



Spokane Housing Authority, Spokane, WA

Rental Assistance Demonstration Program



To: Harlan Stewart, Director, Office of Public Housing, Seattle, WA, OAPH
Thomas Davis, Director, Office of Recapitalization, HTR

//signed//
From: Ronald J. Hosking, Regional Inspector General for Audit, OAGA
Subject: The Spokane, WA, Housing Authority Did Not Follow Permanent Relocation Requirements for Its RAD Conversion of the Parsons Apartments

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 Spokane Housing Authority's Rental Assistance Demonstration Program (RAD) conversion of the Parsons 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 913-551-5870.



Audit Report Number: 2018-SE-1001

Date: April 24, 2018

The Spokane, WA, Housing Authority Did Not Follow Permanent Relocation Requirements for Its RAD Conversion of the Parsons Apartments

Highlights

What We Audited and Why

We audited the Spokane Housing Authority's Rental Assistance Demonstration Program (RAD) conversion of its Parsons Apartments due to the Authority's participation in RAD, which was a priority for the Office of Audit. Our objective was to determine whether the Authority followed relocation requirements during its RAD conversion of the Parsons Apartments.

What We Found

The Authority did not properly plan and execute permanent tenant relocation associated with its RAD conversion of the Parsons Apartments. The Authority's conversion plans did not specify that tenants would be permanently relocated, and the Authority permanently relocated tenants without their required written consent. As a result, two tenants did not have the right to return to the property after the RAD conversion, and the U.S. Department of Housing and Urban Development (HUD) was not aware of the permanent relocations.

What We Recommend

We recommend that the Director of the Seattle Office of Public Housing (1) require the Authority to design and implement controls to ensure that employees comply with RAD relocation requirements and that its RAD conversion plans submitted to HUD accurately address any tenant relocations, and (2) monitor the Authority to ensure that it does not improperly relocate tenants during its planned conversion of the remaining public housing units. We also recommend that the Director of HUD's Office of Recapitalization conduct a compliance review of relocation and pursue corrective action as necessary on behalf of the permanently relocated tenants.

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Background and Objective

Spokane Housing Authority

The Spokane Housing Authority was established in 1972 by the City of Spokane, WA, and serves Spokane, Lincoln, Pend Oreille, Stevens, Ferry, and Whitman Counties. The Authority is governed by a six-member board of commissioners, who are appointed by the City of Spokane, the City of Spokane Valley, and Spokane County. The Authority provides housing assistance to more than 5,500 low-income families through a combination of tenant-based rental assistance, project-based rental assistance, Authority-managed apartment communities, and scattered-site housing.

Rental Assistance Demonstration Program

Congress authorized the Rental Assistance Demonstration Program (RAD) in fiscal year 2012 to preserve and improve public housing properties and address a \$26 billion nationwide backlog of deferred maintenance. RAD allows housing agencies to convert public housing and other U.S. Department of Housing and Urban Development (HUD)-assisted properties into long-term, project-based Section 8 rental assistance units. Converting the properties gives the housing agencies access to private debt and equity to address immediate and long-term capital needs.

RAD has two components. The first component allows the conversion of public housing and moderate rehabilitation properties into long-term, project-based Section 8 rental assistance contracts. The second component allows rent supplement, rental assistance payment, and moderate rehabilitation properties to convert tenant protection vouchers into project-based assistance at the end of the contract.

Right To Remain or Return

RAD prohibits agencies from permanently and involuntarily moving tenants as part of a conversion, thus granting tenants the right to remain in or return to their home after conversion. Some RAD conversions involve rehabilitation work, so the public housing agency may need to temporarily relocate the tenants and move them into another agency-owned unit while that work is completed. In some cases, a RAD conversion and rehabilitation may reduce the number of units; change in the number of bedrooms in a unit; change the accessibility of a unit; or in the case of low-income housing tax credit financing, apply income restrictions to the tenants. In these situations, some tenants may not be able to live at the project after conversion and must permanently relocate.

If a potential RAD conversion would not allow a tenant to remain at the project after conversion, the tenant must voluntarily agree to the move. To permanently relocate a tenant, the public housing agency must get that tenant's written consent to receive permanent relocation assistance and keep documentation of this consent. By accepting this assistance, the tenant signs away his or her right to return. If the tenant does not provide this consent and wants to continue living at the project, the public housing agency must alter its conversion plans and accommodate the tenant in the converted project.

Parsons Apartments

In January 2016, the Authority converted its 50-unit Parsons Apartments property (figure 1) from a public housing project to a project-based Section 8 rental assistance property under RAD. The Authority conducted a \$2.1 million renovation of the property as part of the conversion and used low-income housing tax credits to assist in the conversion.



Figure 1 Parsons Apartments

During our review, the Authority was in the process of converting the last of its public housing projects: 75 single-family scattered sites.

Our objective was to determine whether the Authority followed relocation requirements during its RAD program conversion of the Parsons Apartments.

Results of Audit

Finding: The Authority Did Not Follow Permanent Relocation Requirements for Its RAD Conversion of the Parsons Apartments

The Authority did not properly plan and execute permanent tenant relocations associated with the RAD conversion. This condition occurred because the Authority lacked controls to ensure that its property management staff applied RAD's relocation requirements. As a result, two tenants did not have the right to remain at the property after the RAD conversion, and HUD was not aware of the permanent relocations.

Improperly Relocated Tenants

The Authority did not properly plan and execute permanent tenant relocation associated with its RAD conversion of the Parsons Apartments. We reviewed the rent rolls for move-outs that occurred within the 6 months before and 6 months following the conversion. Of the five move-outs that occurred within this timeframe, we found that two were permanent relocations as a result of the conversion. The Authority's conversion plans did not specify that tenants would be permanently relocated, and the Authority permanently relocated tenants without their required written consent.

Inaccurate Relocation Plans

The Authority's RAD conversion plans did not specify that tenants would be permanently relocated. Office of Public and Indian Housing (PIH) Notice PIH 2012-32 (HA) requires a public housing agency to complete the accessibility and relocation plan checklist and submit it to HUD as part of its financing plan. This checklist includes a field for the public housing agency to describe its plans to relocate tenants as part of the conversion and whether those relocations would be temporary or permanent. The Authority's checklist, however, stated that there would be no permanent relocations as part of the Parsons Apartments conversion. Figure 2 shows the portion of the checklist asking about the relocation plan and the response the Authority left blank.

Section III: Relocation Plan

a. Please explain any plans for the relocation of current residents, including the number of residents that will need to relocate, whether the relocation is temporary or permanent and, if temporary, the expected duration of the relocation, the type and location (including census tract) of the replacement housing, how the housing qualifies as a comparable unit as defined by the URA and 49 CFR 24.2(a)(6), and the method of determining which families will be subject to such long-term temporary relocation.

Figure 2 Portion of Authority's relocation plan checklist

No Written Consent From Relocated Tenants

The Authority did not obtain the required written consent before making tenants permanently relocate from the property. According to RAD's relocation requirements in Notice PIH 2014-17, tenants have the right to return to the property after conversion. If a public housing agency wants to permanently relocate a tenant, it must first get that tenant's voluntary, written consent to be moved. The Authority did not get this consent for the tenants it required to permanently relocate.

Inadequate Controls

The Authority lacked controls to ensure that its property management staff applied RAD's relocation requirements. Before converting the Parsons Apartments, the Authority had experience with other low-income housing tax credit properties that were not subject to RAD's rescreening prohibition and its right to return provisions. When processing the RAD conversion, the Authority's property management staff followed its non-RAD relocation procedures without realizing that the tenants had the right to remain at the property. The Authority's executives were unaware of these relocations, so they could not accurately complete the relocation plan checklist or effectively monitor how the property management staff processed these relocations.

No Right To Remain After Conversion

Two tenants did not have the right to remain at the property after the RAD conversion. The Authority found two overincome tenants when it verified the tenants' income for the property's tax credit certification and required them to move without obtaining their voluntary, written consent.

HUD Was Not Aware Of The Permanent Relocations

HUD was not aware of the permanent relocations. When a public housing agency tells HUD that it plans to permanently relocate tenants as part of a RAD conversion, HUD works with the agency to ensure that it understands the relocation requirements. If the Authority's relocation checklist had mentioned the permanent relocations, HUD could have helped the Authority comply with these requirements.

Recommendations

We recommend that the Director of the Seattle Office of Public Housing

- 1A. Require the Authority to design and implement controls to ensure that employees comply with RAD relocation requirements and that its RAD conversion plans submitted to HUD accurately address any tenant relocations.
- 1B. Monitor the Authority to ensure that it does not improperly relocate tenants during its planned conversion of the remaining public housing units.

In addition, we recommend that the Director of HUD's Office of Recapitalization

- 1C. Conduct a compliance review of relocation and pursue corrective action as necessary on behalf of the permanently relocated tenants.

Scope and Methodology

We performed our audit work between September 2017 and February 2018. We performed our onsite work at the Authority's office at 55 West Mission Avenue, Spokane, WA. Our audit period was July 1, 2015, through June 30, 2017.

To accomplish our objective, we performed the following steps:

- reviewed applicable HUD requirements,
- interviewed Authority and HUD staff,
- reviewed the written agreements and funding sources supporting the conversion,
- reviewed the HUD funding used in the conversion,
- reviewed occupancy and rent calculation following the conversion, and
- reviewed tenant files before and after conversion.

Sample Selection

The Parsons Apartments consisted of 50 units before and after the conversion. We reviewed the rent rolls for move-outs from July 2015 through June 2016. We found that 5 tenants of the 50 units moved out during this timeframe. We reviewed 100 percent of these move-outs to determine whether they were the result of the RAD conversion and whether the Authority properly relocated these tenants.

We did not rely on computer-processed data to support our audit conclusions. All audit conclusions were based on source documentation.

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

Internal Controls

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

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

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

Relevant Internal Controls

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

- Controls to ensure that the Authority complied with relocation requirements during its RAD conversion of the Parsons Apartments.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- The Authority lacked controls to ensure that its property management staff applied RAD's relocation requirements (finding).

Separate Communication of Minor Deficiencies

We verbally reported minor deficiencies to the auditee during the course of our review.


Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



**Spokane
Housing
Authority**

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April 9, 2018

Office of the Inspector General
US Department of Housing & Urban Development
Office of Audit Region 10
909 First Avenue, Suite 126
Seattle, WA 98104

**RE: Formal Written Response to Audit
Spokane Housing Authority's Rental Assistance Demonstration Program
Conversion of the Parsons Apartments**

Dear Mr. Hosking:


Thank you for the opportunity to comment on the Office of the Inspector General's (OIG's) recent audit report resulting from your review of Spokane Housing Authority's Rental Assistance Demonstration (RAD) Program conversion of the Parsons Apartments. We would also like to thank your office for both your courtesy and professionalism during the audit process. The constant and consistent communication exhibited by [*HUD OIG Senior Auditor*], Auditor-In-Charge during this review was especially helpful.

Formal Written Response to Audit Report
The HUD OIG's audit was ultimately prioritized to focus on the Authority's Rental Assistance Demonstration Program (RAD) conversion of its Parsons Apartments due to the Authority's participation in RAD, in order to determine whether the Authority followed relocation requirements during its RAD conversion of the Parsons Apartments. While the audit report focuses strictly on relocation, we believe it is important to point out that the original audit purpose had a much broader scope to be surveyed, including whether the Authority was:

- 1) Properly calculating housing assistance payments for its Housing Choice Voucher (HCV) Program; and
- 2) Complying with the RAD rules and regulations (beyond just compliance with relocation)

We believe it is notable the OIG's survey of records related to these broad topics, ultimately resulted in just one targeted area for further review (relocation) and the other areas reviewed did not trigger additional audit procedures.


The Authority acknowledges the finding and recommendations related to tenant relocation as presented by the OIG in their review of the Authority's Rental Assistance Demonstration Program (RAD) conversion of the Parsons Apartments.



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Comment 1

Comment 2

**Ref to OIG
Evaluation**

Auditee Comments

Comment 2

Page 2

In planning for the RAD conversion of the Parsons Apartments, the Authority did not have the expectation of permanently relocating tenants. However, while pre-qualifying tenants for the low-income housing tax credit program; the Authority recognized that two tenants of the Parsons Apartments would not meet the low-income housing tax credit financing income restrictions. After this was discovered, the Authority did not properly update its relocation plan previously submitted to HUD as part of its financing plan. The two tenants were permanently relocated using non-RAD relocation procedures being used by the Authority at other tax credit property conversions underway at the same time. Unfortunately these procedures were not in accordance with RAD's right to return requirement.

As per the recommendation in the audit report, the Authority has initiated and is currently coordinating with HUD's Office of Recapitalization to adequately address the finding and to implement controls that will ensure compliance with RAD relocation requirements during our planned conversion of the remaining public housing units.

Sincerely,



Pamela J. Tietz
Executive Director

OIG Evaluation of Auditee Comments

Comment 1 The Authority noted that at the beginning of this assignment we were looking at both its housing assistance payment calculations for its Housing Choice Vouchers program and its compliance with RAD rules and regulations.

Our standard audit process begins with a preliminary high level review, typically of a variety of items, to assess the need for more focused audit work in any particular area. During this preliminary review, we identified issues with tenant relocations and told the Authority that our assignment would proceed focusing on those specific issues.

We did not conduct enough audit work to provide an opinion, positive or negative, on the Authority's housing assistance payment calculations or on any other element of the Authority's RAD conversion of the Parsons Apartments. Therefore, following our standard practice, this report only addresses those areas for which we conducted sufficient audit work to offer an opinion.

Comment 2 The Authority concurred with our finding and started working with HUD to address our recommendations. These additional controls and monitoring will help to ensure the Authority complies with HUD's relocation requirements on its upcoming conversion of its remaining public housing units.

Appendix B

Criteria

Notice PIH 2012-32, Rev 2

Section 1.6. Special Provisions Affecting Conversions to PBVs [project-based vouchers]

C. PBV Resident Rights and Participation.

1. No Re-screening of Tenants upon Conversion. Pursuant to the RAD statute, at conversion, current households are not subject to rescreening, income eligibility, or income targeting.

Consequently, current households will be grandfathered for conditions that occurred prior to conversion but will be subject to any ongoing eligibility requirements for actions that occur after conversion. For example, a unit with a household that was over-income at time of conversion would continue to be treated as an assisted unit. Thus, 24 CFR [Code of Federal Regulations] § 982.201, concerning eligibility and targeting, will not apply for current households. Once that remaining household moves out, the unit must be leased to an eligible family. MTW [Moving to Work] agencies may not alter this requirement.

Section 3.3. General Program Description

C. Right to Remain or Return. The right to remain or return applies to both PBV and PBRA [project-based rental assistance]. Under RAD, any resident residing in the project prior to conversion has a right to remain in, or in the event that rehabilitation will result in the relocation of residents, return to an assisted unit at the Covered Project. Any relocation as a result of acquisition, new construction, or rehabilitation is subject to requirements of the Uniform Relocation Act (URA). Permanent involuntary displacement of residents may not occur as a result of a project's conversion of assistance. If proposed plans for a project would preclude a resident from returning to the Covered Project, the resident must be given an opportunity to comment and/or object to such plans. If the resident objects to such plans, the Owner must alter the project plans to accommodate the resident in the converted project. If a resident agrees to such plans, the Owner must secure informed, written consent from the resident to receive permanent relocation assistance and payments consistent with URA and acknowledgement that acceptance of such assistance terminates the resident's right to return to the Covered Project. In obtaining this consent, Owners must inform residents of their right to return, potential relocation, and temporary and permanent housing options at least 30 days before residents must make a decision. The Owner cannot employ any tactics to pressure residents into relinquishing their right to return or accepting permanent relocation assistance and payments.

Attachment 1A. Financing Plan Requirements and Feasibility Benchmarks

E. Accessibility and Relocation Plan Checklist.

All PHAs [public housing agencies] shall complete and submit the Approved Accessibility and Relocation Plan Checklist provided by HUD. The checklist shall include a certification that the relocation plan complies with all applicable HUD requirements, including the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) and its implementing regulations (49 CFR Part 24) as well as Section 504 of the Rehabilitation Act of 1973 and its implementing regulations (24 CFR §8.23). The cost of the relocation must be fully funded in the Development Budget.

Notice PIH 2014-17

5. Resident Right to Return

RAD program rules prohibit the permanent involuntary relocation of residents as a result of conversion. Residents that are temporarily relocated retain the right to return to the project once it has been completed and is in decent, safe, and sanitary conditions. The period during which residents may need to be temporarily relocated is determined by the period of rehabilitation or construction, which will be specific to each project.

If proposed plans for a project would preclude a resident from returning to the RAD project, the resident must be given an opportunity to comment and/or object to such plans. If the resident objects to such plans, the PHA must alter the project plans to accommodate the resident in the converted project. If a resident agrees to such plans, the PHA must secure informed written consent from the resident to receive permanent relocation assistance and payments consistent with URA and acknowledge that acceptance of such assistance terminates the resident's right to return to the project. In obtaining this consent, PHAs must inform residents of their right to return, potential relocations, and temporary and permanent housing options at least 30 days before residents must make a decision. The PHA cannot employ any tactics to pressure residents into relinquishing their right to return or accepting permanent relocation assistance and payments. A PHA may not terminate a resident's lease if it fails to obtain this consent.

PHAs must keep documentation of such information provided to residents and such consent by residents. While HUD does not require PHAs to submit documentation of obtaining this consent, PHAs and participants must properly brief residents on their housing and relocation options and must keep auditable written records of such consultation and decisions. HUD may request this documentation during a review of the FHEO Relocations and Accessibility Checklist or if relocation concerns arise.

Examples of project plans that may preclude a resident from returning to the converted RAD project include, but are not limited to:

- Changes in bedroom distribution (i.e. when larger units will be replaced with smaller units such that current residents would become under-housed or when smaller units will be replaced with larger units such that current residents would become over-housed);
- Where a PHA is reducing the number of assisted units at a property by a de minimis amount, but those units are occupied by assisted residents; or
- The reconfiguration of efficiency apartments, or the repurposing of dwelling units in order to facilitate social service delivery.

In all scenarios where residents voluntarily accept permanent relocation to accommodate project plans, these residents are eligible for permanent relocation assistance and payments under URA. If a resident accepts permanent relocation assistance, the resident surrenders his or her right to return to the completed project.

6. Relocation Assistance

Under RAD, relocation assistance may vary depending on the length of time relocation is required.

- a. In instances when the PHA anticipates that a resident will be relocated for more than a year, the PHA must offer the resident the choice of:
 - Permanent relocation assistance and payments at URA levels; or
 - Temporary relocation assistance, including temporary housing, while the resident retains his or her right to return and reimbursement for all reasonable out-of-pocket expenses associated with the temporary relocation.

The PHA must give the resident no less than 30 days to decide between permanent and temporary relocation assistance. If the resident elects to permanently relocate with assistance at URA levels, the PHA must inform the resident that his or her acceptance of permanent relocation assistance terminates the resident's right to return to the competed RAD project.