversight during this period.

Comment 2 The owners stated they were only responsible for relocating residents that were relocated as part of the scheduled renovation and only for the period before the storm. After the hurricane, a Presidentially Declared Disaster, ownership responsibilities changed, and Chapter 38 of the HUD Asset Management Handbook governs. They further stated that per Chapter 38, relocation responsibility falls to HUD or other government bodies, yet ownership stepped in to provide housing when other options were not available.

We disagree that the owners was only responsible for its residents' relocations prior to the storm. As discussed in the audit report, the owners were responsible for relocating the tenants prior to the storm and tracking the tenants following the storm. According to HUD Handbook 4350.1, Rev-1, Chapter 38, Appendix A-8, the owner/agent is responsible for developing an emergency relocation plan, providing a status report for residents, tracking each displaced resident's temporary location and maintaining contact information for each displaced tenant. We also followed up with the Multifamily Hub staff who informed us that the relocation responsibility does not fall to HUD but to FEMA and other government bodies.

Comment 3 The owners stated they changed management agents shortly after the storm and while they do not agree that ownership did not provide adequate oversight, ownership has and continues to work with the current managers to ensure adequate policies and procedures are in place and followed.

We acknowledge that the owners changed management agents and continues to work with current managers to ensure adequate policies and procedures are in place to support effective oversight. The owners should work with HUD during the audit resolution to ensure recommendations are fully implemented.

Comment 4 The owners agreed with our conclusion that they generally tracked HAP correctly and ensured that tenants met low-income eligibility. We acknowledge the owners plans to address issues identified in the report related to HAP calculations including conducting further reviews and determining if any adjustments are necessary. The owners should work with HUD during the audit resolution to ensure recommendations are fully implemented.

Comment 5 The owners agreed with the conclusion that “the owners were not directly involved in the day-to-day operations, and were not aware of the issues found in the tenant files”. However, the owners did not agree that any lack of information or application of policies or procedures were due to the owners’ lack of oversight which OIG disagrees with.

Since the Management Agreement is between the owners and the agent, the owners should have provided adequate oversight to ensure they were aware of issues at the property in order to address them in a timely manner.

Comment 6 We acknowledge the owners acceptance of recommendations 1A through 1D. The owners should work with HUD during audit resolution to ensure the recommendations are fully implemented.