



Louis Manor Apartments, Port Arthur, TX

Multifamily Section 8 Project-Based Rental Assistance

**Office of Audit, Region 6
Fort Worth, Texas**

**Audit Report Number: 2018-FW-1006
August 31, 2018**





To: Mary Walsh, Southwest Region Director, Multifamily Housing, 6AHMLA
//signed//
From: Kilah S. White, Regional Inspector General for Audit, 6AGA
Subject: Louis Manor Apartments, Port Arthur, TX, Multifamily Section 8 Program,
Subsidized Unsupported Tenants and Uninspected Units

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Louis Manor 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 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 817-978-9309.



Audit Report Number: 2018-FW-1006

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**Louis Manor Apartments, Port Arthur, TX, Multifamily Section 8 Program,
Subsidized Unsupported Tenants and Uninspected Units**

Highlights

What We Audited and Why

We audited the multifamily Section 8 Project-Based Rental Assistance (PBRA) program at the Louis Manor Apartments. We selected Louis Manor in accordance with our goal to review the U.S. Department of Housing and Urban Development's (HUD) multifamily housing programs and because our analysis of Tenant Rental Assistance Certification System data showed red flag indicators at Louis Manor that appeared to be similar to the conditions we found during our previous multifamily audits. This is the fourth audit in a series of Office of Inspector General Region 6 reviews of multifamily Section 8 PBRA programs. Our objective was to determine whether the owner administered its Section 8 PBRA program in accordance with applicable requirements.

What We Found

The owner did not administer its Section 8 PBRA program in accordance with applicable requirements. Specifically, the owner (1) billed HUD for at least 14 tenants whose eligibility it could not support, (2) did not complete annual recertifications in a timely manner, (3) overhoused tenants, and (4) did not conduct the required annual inspections. These conditions occurred because the owner and its identity-of-interest management agent did not implement appropriate controls and lacked proper oversight of staff to ensure that its Section 8 PBRA program was administered in accordance with HUD regulations. As a result, the owner received \$268,452 in housing assistance payments for 14 tenants whose eligibility and unit physical condition standards it could not support. Further, the owner could not assure HUD that tenants received subsidies based on accurate income information, which could adversely affect the amount of funds available for other eligible families.

What We Recommend

We recommend that the Southwest Region Director of Multifamily Housing require the Louis Manor owner to (1) support or repay HUD \$268,452 for tenants whose eligibility the owner could not support; (2) conduct annual recertifications in a timely manner; (3) properly house tenants in the correct unit size; (4) perform the required annual inspections; and (5) implement appropriate controls to ensure that tenants are eligible, housing assistance subsidies are accurate, units are inspected as required, and tenant files contain all required documentation.

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Background and Objective

The Section 8 Project-Based Rental Assistance (PBRA) program was authorized by Congress in 1974 to provide rental subsidies for eligible tenant families residing in specific multifamily rental properties. Under the program, the U.S. Department of Housing and Urban Development (HUD) enters into long-term housing assistance payments contracts with project owners to provide housing units to eligible tenants. HUD also contracts with project-based contract administrators to monitor and enforce owner compliance with the terms of the contracts and HUD regulations and requirements.

Louis Manor Apartments is a 132-unit complex at 1300 Joe Louis Avenue in Port Arthur, TX. The Federal Housing Administration does not insure it, but Louis Manor is 100 percent HUD subsidized through the Section 8 PBRA program. The owner of the property is B Properties - Louis Manor LLC. The owner purchased the property from The Community Developers LLC and received HUD approval to assume the Section 8 housing assistance payments contract on September 30, 2015. The current management agent, B Properties – 2001 S Staples LLC, is an identity-of-interest¹ company.

Between October 2015 and March 2018, HUD paid the owner more than \$2.5 million in tenant subsidies. HUD subsidized rents for the 132 units through a housing assistance payments contract with the owner. The contract summarized the terms and conditions for subsidy payments. Based on the tenant's income, the owner determined how much rent each tenant was responsible for and submitted monthly claims to HUD for the difference between the tenant's portion of the rent and the total approved rent for an adequate housing unit.

Southwest Housing Compliance Corporation was HUD's performance-based contract administrator for Louis Manor's Section 8 PBRA program. Due to national litigation between HUD and other parties, HUD amended its contracts with administrators throughout the country to delete certain monitoring tasks, effective October 1, 2011. HUD reinstated the monitoring tasks in May 2016. However, the administrator had not performed onsite monitoring reviews of Louis Manor as of the end of our review period.

Our objective was to determine whether the owner administered Louis Manor's Section 8 PBRA program in accordance with applicable requirements.

¹ An identity-of-interest relationship exists when an individual or entity that provides management services to the project has a relationship with the project owner such that selection of the management agent and determination of the management fee will not be determined through an arms-length transaction.

Results of Audit

Finding: Louis Manor Apartments Subsidized Unsupported Tenants and Uninspected Units

Louis Manor’s owner did not administer its Section 8 PBRA program in accordance with applicable requirements. Specifically, the owner (1) billed HUD for at least 14 tenants whose eligibility it could not support, (2) did not complete annual recertifications in a timely manner, (3) overhoused tenants, and (4) did not conduct the required annual inspections. These conditions occurred because the owner and its identity-of-interest management agent did not implement appropriate controls and lacked proper oversight of staff to ensure that its Section 8 PBRA program was administered in accordance with HUD regulations. As a result, the owner received \$268,452 in housing assistance payments for 14 tenants whose eligibility and unit physical condition standards it could not support. Further, the owner could not assure HUD that tenants received subsidies based on accurate income information, which could adversely affect the amount of funds available for other eligible families.

The Owner Billed HUD for Unsupported Tenants

The owner billed HUD for at least 14 tenants whose eligibility it could not support. A review of 14 tenant files showed that all of the files contained deficiencies. The files (1) lacked income Enterprise Income Verification (EIV) reports,² third-party income verification, or both; (2) had income discrepancies; (3) contained incorrect annual income; (4) lacked annual certification forms HUD-50059, which are used to submit eligibility information to HUD for continued housing assistance payments; (5) showed late recertifications; and (6) showed that Louis Manor overhoused tenants. The table below summarizes Louis Manor’s deficiencies and the related unsupported costs.

Tenant	Missing EIV reports	Missing third-party verification	Income discrepancies	Incorrect annual income	Missing annual certification	Late recertification	Over-housed	Unsupported housing subsidies
1	X						X	\$14,536
2	X	X	X					20,728
3			X		X			29,545
4	X	X			X	X		29,471
5	X	X					X	19,549
6	X					X		21,379
7	X					X		23,612

² The Enterprise Income Verification system is a web-based computer system containing employment and income information on individuals participating in HUD’s rental assistance programs. Regulations at 24 CFR (Code of Federal Regulations) 5.233 and HUD Handbook 4350.3, REV-1, require its use as a third-party verification source.

Tenant	Missing EIV reports	Missing third-party verification	Income discrepancies	Incorrect annual income	Missing annual certification	Late recertification	Over-housed	Unsupported housing subsidies
8	X						X	10,408
9	X			X	X	X		21,432
10	X			X			X	7,404
11	X							18,405
12	X							15,378
13	X						X	16,387
14	X							20,218
Totals	13	3	2	2	3	4	5	268,452

Missing Income Verification

Thirteen reviewed files had missing EIV reports, third-party income verification, or both for 1 or more years. HUD required the use of the EIV system for verification of employment and income of tenants and for reducing administrative and subsidy errors and required third-party verification of the income.³

In one instance, Louis Manor used the EIV system to determine whether household members received assistance at another location before the family moved into the unit in October 2015. However, the tenant file did not contain required EIV income reports for the family within 90 days after move-in or for the 2016 and 2017 annual recertifications, resulting in \$29,471 in unsupported costs. Regarding third-party income verification, EIV reports in two tenant files showed that the tenants were employed, but there was no evidence of employment income verification. Further, the form HUD-50059 in another tenant file showed gift income of \$600 per year for the recertification, effective April 1, 2017, but there was no gift income verification in the file. Without collecting or maintaining EIV reports and third-party income verification as required, the owner could not assure HUD that it based tenant subsidies on accurate information.

Income Discrepancies

Two tenant files contained income discrepancies. Income on the forms HUD-50059 did not include income disclosed by EIV reports, and onsite staff did not properly investigate and resolve EIV income discrepancies. For instance, an EIV report showed that a tenant had employment income of \$11,661. However, the form HUD-50059 submitted to HUD showed that the tenant had gift income of only \$50 per month. The file contained an employment verification request form, dated May 5, 2016, for the recertification, effective August 1, 2016. A handwritten note on the form said it was the fourth request, but there was no evidence that the verification was mailed or that there was follow up with phone contact. EIV reports showed that the tenant had employment income from 2015 through 2017. There was no evidence in the file that Louis Manor addressed the income discrepancies. In this case, the owner collected HUD subsidies based on a fraction of the tenant's income, making limited subsidies for waiting

³ 24 CFR 5.233

families who properly reported their income unavailable because the owner certified, without verification, understated income reported by this tenant. When income discrepancies are not resolved, HUD could pay higher subsidies than warranted for a tenant, while that tenant paid less toward rent than he or she should, which would leave fewer subsidies available for other qualified families.

Incorrect Annual Income

The onsite manager used incorrect annual income for two tenants. In one file, both the certification questionnaire signed by the tenant and the phone verification showed gift income of \$200 per month. However, the form HUD-50059 showed \$0 income. In another file, the written employment verification, dated January 17, 2017, showed that anticipated annual income was \$4,000. However, the form HUD-50059 for December 1, 2016, showed employment income of only \$2,400 per year, which was based on verbal verification. HUD's acceptable method of verification is that owners use written third-party verification before verbal verification.⁴ The onsite manager should have used the accepted method of verification, which could have assisted in preventing the errors.

Missing Annual Recertifications

Three annual certification forms HUD-50059 were missing. HUD Handbook 4530.3, REV-1, chapter 7, requires owners to certify tenant eligibility at least annually. Without the required forms, the owner could not assure HUD that eligible tenants occupied the subsidized units.

Late Recertification

Four annual recertifications were late. The owner was required to conduct a recertification of family income and composition at least annually.⁵ Three recertifications were late, with submissions ranging from 34 to 57 days after the required date. In addition, there was no evidence that the owner conducted an annual recertification for one family. Conducting annual recertifications late or not at all hinders the owner's ability to consider possible changes in the tenant's income and family composition, which affects the subsidies HUD provides.

Overhoused Families

Five families were living in units larger than their household size should have allowed. HUD required Louis Manor to assign a family to a unit of appropriate size, taking into consideration all persons residing in the household.⁶ A family of two was assigned a three-bedroom unit without justification for the additional bedroom. Louis Manor assigned four other families the appropriate unit size at move-in but allowed the families to keep the same unit size after one or more household members moved out. According to Louis Manor's policy and procedures for occupancy standards, it placed households on the unit transfer waiting list when there was a family composition change that resulted in the household's no longer being eligible for the current bedroom size. The property could not provide a unit transfer waiting list. Further, the waiting list the property maintained did not contain any of the identified overhoused tenants.

⁴ HUD Handbook 4350.3, REV-1, chapter 5, section 5-13

⁵ HUD Handbook 4350.3, REV-1, chapter 7, paragraph 7-4.A.1

⁶ HUD Handbook 4350.3, REV-1, chapter 3, section 3-23, and Louis Manor Policies and Procedures, section 6.0

The Owner Billed HUD for Uninspected Units

All 14 files had missing inspection reports for 1 or more years. For example, one tenant file did not contain inspection reports for 3 consecutive years. Further, more than half of the files had inspection reports when a family moved in but were missing at least one report in later years. HUD required the owner to complete annual inspections to ensure that the units were decent, safe, sanitary, and occupied or available for occupancy.⁷ Neither the owner nor the management agent reviewed the files to ensure that the units had been inspected. Without evidence of completed annual inspections, Louis Manor could not support that the subsidized units met physical condition standards.

The Owner and Management Agent Needed To Make Improvements

The owner and its identity-of-interest management agent needed to make improvements to Louis Manor's Section 8 PBRA program. Specifically, they needed to implement appropriate controls over eligibility, housing assistance subsidies, inspections, and maintaining required documentation, as discussed above. The owner and its management agent did not have appropriate oversight or policies and procedures to detect or prevent these deficiencies, which resulted in the owner's certifying to the accuracy of its monthly subsidy requests to HUD based on deficient records. The owner hired a quality control specialist in September 2016 to monitor EIV reports, train its property managers, and conduct site visits at its 16 properties at least once a year. The specialist visited Louis Manor in June 2017 and stated that she reviewed EIV income discrepancies, checked EIV Multiple Subsidy Reports, and verified tenant identities during her visit and in desk reviews conducted in May, July, and October 2017. However, the specialist did not identify substantial deficiencies within the tenant files. By not identifying issues within the files, the same deficiencies could remain without correction. Further, HUD could continue to subsidize tenants and units that the owner's records could not support.

In addition, Louis Manor required its staff to use checklists at each tenant's eligibility certification or annual recertification. However, none of the 14 files reviewed contained certification checklists. Further, the checklists were insufficient to ensure that the tenant files contained all required documentation. For example, the checklists did not include steps to ensure that annual inspections were completed or that families were housed in the appropriate-size units. When brought to Louis Manor's attention, its compliance manager updated the checklists to include an occupancy overview for each certification completed. If the owner plans to rely on checklists to help ensure that its certifications to HUD are accurate, they must cover requirements and be used consistently.

Conclusion

The owner violated its housing assistance payments contract with HUD for its Section 8 PBRA program by submitting certifications to bill HUD for unsupported tenants and charging HUD for units that it failed to ensure were decent, safe, and sanitary. This condition occurred because the owner and its identity-of-interest management agent lacked oversight and did not implement appropriate controls to ensure that Louis Manor's tenants were eligible and that housing assistance payments from HUD were based on accurate information. As a result, the owner

⁷ 24 CFR 5.705

collected housing assistance payments of \$268,452, which it could not support. Further, the owner could not assure HUD that tenants received subsidies based on accurate income information, which could adversely affect the amount of funds available for other eligible families.

Recommendations

We recommend that the Southwest Region Director of Multifamily Housing require the Louis Manor Apartments' owner to

- 1A. Support that the subsidies for 14 tenants with missing income verifications, income discrepancies, incorrect annual income, and missing annual certifications were adequately supported and accurate or repay HUD \$268,452 for those subsidies. Repayment must be from nonproject funds.
- 1B. Implement appropriate controls to ensure that it conducts annual recertifications for all tenants in a timely manner, as required.
- 1C. Properly house the five families discussed in the finding in the correct unit size when an appropriate sized unit is available and ensure that its other tenants are housed in the correct unit size.
- 1D. Perform inspections for the units that lacked inspection reports
- 1E. Implement appropriate controls to ensure that it performs annual inspections, as required.
- 1F. Implement appropriate controls to ensure that tenants are eligible, housing assistance subsidies are accurate, and tenant files contain all required documentation.

Scope and Methodology

We performed our fieldwork at Louis Manor’s office located in Port Arthur, TX, and the OIG Offices of Audit in Houston, TX, from April through June 2018. Our audit period was October 1, 2015, through March 31, 2018.

To accomplish our objective, we

- Reviewed relevant HUD regulations and requirements.
- Reviewed the management agent’s policies and procedures.
- Reviewed the contract administrator’s management and occupancy review for Louis Manor, dated June 15, 2011.
- Reviewed utility records subpoenaed by the Office of Audit.
- Reviewed the monthly housing assistance payment requests for the audit period.
- Reviewed TRACS move-in – move-out reports, TRACS assistance payment reports, and unit payment history reports.
- Reviewed the project’s audited financial statements and rent rolls.
- Interviewed the tenants’ reported income contributors when we could locate them.
- Interviewed the property manager, compliance officer and quality control specialist.
- Contacted HUD’s staff and contract administrator for information needed for the review.

Scope limitation

According to Louis Manor’s compliance officer, 30 tenant files were destroyed during Hurricane Harvey. Further, 53 families living on the first floor had to move out after the hurricane in September 2017. While the units were empty, Louis Manor did not collect housing assistance subsidies for these tenants. The restriction on access to tenant files and the uninhabitability of units, which resulted in reduced HUD subsidies to the owner, limited the records available for review.

Of the 217⁸ subsidized tenants during the review period, we selected an original sample of 14 files for tenants (1) having limited tenant income of \$2,400 or less and receiving utility allowance reimbursements, (2) with subsidy amounts of more than \$10,000, and (3) with income that was reduced after move-in. We replaced two sample tenant files destroyed during Hurricane Harvey with two other files. We also compared information from the subpoenaed utility records to TRACS reports, including rent rolls, move-in – move-out reports, and payment histories, to

⁸ The number of assisted tenants (217) exceeded the number of assisted units (132) due to tenant move-ins and move-outs during the review period.

determine whether there were any payments for ghost tenants⁹ or vacant units in our sample. We determined that there was no evidence of ghost tenants or payments for vacant units. This determination also factored into our decision to limit our review to the 14 original sample files. The prior owner or management agent processed certifications completed before September 30, 2015. Therefore, we questioned only certifications completed after September 30, 2015, the date on which the current owner assumed responsibility for the housing assistance payments contract.

To achieve our audit objective, we relied on computer-processed data regarding the unit payment history and TRACS reports to determine the unsupported subsidy amount for each tenant. We assessed the reliability of the computer-processed data and determined that the data were generally reliable. The test results refer only to the tenants sampled and cannot be projected to the population of tenants.

This is the fourth audit in a series¹⁰ of Office of Inspector General (OIG) Region 6 reviews of multifamily Section 8 PBRA programs.

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.

⁹ Ghost tenants refer to subsidized units, which Section 8 PBRA tenants did not occupy but the owner billed HUD for those tenants on its certified reimbursement requests.

¹⁰ We also conducted the following audits: (1) The Beverly Place Apartments, Groves, TX, Subsidized Nonexistent Tenants, Unqualified Tenants, and Tenants With Questionable Qualifications, audit report 2017-FW-1009, issued June 29, 2017; (2) Villa Main Apartments, Port Arthur, TX, Subsidized Nonexistent Tenants, Unsupported Tenants, and Uninspected Units, audit report 2018-FW-1002, issued January 31, 2018; and (3) Eastwood Terrance Apartments, Nacogdoches, TX, Multifamily Section 8, Subsidized Questionable Tenants, Overhoused Tenants and Uninspected Units, audit report 2018-FW-1005, issued August 2, 2018.

Internal Controls

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

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

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

Relevant Internal Controls

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

- Policies and procedures that Louis Manor's owner implemented to ensure that its Section 8 PBRA program was administered in accordance with HUD's rules and regulations.
- Policies and procedures that Louis Manor's owner implemented to provide adequate oversight of onsite managers at Louis Manor.
- Policies and procedures that Louis Manor's owner implemented to ensure that its monthly HUD billings were accurate and included only occupied units.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The owner and former management agent lacked oversight and did not have sufficient controls to ensure that they implemented the Section 8 PBRA program in accordance with HUD's rules and regulations, including that their monthly billings to HUD were accurate (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$268,452
Totals	268,452

- 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

Comment 2

Comment 3

Comment 4

Comment 5

Comment 6

August 21, 2018

Ms. Danita Wade
HUD Office of Inspector General
819 Taylor Street, Suite 13A09
Fort Worth, Texas 76102

Re: Louis Manor Apartments; Audit Report 2018-FW-XXXX

Dear Ms. Wade:

Please accept these written comments as the ownership of Louis Manor Apartment's response to the above captioned matter. In paragraph two of your Discussion Draft Report dated August 9, 2018, your office states that you welcome and "encourage alternative recommendations, where appropriate, to those proposed in the draft audit report". As discussed in our Exit Conference of August 17, 2018, we understand these comments will be incorporated into the HUD Office of Inspector General's final report. We will then be provided with the opportunity to discuss and clear up some items contained within the final report with the HUD Southwest Region Multifamily Housing Division. We appreciate this opportunity and wish to highlight some items that we will discuss with the multifamily division. More specifically, we disagree with the conclusion that the ownership of Louis Manor Apartments did "not administer its Section 8 PBRA program in accordance with applicable requirements". We offer the following comments:

1. We did perform EIV checks on our units. These are kept in a separate and secure area apart from the main files. It would appear that these important documents were not provided to your office.
2. We agree that a very few recertifications were not performed in a timely manner. We offer as a recommendation that your office in performing your audits consider that mitigating circumstances can lead to such occurrences. Examples include residents being non-responsive, employers often unwilling to provide third party verifications and the due process that is afforded non-responsive tenants. Often times, ownership must provide evidence to local courts at eviction proceedings that tenants were afforded multiple opportunities to comply before a court will award possession of a unit for non-compliance to recertification requirements. Certainly, late recertifications can also be attributed to on site management failing to be diligent in following through on recertification requirements. As discussed and explained in our exit conference, Louis Manor ownership requires weekly reporting updates every Monday that provide status updates on all upcoming, pending, and overdue recertifications. One final point to consider is that there exists no specific regulation to our knowledge that would classify a unit as non-compliant for being late in recertification.
3. We agree that in some isolated instances during calendar year 2016, some inspections were not performed. As discussed during our exit conference, a change in management occurred during this time frame for reasons such as this. The ownership's oversight of these items led to this change.
4. In the subject report, your office states that some units were not re-certified at all. We see no evidence of this in our review and look forward to providing the office of Multifamily with any documentation necessary to clear this up.
5. We agree with your office's conclusion that in a few instances, residents were over-housed. Once again, mitigating circumstances often exist that make it necessary to allow such cases.

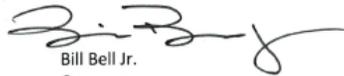
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Your point that in such cases is that a waiting list should be kept, documented, and updated to track these families. We view your point as valid and correct. We will make sure this occurs immediately.

One final thought raised during our exit review and as noted during our review of your audit. In no areas (other than EIV which we will clear), there were no examples of wholesale, systemic problems existing throughout every file. Indeed, it appears that each file reviewed may have contained some level of imperfection but nothing overly systemic. We were generally pleased with this conclusion however realize that we can do better. Lastly, we wish to thank your office for the level of professionalism exhibited during the course of your review. The work that you do is important and we as industry representatives should always recognize this.

Sincerely,



Bill Bell Jr.
Owner

OIG Evaluation of Auditee Comments

- Comment 1 The owner disagreed with the conclusion that the ownership of Louis Manor Apartments did not administer its Section 8 PBRA program in accordance with applicable requirements. The owner acknowledged that it would continue to work with HUD to clear up the items contained in the audit report.
- We found deficiencies in all 14 files reviewed. We maintain our position as described in the finding and did not make any changes to the report. We encourage the owner to work with HUD to resolve the finding and recommendations during the audit resolution process.
- Comment 2 The owner stated that it did EIV checks but they were kept in a separate and secure area apart from the main files and that documentation was not provided to our office.
- We maintain our position as stated in the report. HUD Handbook 4350.3 Rev-1, Exhibit 9-5 required the owner to retain copies of EIV reports in the tenant files. The tenant files reviewed did not always contain the required EIV. Therefore, the owner could not assure HUD that tenants received subsidies based on accurate income information. The owner should provide its documentation to HUD for consideration during the audit resolution process.
- Comment 3 The owner agreed that some recertifications were not performed in a timely manner. The owner recommended that OIG consider that mitigating circumstances could lead to those occurrences, such as non-responsive residents and associated due process requirements, employers being unwilling to provide third party verifications, eviction proceedings requirements, and on site management failures. The owner stated it required weekly reports from the site management for recertification status. The owner also believed that late recertifications were not a compliance issue.
- HUD required the owner to conduct a recertification of family income and composition at least annually. Therefore, late recertifications did not comply with HUD requirements. Further, the management usually started the recertification process about three months before the due date, leaving it sufficient time to work through mitigating circumstances to complete the recertification in a timely manner. In addition, the reviewed files did not contain information regarding mitigating circumstances or issues that affected the recertification. We commend the owner for implementing procedures to prevent late recertifications.
- Comment 4 The owner agreed that it did not perform inspections in some isolated instances during 2016 due to a change in management during this time frame and that the owner's oversight led to the change.

As discussed in the report, we found that all 14 files had missing inspection reports for 1 or more years during 2015, 2016 and 2017. We encourage the owner to work with HUD to resolve the finding and recommendations during the audit resolution process.

Comment 5 The owner asserted that it saw no evidence that some units were not recertified at all as the report showed. It looked forward to providing the Office of Multifamily Housing with documentation to clear up the matter.

We maintain our position that there was no evidence that the owner conducted an annual recertification for one family and that three annual certification forms HUD-50059 were missing. The owner should submit its supporting documentation to HUD and work with HUD during the audit resolution process to satisfy the recommendations.

Comment 6 The owner agreed that residents were overhoused in a few instances and that mitigating circumstances often make it necessary to allow such cases. The owner also agreed that a waiting list should be kept, documented, and updated to track those overhoused families. The owner committed to taking action immediately.

We commend the owner's efforts to take corrective action. The owner should work with HUD during the audit resolution process to satisfy the recommendations.