



Reflection5 LLC, Pocatello, ID

Section 8 Housing Assistance Payments Program



To: Thomas W. Azumbrado, Director, San Francisco Multifamily Housing Hub,
9AHMLAP

//signed//

From: Ronald Hosking, Regional Inspector General for Audit, OAGA

Subject: Reflection5 LLC, Pocatello, ID, Did Not Always Retain Tenant Files, Perform Recertifications, Obtain Verifications, or Support Hardship Exemptions

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Reflection5 LLC's Section 8 housing assistance payments 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 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: 2016-SE-1004

Date: September 12, 2016

Reflection5 LLC, Pocatello, ID, Did Not Always Retain Tenant Files, Perform Recertifications, Obtain Verifications, or Support Hardship Exemptions

Highlights

What We Audited and Why

We audited Reflection5 LLC's Section 8 housing assistance payments program because of the results of a previous audit of another multifamily property. The person responsible for housing assistance program issues at the other property was also involved with the housing assistance program at Reflection5. Our objectives were to determine whether Reflection5 maintained documentation supporting its assistance calculations and performed the required tenant recertifications.

What We Found

Reflection5 did not always retain tenant files for tenants who moved out, document its decision to grant hardship exemptions, conduct required recertifications, or obtain and review third-party verifications of income. As a result, it overcharged the U.S. Department of Housing and Urban Development (HUD) almost \$169,000.

What We Recommend

We recommend that the Director of the San Francisco Office of Multifamily Housing Programs require Reflection5 to (1) provide support for the almost \$133,000 in assistance that was based on missing tenant files and reimburse HUD for the amount that remains unsupported; (2) provide support for the almost \$250 in assistance that was based on unsupported hardship exemptions and reimburse HUD for the amount that remains unsupported; (3) provide support for the almost \$36,000 in assistance that was based on unperformed or missing annual recertifications and reimburse HUD for the amount that remains unsupported; and (4) conduct periodic reviews of tenant files to ensure that its manager or management agent maintains the tenant files, completes the required annual recertifications, and adequately supports hardship exemptions in accordance with HUD requirements.

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Background and Objectives

Reflection5 LLC

Reflection5 LLC is the owner of five multifamily properties in Pocatello, ID. Reflection5 purchased its properties in May 2013, and a related company, Solace LLC, served as the management agent. During this time, Solace employed a manager in Pocatello as well as a manager for its own property in Rexburg, ID. The manager in Rexburg submitted the monthly requests for assistance for Reflection5's properties and was the manager responsible for housing assistance issues reported by our office in audit report number 2016-SE-1002. On October 1, 2015, Reflection5 entered into an agreement with the Housing Authority of the City of Pocatello to replace Solace as management agent.

The U.S. Department of Housing and Urban Development (HUD) made housing assistance payments to Reflection5 under five Section 8 contracts that covered all 55 units. During our audit period, HUD provided Reflection5 more than \$946,000 in Section 8 housing assistance payments.

Property name	Address	Units	Assistance payments
El Rancho Heights	549 El Rancho Boulevard	16	\$291,167
Franklin Heights	747 Franklin Avenue	16	216,479
Hawthorne Terrace	3731 Hawthorne Road	8	126,329
Stockman Terrace	3641 Stockman Road	7	135,569
Swisher Terrace	1221 Swisher Road	8	176,528
Total		55	946,072

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, defined as having income at or below 80 percent of the area median income adjusted for family size. The family pays the higher of (1) 30 percent of its monthly adjusted income, (2) 10 percent of its monthly income, (3) welfare rent (if applicable), and (4) \$25 minimum rent. The owner or management agent calculates the amount of the assistance payment, which is the difference between the contract rent and the family's share of the rent. The owner is responsible for reexamining the family's income and composition at least once each year and adjusting the amount of assistance payments accordingly.

Our objectives were to determine whether Reflection5 maintained documentation supporting its assistance calculations and performed the required tenant recertifications.

Results of Audit

Finding: Reflection5 Did Not Always Maintain Supporting Documentation or Perform Recertifications

Reflection5 did not always retain tenant files for tenants who moved out, document its decision to grant hardship exemptions, conduct required recertifications, or obtain and review third-party verifications of income. This condition occurred because the Reflection5 owner did not periodically review the quality of the property manager's work. As a result, it could not support the housing assistance it charged to HUD of almost \$169,000.

Missing Tenant Files

Reflection5 did not retain tenant files for 23 of the 48 tenants who moved out during our audit period. Handbook 4350.3 requires owners to maintain documentation of all verification efforts throughout the term of each tenancy and for at least 3 years after the tenant moves out. We asked for files for the 48 tenants who moved out between June 1, 2013, and December 31, 2015, and all of the 48 tenant files should have still been available when we performed our fieldwork in February 2016.

Unsupported Hardship Exemptions

For two of the nine tenant files reviewed, the former manager adequately documented the tenants' zero income but did not document his decision to grant hardship exemptions. A hardship exemption waives a tenant's \$25 minimum rent requirement, and Handbook 4350.3 requires owners to maintain documentation on all requests and determinations regarding hardship exemptions. The assistance calculation certifications in the tenant files showed that Reflection5 waived the minimum rent, but nothing in the file documented the tenants' requests for the hardship exemptions or explained the manager's reasons for granting them.

Unperformed Recertifications & Unverified Income

For two of the nine tenant files reviewed, the former manager did not always conduct the required annual recertifications. To ensure that assisted tenants pay rents according to their ability to pay, HUD Handbook 4350.3 requires owners to recertify tenant income and household composition at least annually. While the interim certification process involves verifying the specific item that changed, such as income or family composition, the annual recertification involves verifying all information. However, the two tenant files reviewed contained no documentation for some of the required recertifications. For example, for one tenant, although interim certifications were processed, the required annual recertifications for June 2014 and June 2015 were missing.

For five of the nine tenant files reviewed, the former manager did not always obtain third-party verifications of income and verify the tenant's information to that supporting documentation. In addition to requiring owners to recertify tenant income and household composition at least annually, HUD Handbook 4350.3 requires them to keep the third-party verifications of income in

the tenant files. However, for some of the required recertifications, Reflection5’s files included only the assistance calculation certification form with none of the necessary verification documentation.

The following table summarizes the assistance payment issues identified in the available tenant files.

Property & unit	Tenant	Unsupported hardship exemptions	Unperformed recertifications	Unverified income
El Rancho #4	Tenant 1	X	X	X
El Rancho #5	Tenant 2	X		
Franklin #4	Tenant 3			X
Hawthorne #4	Tenant 4		X	
Hawthorne #4	Tenant 5			X
Swisher #1	Tenant 6			X
Swisher #8	Tenant 7			X
Totals		2	2	5

Inadequate Review Process

The Reflection5 owner did not periodically review the quality of the property manager’s work. The manager’s immediate supervisor was the owner. During his visits to the properties, the owner reviewed their financial positions but did not examine the tenant files. Although the Reflection5 owner replaced the management agent with the Housing Authority of the City of Pocatello, the owner is still ultimately responsible for maintaining the tenant files, completing the required annual recertifications, and adequately supporting hardship exemptions in accordance with HUD requirements.

Unsupported Assistance

Reflection5 charged HUD more than \$132,000 in housing assistance for tenants whose files were no longer available. Appendix C includes a table showing how much assistance Reflection5 charged for each of these 23 tenants during our audit period.

In addition, Reflection5 charged HUD nearly \$250 in housing assistance based on unsupported hardship exemptions. We calculated the unsupported amount by multiplying the \$25 minimum rent requirement by the number of months the hardship exemptions were in effect (2.24 months in one case and 7.68 months in the other). Appendix D shows how much assistance Reflection5 charged for each of the two affected tenants.

Finally, Reflection5 charged HUD more than \$28,000 in housing assistance based on unverified income and almost \$7,900 in housing assistance based on unperformed or missing annual recertifications. Without the required, completed verifications in the tenant file, all of the assistance based on these recertifications was unsupported. We calculated these numbers by taking the assistance Reflection5 calculated for these annual recertifications and multiplying those amounts by the number of months Reflection5 charged them. Appendix D shows the unsupported assistance amounts Reflection5 charged for each of the six affected tenants.

Recommendations

We recommend that the Director of the San Francisco Office of Multifamily Housing Programs require Reflection5 to

- 1A. Provide support for the \$132,759 in assistance that was based on the missing tenant files and reimburse HUD for the amount that remains unsupported.
- 1B. Provide support for the \$248 in assistance that was based on the unsupported hardship exemptions and reimburse HUD for the amount that remains unsupported.
- 1C. Provide support for the \$35,890 in assistance that was based on the unperformed or missing annual recertifications and reimburse HUD for the amount that remains unsupported.
- 1D. Conduct periodic reviews of tenant files to ensure that its manager or management agent maintains the tenant files, completes the required annual recertifications, and adequately supports hardship exemptions in accordance with HUD requirements.

Scope and Methodology

We performed our fieldwork in February 2016 at the Housing Authority of the City of Pocatello located at 711 North 6th Avenue, Pocatello, ID. Our audit period covered June 1, 2013, through December 31, 2015.

To accomplish our objectives, we performed the following steps:

- Reviewed applicable requirements.
- Interviewed staff from HUD, the Housing Authority of the City of Pocatello, and the HUD contract administrator responsible for managing Section 8 assistance in Idaho.
- Obtained and reviewed housing assistance payment data.
- Reviewed the sampled files.
- Recalculated the amount of housing assistance supported by the sampled files.
- Determined the amount of housing assistance requested for tenants whose files were no longer available.

Sample Selection

We randomly selected a sample of 7 of Reflection5's 55 units to evaluate tenant assistance calculations and their accompanying support. Due to turnover in the units, these 7 units involved 12 different tenants. We found that 3 of the 12 tenants had moved out of their units and their files were not available. Therefore, we reviewed the tenant files for the other 9 tenants. We randomly selected the units because we wanted our observations to be representative. However, given the amount of time required to review each unit, selecting a larger statistically valid sample would not have been cost effective. Therefore, we did not project the results of this review to the universe and are reporting only what we found in our sample.

We selected all tenants that had moved out of their units to evaluate the existence of tenant files. Since the tenant files were missing for 3 of the 12 originally sampled tenants, we expanded our review to determine how many files were missing for all 48 tenants who moved out during our audit period. These results represent the entire universe without projection.

We relied on computer-processed data when determining the assistance payments made for tenants whose files were no longer available. We confirmed the validity of this data source by testing against the documentation in the 9 available tenant files that we reviewed. We did not rely on computer-processed data for our other conclusions but, rather, relied on supporting documentation in the sampled tenant files and from HUD's contract administrator.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 objectives:

- Policies and procedures for maintaining documentation supporting housing assistance payments.

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:

- Reflection5 did not periodically review the quality of the property manager's work. (finding)

Separate Communication of Minor Deficiencies

We reported minor deficiencies to the auditee in a separate management memorandum, dated September 12, 2016.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$132,759
1B	248
1C	35,890
Totals	168,897

- 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.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1



Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development Office of Inspector General Office of Audit (Region 10)
909 1st Avenue, Suite 126
Seattle, WA 98104

Dear Mr. Hosking,
Thanks for giving me the opportunity to give you a brief back story on the situations at Rexburg Plaza (40 units-Solace) and Pocatello Portfolio (55 units-Reflection5).

When I purchased the Rexburg Plaza in 2006 I inherited the on site manager of the property at the time. Idaho Housing was familiar with her and gave her high marks. I hired her as my manager and for over the past ten years I have been pleased with her capability and her performance. I believe all of her Management review scores with Idaho Housing have been above average, if not excellent.

In 2013 I purchased my second section 8 property in Southeastern Idaho, the 55 unit Pocatello Portfolio. My Rexburg Plaza manager had been asking for more responsibility and more opportunity to grow so I hired a local on site manager and a local maintenance man at the new Pocatello property, which is one hour or so away from Rexburg, and my Rexburg on site manager with a decade of experience, could oversee and manage the staff and property. For the first year or so the property ran smoothly as the woman I hired as the Pocatello manager did a great job, under my Rexburg manager's supervision and direction. After a year, My Pocatello manager left the Pocatello area for personal reasons. During this transition my maintenance man at Pocatello filled in for the manager and did a great job. I believe in the low income housing program and the benefits it provides. In the same vein, I also believe in giving my employees every opportunity to grow and progress. So, I decided to promote the maintenance man to be the full time manager, with my Rexburg manager continuing to oversee him as a regional manager, and hire a new maintenance man. The maintenance man had been so much more than just a maintenance man. He had helped extensively in the office with paperwork and was the point man with the tenants since he had been on the ground working with them. According to both the former Pocatello manager and the Rexburg manager, the maintenance man was capable and already helping with the office side of the management. I reviewed his resume closely and his background in the US Army and his administrative experience there, and other experience, and he was well

qualified for the position. In retrospect I was loyal to a fault as my new Pocatello manager was overwhelmed in his new position. At the same time, unbeknownst to me, my Rexburg manager had taken a second job at a section 8 senior housing complex about thirty minutes for Rexburg. Despite my training and numerous phone calls and directives and reminders the Pocatello and Rexburg managers were not working together to get the job done as it needed to be. I wanted the properties run smoothly and correctly so I proactively fired the Pocatello manager, reached out to Idaho Housing for their insight and hired immediately on their recommendation the top management company in the city, Pocatello Housing Authority. But it was too late and many of the tenant files were left incomplete. One month after hiring the new property manager I received word of the audit with OIG. An audit that was apparently initiated due to work my Rexburg manager was doing at the elderly section 8 property I was unaware of.

Since day one, Pocatello Housing Authority has done an excellent job of stepping in, completing the appropriate paperwork and keeping detailed files. I look forward to a long and successful partnership with them. My Rexburg manager has benefitted from not having to oversee employees in Pocatello and is doing a good job just managing Rexburg Plaza for me. I feel both properties are in great condition now and things are running very, very well.

That leaves us with a window of time where paperwork was not done correctly, or not at all and things I was responsible for overseeing were missed by my employees. At the end of day, the files were left incomplete and important paperwork undone. As a result, I cannot disagree with OIG's findings about missing paperwork pertaining to occupancy, re-certifications, and other eligibility requirements to support proof of the tenants' eligibility for low income assistance and the subsequent payment of that Assistance received by Solace and Reflection5. As owner, I take full responsibility for the incompetence of these employees as I was the one that gave them the opportunity and responsibility. However, despite the missing and incorrect paperwork, I can attest that I am 100% confident that there were tenants living in the units where housing assistance was being paid to Solace and Reflection5. We were always 100% occupied. I am also very confident that these tenants were eligible for housing assistance payments. Both properties have always maintained a waiting list of tenants equal to a 1-2 year wait period. As vacant units opened up, I am certain the Pocatello manager and the Rexburg manager were putting new tenants in from the wait list. Because of that, and because of my personal physical inspections to these properties during the time in question, it is my belief that not only were they filled but they were filled with tenants that qualified and deserved housing assistance. I believe many of the tenants in question had been long time tenants where the recertification and other paperwork was simply just not completed on their behalf. Per the OIG inspection, the auditor found that ALL tenants occupying the property during the review, where the paperwork was completed, were shown to be HAP assistance eligible.

Comment 2

In the case of Rexburg Plaza (Solace) some honest occasional calculation errors were made dealing with the exact move in or move out date, or similar oversights. In the case of Pocatello (Reflection5) there was a period where the tenant files were left incomplete and many important and required aspects of the housing assistance requirements were simply not executed correctly. I believe this was an unfortunate lesson of promoting the wrong employee from within and not overseeing his development and training and performance as closely as I should have and as closely as I was lead to believe my Rexburg manager was. I want to assure you that the moment I realized these errors I made immediate changes. I can also promise you no fraud or other or theft of services/housing payments for ineligible tenants was ever conceived or committed on my part. I can tell you due to these events and audits we are more dedicated than ever to running these properties as perfectly as possible going forward and eliminating any errors whatsoever. I apologize for the oversights on my part and on the part of my staff. We have made internal changes to process and procedures to improve our process and proactively hired outside management companies for the properties to assure this never happens again. I humbly request that HUD give us the chance to prove that without inflicting such a large monetary penalty. These properties are 45 years old and need and deserve capital improvements for the tenants' benefit. I am not sure how we could cope with such a large financial set back.

I am sincerely sorry and embarrassed for this situation. I have been an owner of section 8 housing for over a decade. I believe in the program and I believe in providing low income housing and I want to be involved long term in HUD's efforts to provide housing for those who stand in need.

Sincerely,



Greg Barratt
Managing member of Solace, LLC and Reflecion5, LLC

OIG Evaluation of Auditee Comments

- Comment 1 Mr. Barratt provided these comments in response to this report as well as to our report 2016-SE-1003 on Solace, LLC, the owner entity of his Rexburg, ID property. He generally agreed with our findings.
- Comment 2 We did not find any eligibility issues with the 9 tenants whose files we reviewed for the calculation of tenant assistance. However, we did not review the eligibility of all of the Solace and Reflection5 tenants as Mr. Barratt states here. Also, as stated in the finding, Reflection5 did not retain some tenant files so we could not determine whether those tenants were eligible.

Appendix C

Assistance for Tenants Whose Files Were No Longer Available

Property & unit	Tenant	Period of payments	Housing assistance charged
El Rancho #2	Tenant A	06/2013-04/2014	\$4,772
El Rancho #2	Tenant B	04/2014-01/2015	4,405
El Rancho #3	Tenant C	06/2013-04/2014	7,173
El Rancho #4	Tenant D	06/2013-06/2013	18
El Rancho #5	Tenant E	06/2013-01/2015	7,590
El Rancho #6	Tenant F	06/2013-09/2013	2,261
El Rancho #8	Tenant G	10/2013-12/2014	7,629
El Rancho #9	Tenant H	06/2013-07/2013	1,190
El Rancho #9	Tenant I	07/2013-02/2015	13,856
El Rancho #12	Tenant J	06/2013-05/2014	8,393
El Rancho #12	Tenant K	05/2014-10/2014	3,903
El Rancho #13	Tenant L	06/2013-03/2015	7,521
El Rancho #15	Tenant M	06/2013-01/2015	15,624
Franklin #1	Tenant N	06/2013-07/2014	3,806
Franklin #3	Tenant O	06/2013-10/2014	12,037
Franklin #9	Tenant P	06/2013-06/2013	235
Franklin #11	Tenant Q	06/2013-03/2014	6,558
Franklin #13	Tenant R	10/2013-10/2014	3,775
Franklin #16	Tenant S	06/2013-01/2015	4,343
Hawthorne #2	Tenant T	06/2013-10/2014	4,956
Hawthorne #2	Tenant U	10/2014-01/2015	1,831
Hawthorne #7	Tenant V	11/2013-06/2014	5,098
Stockman #4	Tenant W	06/2013-05/2014	5,785
Totals			132,759

Appendix D

Unsupported Assistance Amounts by Tenant

Property & unit	Tenant	Unsupported assistance due to unperformed recertifications	Unsupported assistance due to unverified income	Unsupported hardship exemptions
El Rancho #4	Tenant 1	\$5,692	\$912	\$56
El Rancho #5	Tenant 2			192
Franklin #4	Tenant 3		3,685	
Hawthorne #4	Tenant 4	2,167		
Hawthorne #4	Tenant 5		6,809	
Swisher #1	Tenant 6		10,425	
Swisher #8	Tenant 7		6,200	
Totals		7,859	28,031	248

Appendix E

Criteria

HUD Handbook 4350.3 – Occupancy Requirements of Subsidized Multifamily Housing Programs

5-23 – Record-Keeping Procedures

- A. Owners must keep the following documents in the tenant’s file at the project site:
 - 1. All original, signed forms HUD 9887 and HUD 9887-A;
 - 2. A copy of signed individual consent forms; and
 - 3. Third-party verifications.
- B. Owners must maintain documentation of all verification efforts throughout the term of each tenancy and for at least three years after the tenant moves out.
- C. The tenant’s file should be available for review by the tenant upon request or by a third party who provides signed authorization for access from the tenant.

5-26 – Procedures for Determining Tenant Contribution for Section 8, PAC [Project Assistance Contract], PRAC [Project Rental Assistance Contract], RAP [Rental Assistance Payments], and Rent Supplement Properties

D. Section 8 Minimum Rent

Tenants in properties subsidized through the Section 8 program must pay a minimum TTP [Total Tenant Payment] of \$25.

- 3. Financial hardship exemptions.
 - b. Implementing an exemption request.
 - 4. If the hardship is determined to be long term, the owner must exempt the tenant from the minimum rent requirement from the date the owner granted the suspension. The suspension may be effective until such time that the hardship no longer exists. However, the owner must recertify the tenant every 90 days while the suspension lasts to verify that circumstances have not changed. The length of the hardship exemption may vary from one family to another depending on the circumstances of each family. The owner must process an interim recertification to implement a long-term exemption. Owners must maintain documentation on all requests and determinations regarding hardship exemptions.

7-4 – Key Requirements

- A. To ensure that assisted tenants pay rents commensurate with their ability to pay, HUD requires the following:
 - 1. Owners must conduct a recertification of family income and composition at least annually. Owners must then recompute the tenants’ rents and assistance payments, if applicable, based on the information gathered.

9-7 Data Collection and Processing Procedures

- E. Record-Keeping Requirements for HUD-50059, HUD-50059-A and Vouchers

1. Owners must keep the signed HUD-50059(s) and copies of the HUD-50059-A(s) for tenants from the time of move-in to move-out and for a minimum of three years thereafter. Owners may move older records offsite when files get large, however, upon request, the files must be made available for review by HUD or the Contract Administrator.