



# Redwood Juniper Tacoma Apartments, Tacoma, WA

Section 221(d)(4) Mortgage Insurance and Project-  
Based Section 8 Housing Assistance Programs



**To:** Philip Head  
Director, Office of Multifamily Housing, Seattle Field Office, 0AHM

**From:** //signed//  
Ronald J. Hosking  
Regional Inspector General for Audit, 10AGA

**Subject:** Redwood Juniper Tacoma Apartments Did Not Always Administer Its Program in Accordance With HUD Rules and 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 Redwood Juniper Tacoma Apartments.

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 Web site. 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: 2015-SE-1001**

**Date: April 14, 2015**

**Redwood Juniper Tacoma Apartments Did Not Always Administer Its Program in Accordance With HUD Rules and Regulations**

## Highlights

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### What We Audited and Why

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We selected the Redwood Juniper Tacoma Apartments for audit because it appeared that the project owner took an unauthorized distribution in excess of surplus cash in 2012. Our objective was to determine whether Redwood Juniper's owner took an unauthorized distribution in excess of surplus cash, procured services in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations, and maintained an auditable waiting list.

### What We Found

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The project owner took an unauthorized distribution in excess of surplus cash, did not obtain three written cost estimates for goods or services expected to exceed \$10,000 per year, and did not maintain an auditable waiting list.

### What We Recommend

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We recommend that HUD require the project to provide cost justifications for the \$42,700 spent on service contracts and develop and implement policies and procedures to ensure that these issues do not recur. The Redwood Juniper project owner declined to provide written comments on this report.

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# Background and Objective

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## **Redwood Juniper Tacoma Apartments**

The Redwood Juniper Tacoma Apartments is a multifamily low-income housing tax credit apartment complex located in Tacoma, WA. The 215-unit apartment complex was purchased in 2005 with partial funding from a U.S. Department of Housing and Urban Development (HUD)-insured Section 221(d)(4) loan for more than \$9 million. Of the 215 units, 164 are covered by two housing assistance payments contracts. The Redwood Juniper project is required to comply with the requirements in its regulatory agreement and housing assistance payments contracts.

During our audit period, the project was managed by two different management agents. Allied Group, Inc., managed the project from January 2012 through May 2013. Trieste Holdings, LLC, managed the project from June 2013 through August 2014. Trieste Holdings has an identity of interest with the project owner's managing member, Redwood Juniper Management, LLC.

## **Section 221(d)(4) Loan Program**

The Section 221(d)(4) loan program insures mortgage loans to facilitate multifamily rental or cooperative housing for moderate-income families, the elderly, and the handicapped. The program is authorized by the National Housing Act. Section 221(d)(4) projects must comply with program requirements and the project's regulatory agreement.

## **Section 8 Housing Assistance Payments Program**

The project-based Section 8 housing assistance payments program provides rental assistance to low-income individuals and families, enabling them to live in affordable, decent, safe, and sanitary housing. HUD makes the assistance payment to the owner of an assisted unit on behalf of an eligible family (including single persons), defined as having income at or below 80 percent of the area median income adjusted for family size.

Our objective was to determine whether Redwood Juniper's owner took an unauthorized distribution in excess of surplus cash, procured services in accordance with HUD rules and regulations, and maintained an auditable waiting list.

# Results of Audit

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## **Finding 1: Redwood Juniper's Owner Took an Unauthorized Distribution in Excess of Surplus Cash**

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Redwood Juniper's owner took an unauthorized distribution in excess of surplus cash. This condition occurred because the project owner did not realize that the regulatory agreement and calculation of surplus cash applied to all project funds, including low-income tax credit-associated funds. As a result, the advance of surplus cash put the property at risk of ending the fiscal period with negative surplus cash.

### **Unauthorized Distribution**

Redwood Juniper's owner took an unauthorized distribution in excess of surplus cash. According to section 6.e. of the project's regulatory agreement, project owners may make distributions of surplus cash only as of and after the end of a semiannual or annual fiscal period. The project would submit the computation of surplus cash, distributions, and residual receipts to HUD. This computation shows the amount available for distribution to the owner during the next fiscal period. However, in 2012, Redwood Juniper's owner drew down more than \$80,000 in low-income housing tax credit reserve funds without submitting the semiannual surplus cash computation that would have authorized the distribution.

### **Regulatory Agreement Applicability**

Redwood Juniper's owner did not realize that the regulatory agreement and calculation of surplus cash applied to all project funds, including low-income tax credit-associated funds. The owner believed low-income housing tax credit reserve funds could be drawn down at any point because those funds were separate from HUD funds.

The advance of surplus cash put the property at risk of ending the fiscal period with negative surplus cash. The advance, without the surplus cash computation, circumvented HUD's control to ensure that properties take only distributions that are authorized and appropriate.

### **Recommendations**

We recommend that the Director of HUD's Seattle Office of Multifamily Housing

- 1A. Ensure that Redwood Juniper's owner submits surplus cash computations before making distributions.
- 1B. Take appropriate disciplinary action against Redwood Juniper's owner for any future unauthorized distributions.

## **Finding 2: Redwood Juniper Did Not Solicit Written Cost Estimates From at Least Three Contractors for Two Service Contracts**

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Redwood Juniper did not solicit written cost estimates from at least three contractors for two service contracts. It did not believe it needed to follow its procurement policies for its recurring service contracts. As a result, Redwood Juniper could not ensure that more than \$42,700 spent on recurring service contracts was reasonable.

### **Did Not Solicit Written Cost Estimates**

Redwood Juniper did not solicit written cost estimates from at least three contractors for two service contracts. According to HUD Management Agent Handbook 4381.5, when an owner or management agent contracts for goods or services involving project income, the agent is expected to solicit written cost estimates from at least three contractors or suppliers for any ongoing supply or service contract that is expected to exceed \$10,000 per year. In addition, documentation of all bids should be retained as a part of the project's records for 3 years following completion of the work.

Redwood Juniper had two ongoing service contracts for grounds maintenance and laundry services that were approximately \$29,500 and \$13,200, respectively, without soliciting written cost estimates from the contractors.

### **Did Not Follow Procurement Policies for Recurring Service Contracts**

Redwood Juniper did not believe it needed to follow its procurement policies for its recurring service contracts. Redwood Juniper believed that since the contracts were minor and were obtained at a good price, there was no reason to obtain three cost estimates each year. Further, its procurement policies were not detailed enough to ensure compliance with the requirements in Handbook 4381.5 and provide guidance for establishing cost reasonableness for contracts and ongoing supplies and services. As a result, Redwood Juniper could not ensure that more than \$42,700 spent on recurring service contracts was reasonable.

### **Recommendations**

We recommend that the Director of HUD's Seattle Office of Multifamily Housing require Redwood Juniper to

- 2A. Provide cost justifications for the two service contracts by obtaining written cost estimates from at least three contractors and reimburse the property's operating account up to \$42,700 from nonproject funds for any amounts that are unreasonable.
- 2B. Update and implement procurement policies and procedures to ensure compliance with HUD regulations.

## **Finding 3: Redwood Juniper Did Not Maintain an Auditable Waiting List**

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Redwood Juniper did not maintain an auditable waiting list. This condition occurred because its policies and procedures did not always conform to HUD requirements and it did not always follow the policies and procedures it established. As a result, project applicants and tenants may not have been selected in the appropriate order.

### **Incomplete Waiting List**

Redwood Juniper did not maintain an auditable waiting list. According to HUD Handbook 4350.3, REV-1, section 4-18, independent reviewers looking at the waiting list should be able to find an applicant on the waiting list; readily confirm that an applicant was housed at the appropriate time based on unit size needs, preferences, and income targeting; and trace various actions taken with respect to a family's application. In addition, project owners must develop a method to maintain documentation of the waiting list composition, application status, and actions taken.

Redwood Juniper did not record housing preferences and did not record and document all actions taken with respect to one application. The waiting list was kept as an Excel spreadsheet on which information could be easily entered, altered, or removed without a record of these actions being maintained. In addition, the list was not routinely backed up and was lost after a computer crash in December 2013 and was only partially recovered from an external hard drive maintained by the onsite community manager.

### **Inadequate Policies and Procedures**

Redwood Juniper's policies and procedures did not include recording housing preferences on the waiting list, a method for ensuring the waiting list could not be altered without a record of actions being maintained, and creating an external backup of the waiting list. Further, it did not always follow the policies and procedures it had established to record and document actions and changes to applications on the waiting list.

As a result, project applicants and tenants may not have been selected in the appropriate order. Of the 29 project-based Section 8 applicants who moved into the property during our audit period, 5 tenants could not be found, and it could not be readily confirmed from the waiting list that they were appropriately housed. In at least one instance, it appeared that an applicant had been inappropriately skipped for housing.

### **Recommendations**

We recommend that the Director of HUD's Seattle Office of Multifamily Housing require Redwood Juniper to

- 3A. Develop and implement policies and procedures to record and document housing preferences and actions taken with regard to housing applications.
- 3B. Develop and implement policies and procedures to maintain physical and electronic up-to-date backup copies of the waiting list in case of electronic failure and limit the extent to which information can be entered, altered, or removed.

# Scope and Methodology

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We performed our onsite audit work between September 2014 and January 2015 at Trieste Holdings, LLC, the current management agent's office located at 3236 78<sup>th</sup> Avenue SE, Suite 202, Mercer Island, WA; Allied Group, Inc., the previous management agent's office located at 221 Wells Avenue South, #100, Renton, WA; and at the Redwood Juniper Tacoma Apartments located at 3015 North Pearl Street, Tacoma, WA. Our review covered January 2012 to August 2014.

To accomplish our objectives, we reviewed applicable laws, HUD regulations and handbooks, and the Redwood Juniper regulatory agreement; interviewed HUD and project staff members; and examined the project's policies and procedures, books and records, and financial statements.

We reviewed the Redwood Juniper rent roll for all 29 project-based Section 8 tenants who moved in during our review period and traced those tenants to the project's waiting list. For the five tenants who could not be traced to the waiting list, we reviewed their initial housing applications.

Using computer-assisted auditing techniques, including a random seed generator, we randomly selected and reviewed a 5 percent, nonstatistical sample of the checks disbursed from the project's operating fund when Redwood Juniper was managed by Allied Group, Inc., and another 5 percent of the of the checks disbursed from the project's operating fund from the time the project became managed by Trieste Holdings, LLC. We compared the check register to bank statements and traced the check disbursements to the check stub, the bank copy of the checks, vendor invoices, and supporting documents.

Management agent	Allied Group, Inc.	Trieste Holdings, LLC
Total number of checks disbursed	821	556
Total number of disbursed checks reviewed	41	28
Percentage of checks reviewed	5%	5%
Total dollars reviewed	\$87,446	\$24,372

From this review, we determined that the project had two service contracts. We reviewed the bidding process for both contracts and compared this process to procurement requirements.

We reviewed the relevant portions of the audited financial statements submitted to HUD regarding owner distributions from 2011, 2012, and 2013, including the annual and midyear computations of surplus cash, distributions, and residual receipts.

We relied, in part, on accounting data provided by the project. Although we did not perform a detailed assessment of the reliability of the data, we determined that the computer-processed data were sufficiently reliable to be used in meeting our objective. We tested Redwood Juniper's books and records, contacted the certified public accountant firm that audited its financial statements, and verified sampled data with documentation from banks and sampled vendors.

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:

- Policies and procedures to ensure that distributions to owners are authorized and appropriate.
- Policies and procedures to ensure that contracts for goods and services are appropriately procured and documented.
- Policies and procedures to ensure that the waiting list is complete and records all actions taken with regard to individuals' applications.

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 Deficiencies**

Based on our review, we believe that the following items are significant deficiencies:

- Redwood Juniper's owner did not have a policy in place for submitting surplus cash computations before making distributions from project funds, regardless of the initial source of funds (finding 1).
- Redwood Juniper did not have adequately detailed written procurement policies and procedures and did not have procedures to ensure that it implemented the policies it had established when procuring service contracts (finding 2).

- Redwood Juniper did not have adequate written policies and procedures for maintaining an up-to-date backup copy of the waiting list in case of an electronic failure (finding 3).

**Separate Communication of Minor Deficiency**

We reported a minor deficiency regarding accessibility to the auditee in a separate management letter.

# Appendix

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Unsupported 1/</b>
2A	\$42,700
<b>Totals</b>	<b>\$42,700</b>

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.