



Issue Date November 30, 2007
Audit Report Number 2008-LA-1002

TO: Stephen Schneller, Director, Office of Public and Indian Housing, Region IX,
9APH

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The Housing Authority of the City of Napa Did Not Adequately Determine and Support Section 8 Rents

HIGHLIGHTS

What We Audited and Why

In response to a hotline complaint, we audited requested areas of the Housing Authority of the City of Napa's (the Authority) Section 8 program. The purpose was to determine whether concerns raised in the complaint relating to misappropriation of Section 8 funds had merit and whether allegations of improper rent increases for the Section 8 Moderate Rehabilitation Single Room Occupancy (Mod Rehab) and Section 8 Housing Choice Voucher programs were valid.

What We Found

The allegation relating to the misappropriation of Section 8 funds had no merit. Although the Authority used operating reserve funds for other housing purposes without prior approval from the board, we verified that the funds used were excess administrative fees. Therefore, the Authority did not misuse Section 8 funds.

The Authority improperly increased contract rents for eight units at a Section 8 Mod Rehab project. The Authority was required to use the annual adjustment factor for rent adjustments; however, since 2004, contract rents had been more than the maximum rent allowed based on U.S. Department of Housing and Urban Development (HUD)-prescribed rates. This condition resulted in the Authority's paying \$63,466 in excess housing assistance payments to the owner.

The Authority did not properly determine reasonable rents for the Section 8 Housing Choice Voucher program units. HUD requires housing authorities to ensure that rents charged by owners are reasonable. However, the Authority's rent reasonableness determination process was unreliable. The Authority's database for the unassisted units, from which comparable units were selected, was inadequate. It contained incomplete, outdated, and unverified data. Therefore, the Authority approved unsupported rents. As a result, it potentially overpaid housing assistance to the owners.

What We Recommend

We recommend that the Director of HUD's Office of Public and Indian Housing require the Authority to

- Reimburse the excessive housing assistance payments related to the Section 8 Mod Rehab units.
- Develop and implement written policies, procedures, and controls for administering its Section 8 Mod Rehab program in compliance with HUD regulations.
- Establish procedures and implement controls to ensure that its rent reasonableness determination process is in accordance with HUD rules and regulations.
- Establish procedures and implement controls to ensure the comparable database is up-to-date, complete and verified.
- Conduct training for all individuals involved in the rent reasonableness determinations.

We also recommend that the Director of HUD's Office of Public and Indian Housing coordinate with the Office of Inspector General for Audit to conduct a postaudit verification review to determine whether corrective actions were implemented.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the draft report to the Authority on November 5, 2007, and held an exit conference on November 7, 2007. The Authority provided written comments on November 20, 2007. The Authority generally agreed with our report.

The complete text of the auditee's response, along with our evaluation of the response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: The Authority Improperly Increased Rents for a Section 8 Mod Rehab Project	5
Finding 2: The Authority Did Not Properly Perform Rent Reasonableness Determinations for the Section 8 Housing Choice Voucher Program	7
Scope and Methodology	16
Internal Controls	17
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	18
B. Auditee Comments and OIG's Evaluation	19
C. Schedule of Excessive Contract Rents	23
D. Federal Requirements	24

BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Napa (the Authority) was established on May 8, 1942. On July 7, 1969, the City Council of the City of Napa declared itself to be the Authority's board of commissioners. The primary purpose of the Authority is to assist low-income families in obtaining decent, safe, and sanitary housing.

The Authority administers the Section 8 Housing Choice Voucher program, the Section 8 Moderate Rehabilitation Single Room Occupancy (Mod Rehab) program, and the Affordable Housing program. The Authority operates the Section 8 programs under the U.S. Department of Housing and Urban Development (HUD). During the three-year audit period, from July 2004 through June 2007, the Authority received housing assistance payments in the amounts of \$26.48 million for the Housing Choice Voucher program and \$181,740 for the Mod Rehab program.

Our audit objectives were to determine whether concerns raised in the complaint relating to misappropriation of Section 8 funds had merit and whether allegations of improper rent increases for the Section 8 Mod Rehab and Housing Choice Voucher programs were valid.

RESULTS OF AUDIT

Finding 1: The Authority Improperly Increased Rents for a Section 8 Mod Rehab Project

The Authority improperly increased rents for a Section 8 Mod Rehab project. The problem occurred because it did not establish written policies and procedures for the Section 8 Mod Rehab program. As a result, it overpaid a Section 8 Mod Rehab project owner \$63,466 in housing assistance.

Contract Rents Were Excessive

The Authority has been administering the eight-unit Section 8 Mod Rehab project since 1995. The current owner purchased the project in September 2004. Although the owner paid off the rehabilitation loans as part of the purchase, he assumed the affordability requirements as stated in the regulatory agreements.

In October 2004, the new owner requested a raise in the contract rents to \$809 for six units rehabilitated using Community Development Block Grant (CDBG) funds and \$677 for the remaining two units rehabilitated by Home Investment Partnership Program (HOME) funds. The Authority approved the requested rent increase although the correct 2004 contract rent for all units should have only been \$557.

Contract rents for this Section 8 Mod Rehab project cannot exceed the amount established by multiplying the annual adjustment factor by the base rents for the 10-year housing assistance payments contract term. Subsequent rent adjustments can be no more than the operating cost adjustment factor applied to the existing contract rent minus the debt service upon renewal of the contract and yearly thereafter. These adjustment rates are published by HUD annually in the *Federal Register*.

The Authority approved several more rent increases during our audit period. The approved contract rent exceeded the maximum amount allowed according to HUD requirements. As a result, it paid the project owner \$63,466 in excessive housing assistance (see appendix C).

The Authority Had No Written Policies and Procedures

The Authority approved rent increases without following the HUD-prescribed rates for adjusting rents causing excessive housing assistance payments. It made these excessive payments because it did not have written policies and procedures based on HUD

requirements for the Section 8 Mod Rehab program that addressed contract rent adjustments. As the owner submitted requests for rent increases, the Authority approved the requested amounts without question despite knowing adjustments are controlled by regulations.

Recommendations

We recommend that the Director, Office of Public and Indian Housing, Region IX, require the Authority to

- 1A. Reimburse HUD \$63,466, using nonfederal funds, for the excessive housing assistance paid to the Section 8 Mod Rehab project owner.
- 1B. Develop written policies and procedures for administering its Section 8 Mod Rehab program in compliance with HUD regulations and implement controls to ensure policies and procedures are followed.

Finding 2: The Authority Did Not Properly Perform Rent Reasonableness Determinations for the Section 8 Housing Choice Voucher Program

The Authority did not properly perform rent reasonableness determinations for program unit contract rents. Rent reasonableness determinations were not performed on six rent increases sampled. Additionally, its rent reasonableness determination process was unreliable and the unassisted unit database was inadequate. These conditions occurred because the Authority did not follow HUD requirements or its own administrative plan for performing rent reasonableness determinations. As a result, it could not ensure that housing assistance payments were based on reasonable contract rents.

Rent Reasonableness Determinations Were Not Performed for Rent Increases

The Authority did not perform rent reasonableness determinations for the six sample files we reviewed that had a rent increase. The Authority approved the new rents as requested by the owners. However, the tenant files did not document the basis for determining that the requested rent increases were reasonable. Therefore, these rent increases that resulted in higher housing assistance payments were not supported.

The Rent Determination Process Was Unreliable

Although the Authority did not determine whether the rent increases were reasonable for the six tenant files in our sample, we observed that rent reasonableness determinations were performed for other contract rents. The rent determination process when performed was unreliable. As part of the process, the Authority used the rent reasonableness function in the Housing Assistance Payments Program Yearly (HAPPY) system, its Section 8 system, to assist staff in choosing unassisted comparable units that were similar to the program unit. While the function was capable of automatically generating three comparable units from a database of unassisted units, the HAPPY system gave Authority staff an option to choose other comparable units when they believed the system-generated comparables were inadequate. In practice, however, comparable unassisted units used in the rent determinations were not always similar to the program unit.

We identified the following problems with the process. The Authority approved contract rents by comparing the program unit to unassisted units that were dissimilar, determined the program unit's rent based on insufficient number of comparables, and did not make adjustments between the program unit and unassisted units to justify the contract rent.

In one instance, Authority staff improperly determined the program unit's rent was reasonable by comparing to unassisted units with different number of bedrooms. The program unit had one bedroom, while comparable 2 and 3 had two bedrooms. HUD rules require the Authority to determine the program unit's rent is reasonable by comparing against rent for other comparable unassisted units. Units with different number of bedrooms are not comparable in size.

Reasonableness

Find 1 3241 Records
1 Found Unsorted






Program Unit **Comparison**




	Comparable #1	Comparable #2	Comparable #3
Survey	556	3	4
Date	1/19/2007	10/27/2003	10/27/2003
Similarity	38%	40%	40%
Address	██████ A Tejas St Napa, CA 94559	██████ First St, 134 Napa, CA 94558	██████ First Street, 35 Napa, CA 94558
Bedrooms	1	2	2
Owner Paid Utils	Refrigerator, Range, Trash	Water, Sewer, Trash	Water, Sewer, Trash
Heat Type	Natural Gas	Natural Gas	Natural Gas
Unit Type	Row House/Garden Apt.	Row House/Garden Apt.	Row House/Garden Apt.
Quality		Average	Average
Year		1983	1983
Accessibility			
Rent: \$1,400	\$1,150	\$1,015	\$1,015

Decision
 Based on comparable unit surveys, the Rent to Owner for the selected unit is is not reasonable.

User Date Reason

In another instance, the Authority staff inappropriately determined the program unit's rent based on only one comparable unassisted unit.

Reasonableness     




 Find   3242 Records
2 Found Unsorted

Program Unit **Comparison**

	Comparable #1	Comparable #2	Comparable #3
Survey	2		
Date	10/27/2001		
Similarity	67%		
Address	████ Pine, 1 Napa, CA 94559		
Bedrooms	2		
Owner Paid Utils	Heat, Water Heat, Sewer,		
Heat Type	Natural Gas		
Unit Type	Row House/Garden Apt.		
Quality	Average		
Year	1971		
Accessibility			
Rent: \$925	\$1,100		

Decision
Based on comparable unit surveys, the Rent to Owner for the selected unit is is not reasonable.

User Date 06/13/2005 Reason

 Clear Comparison  Print Certification  Select Comparables

In this instance, the program unit had a garage or covered parking, laundry facilities, and on-site maintenance. However, the comparables selected did not have these amenities. The approved contract rent for this unit was \$795. As shown below and on the next page, the comparison did not show favorable adjustments were made to the program unit for these amenities.

Data on Program Unit

Reasonableness

Find 1 3238 Records 1 Found Unsorted

Program Unit
Comparison

General

Zone <input type="text" value="NAPA"/>	Quality <input type="text" value="Average"/>
Is the Owner / Manager On-site? <input checked="" type="radio"/> Yes <input type="radio"/> No	<u>Year of Construction</u> or Last Major Renovation <input type="text" value="1960"/>
Bathrooms <input type="text" value="1"/>	Accessibility <input type="checkbox"/> Hearing <input type="checkbox"/> Mobility <input type="checkbox"/> Sight <input type="checkbox"/> Other
Square Footage <input type="text" value="Average"/>	

Check all of the items listed below that are included in the rent of the unit.

Balcony, patio, deck, porch
 Dishwasher
 Fireplace
 Garage or covered parking
 Large yard
 Laundry facilities
 On-site maintenance
 Pool and/or hot tub
 X-TRA INFO: Condominium Unit
 X-TRA INFO: Duplex or Triplex Unit

Data on Unassisted Units

Reasonableness

Find 1 3238 Records
1 Found Unsorted

Program Unit **Comparison**

	Comparable #1	Comparable #2	Comparable #3
Survey	183	10	152
Date	12/2/2003	8/20/2003	11/20/2003
Similarity	67%	63%	68%
Address	████ Coombs St, 2 Napa, CA 94559	████ Pine St Napa, CA 94558	████ Brown St, 6 Napa, CA 94558
Bedrooms	1	1	1
Owner Paid Utils	Water Heat, Trash Collection,	Water, Sewer	Heat, Cooking, Water Heat,
Heat Type			Natural Gas
Unit Type	Row House/Garden Apt.	Row House/Garden Apt.	Row House/Garden Apt.
Quality	Above Average		Below Average
Year			1960
Accessibility			
Rent: \$795	\$875	\$700	\$690

Decision
Based on comparable unit surveys, the Rent to Owner for the selected unit is is not reasonable.

User Interview2 Date 03/21/2007 Reason

Clear Comparison Print Certification Select Comparables

The Unassisted Unit Database Was Inadequate

While reviewing the data in the system, we noted the unassisted unit database contained outdated, incomplete, and unverified information.

At the time of our audit, more than 60 percent of the records were at least three years old. The Authority did not purge or update the unassisted unit information regularly. Therefore, we found, as shown below, outdated unassisted unit information from 2001 and 2003 was used to support contract rents on March 15, 2007.

Reasonableness

Find 3241 Records
1 Found Unsorted

Program Unit **Comparison**

	Comparable #1	Comparable #2	Comparable #3
Survey	2	3	4
Date	10/27/2001	10/27/2003	10/27/2003
Similarity	76%	67%	67%
Address	████ Pine, 1 Napa, CA 94559	████ First St, 134 Napa, CA 94558	████ First Street, 35 Napa, CA 94558
Bedrooms	2	2	2
Owner Paid Utils	Heat, Water Heat, Sewer,	Water, Sewer, Trash	Water, Sewer, Trash
Heat Type	Natural Gas	Natural Gas	Natural Gas
Unit Type	Row House/Garden Apt.	Row House/Garden Apt.	Row House/Garden Apt.
Quality	Average	Average	Average
Year	1971	1983	1983
Accessibility			
Rent: \$1,340	\$1,100	\$1,015	\$1,015

Decision
Based on comparable unit surveys, the Rent to Owner for the selected unit is is not reasonable.

User Date Reason

Additionally, the information entered into the database was incomplete. The program units were not adequately described to allow the HAPPY system to generate similar unassisted units for the comparison. The database did not include factors that could be used to gauge the similarity or dissimilarity between the program unit and comparables. Below, square footage for the units was shown as average; however, there was no basis for what constituted average square footage.

Reasonableness

Find 1 3238 Records 1 Found Unsorted

Program Unit Comparison

General

Zone NAPA Quality Average

Is the Owner / Manager On-site? Yes No Year of Construction or Last Major Renovation 1964

Bathrooms 1 Accessibility Hearing Mobility

Square Footage Average Sight Other

Check all of the items listed below that are included in the rent of the unit.

Balcony, patio, deck, porch

Dishwasher

Fireplace

Garage or covered parking

Large yard

Laundry facilities

On-site maintenance

Pool and/or hot tub

X-TRA INFO: Condominium Unit

X-TRA INFO: Duplex or Triplex Unit

Clear

The information entered into the database was unverified. The Authority populated the unassisted unit database using housing surveys completed by applicants. When applicants applied to the Section 8 program, the Authority requested that data be provided regarding the applicants' current housing situation. This information was then entered into the HAPPY system and used as unassisted comparables for current units. The Authority did not verify the information before entering it into the system. As a result, Authority staff made rent determinations based on unrealistic comparables, such as a three-bedroom single-family detached unit renting at \$300 per month as shown in comparable 2 below.

Reasonableness [Icons: Home, Left Arrow, Right Arrow, Checkmark, Question Mark]

Find [Icons: Home, Left Arrow, 1, Right Arrow, Right Arrow] 3241 Records
2 Found Unsorted

Program Unit **Comparison**

	Comparable #1	Comparable #2	Comparable #3
Survey	358	194	335
Date	1/15/2004	12/18/2003	4/1/2003
Similarity	54%	45%	51%
Address	Laurel St Napa, CA 94559	Laurel St. Napa, CA 94558	Matt Dr. Napa, CA 94558
Bedrooms	3	3	3
Owner Paid Utils	Heat, Cooking, Water Heat,	Heat, Trash Collection, Sewer	
Heat Type			
Unit Type	Single Family Detached	Single Family Detached	Single Family Detached
Quality	Below Average		
Year			
Accessibility			
Rent: \$1,600	\$1,300	\$300	\$1,850

Decision
Based on comparable unit surveys, the Rent to Owner for the selected unit is is not reasonable.

User: Interview2 Date: 04/04/2007 Reason: [Dropdown]

[X] Clear Comparison [Print Certification] [Select Comparables]

The Authority Did Not Fully Implement Its Administrative Plan

The Authority performed rent determinations improperly because it did not fully implement its administrative plan and HUD regulations. While the plan included policies, it did not establish specific procedures and controls for determining rent reasonableness. Management did not ensure rent reasonableness determinations were performed when required and that they were done correctly. Management also did not ensure that staff was trained in, and complied with, the requirements for determining the appropriate rent for program units.

Recommendations

We recommend that the Director, Office of Public and Indian Housing, Region IX, require the Authority to

- 2A. Establish procedures and implement controls to ensure that Authority staff follow HUD rules and regulations to determine reasonable rents.

- 2B. Establish procedures and implement controls to ensure that the database used to obtain comparables is up-to-date and complete and contains verified applicant-provided information to determine reasonable rents.
- 2C. Conduct training on the approved policies and procedures regarding rent reasonableness determinations.
- 2D. Coordinate with the Office of Inspector General for Audit, Region IX, to conduct a postaudit verification, within 12 to 18 months of this final audit report issuance, to determine whether corrective actions were implemented.

SCOPE AND METHODOLOGY

We performed on-site work at the Authority's office, located in Napa, California, from July through September 2007.

To accomplish our objective, we

- Interviewed current and former Authority personnel and HUD staff to obtain relevant information to assist with the review.
- Reviewed financial records of the Authority.
- Reviewed all tenant files related to the Authority's Section 8 Mod Rehab units within our audit period.
- Selected and reviewed a nonstatistical sample of six tenant files for the Section 8 Housing Choice Voucher program.
- Extracted and reviewed rent reasonableness data from the HAPPY system.

Our audit generally covered the period July 1, 2004, through June 30, 2007. This period was adjusted as necessary.

We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Policies and procedures that management had in place to ensure that rent increases for the Section 8 Mod Rehab units were calculated in accordance with HUD requirements.
- Policies and procedures that management had in place to ensure that contract rents for the Section 8 Housing Choice Voucher program units were determined reasonable in compliance with HUD requirements.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, the following items are significant weaknesses:

- The Authority did not have policies and procedures in place to determine the appropriate rent increases for Section 8 Mod Rehab units (finding 1).
- The Authority did not have controls to ensure the rent reasonableness determinations were performed when required, performed correctly, and supported by accurate data for assisted units in the Section 8 Housing Choice Voucher program (finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible <u>1/</u>
1A	\$63,466

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations. The Authority paid excessive contract rents to the owner of the Section 8 Mod Rehab project. As a result, these funds were unavailable to provide safe, sanitary, and decent housing for low-income families (see appendix C).

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Housing Authority



PO Box 660
Napa CA 94559

November 15, 2007

Ms. Joan S. Hobbs
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
Region IX
611 West Sixth Street, Suite 1160
Los Angeles, CA 90017-3101

Subject: Response to Discussion Draft Audit Response
HUD Hotline Complaint of the Housing Authority of the City of Napa

Dear Ms. Hobbs:

This letter is in response to your letter dated November 5, 2007 determining that there were two findings and recommendations and requesting that the Housing Authority of the City of Napa respond in writing to the determined findings.

Finding 1: The Authority Improperly Increased Rents for a Section 8 Mod Rehab Project.

Although the Authority did make efforts at the time to comply with our understanding of the requirements, in retrospect the Authority agrees that the rents established during the evaluation period did not meet the test of rent reasonableness and did not comply with the increases allowed by the Annual Adjustment Factors and the OCAF as published annually in the Federal Register. There is one area of question and that is the area that deals with a new owner taking over the property and refinancing. Because HUD regulations are silent on this issue, the Housing Authority interpreted this to mean that when the existing debt was refinanced by the new owner, this could be included as an eligible expense. The OIG audit determined that this was not the case and did not allow for any refinancing costs although this was a part of the new owner's purchase package.

Telephone (707) 257-9543

FAX (707) 257-9239

TDD (707) 257-9506

Letter to Joan S. Hobbs

Page 1 of 3

Comment 1

The Authority's response to date is that immediately upon receipt of the draft audit findings, a letter was sent to the Brown Street property owner notifying him that the rents would be reduced effective December 1, 2007. The Housing Authority does not have any other projects funded by the Mod Rehab Program. The property owner was notified that he must inform the Housing Authority no later than November 16, 2007 if he wishes to continue participation in the program. If the property owner continues participation in the program, written policies and procedures will be adopted to insure future compliance with the program regulations no later than December 6, 2007. Appropriate controls will be established to insure that the adopted policies and procedures are followed.

Finding 2: The Authority Did Not Properly Perform Rent Reasonableness Determinations for the Section 8 Housing Choice Voucher Program.

The Authority agrees that the rent reasonableness determination process was unreliable and the unassisted unit data base was inadequate during the period reviewed. We are in the process of rebuilding the data base and will have a complete data base in place no later than December 31, 2007. This data base will be built using all available community resources including but not limited to obtaining information from property managers, real estate professionals and subscribing to memberships in real estate associations that provide up to date information on the real estate resources in the communities that we serve. In addition, the Housing Inspector position will be responsible for verifying the comparable rents that are used on each unit to insure rent reasonableness. This function will be monitored by the Housing Supervisor.

Summary Statement and Request

The time period under review by the Inspector General's Office was a time of transition in the leadership of the Housing Authority and the Section 8 Programs. We are in the process of rebuilding the Housing Authority and will become a stronger agency as a result. Some of the actions that will be put in place include:

1. Training Opportunities - In the past, line staff were not provided with training opportunities to build staff capacity. Starting this year, each staff person will be provided with one training opportunity each year to enhance their skills and build a stronger program.
2. Designated Staff Responsibilities - One supervisory position will be given the assignment of monitoring program performance and insuring that all functions are implemented according to the Administrative Plan and HUD regulations. The Housing Manager will then conduct a quarterly review and monitor the program performance of the supervisory position.

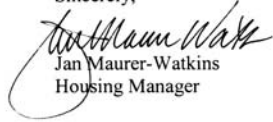
As mentioned earlier in this letter, during the time in question we did believe that we made efforts to comply with our understanding of the requirements; however, we understand now the reasonableness of the Inspector General's conclusions, and we acknowledge the need to improve our systems on a going forward basis as suggested by the Inspector General.

Finally, we recognize that we have the responsibility of being good stewards of taxpayer dollars and it is imperative that we perform in a quality manner and responsible fashion. The U.S. Department of Housing and Urban Development is reliant on the Housing Authority to provide these services according to established regulations and in a manner of integrity, honesty and responsibility. Although we did not meet the responsibility test during the review period in the areas of question, this is not the typical mode of operation of the Housing Authority and we will make the commitment that we will operate at the highest level of quality of service in the future.

In order to enable the Housing Authority to rebuild at the level necessary, it is requested that the U.S. Department of Housing and Urban Development consider forgiving this penalty or reviewing the entire span of this Mod Rehab contract and reducing the penalty amount by the additional amount that was saved over the first years of the contract when the rents were not increased at the levels allowed if the owner had requested the allowable increases. This cost savings will enable the Housing Authority to effect significant change and insure program excellence.

Thank you for your time and consideration of this request.

Sincerely,



Jan Maurer-Watkins
Housing Manager

Cc: Stephen Schneller, Director, San Francisco Office of Public Housing, 9APH

OIG Evaluation of Auditee Comments

Comment 1 In accordance with the Section 8 Moderate Rehabilitation Program's Housing Assistance Payments Contract, when the Section 8 Mod Rehab project was sold to the new owner in September 2004, the previous owner was required to notify the Authority of the change in the debt service of the amounts borrowed to finance the rehabilitation cost. Since the rehabilitation loans were paid off (not refinanced) upon the sale transfer, there should have been no monthly rehabilitation debt service added to the contract rent calculation.

Appendix C

SCHEDULE OF EXCESSIVE CONTRACT RENTS

Unit #	#1	#2	#3	#4	#5	#6	#7	#8	
Date	Contract rent determined by HUD formula	Excessive rent from July 1, 2004 through June 30, 2007							
Jun-07	\$608.73	\$290.27	\$290.27	\$290.27	\$290.27	\$ 57.27	\$145.27	\$290.27	\$290.27
May-07	608.73	290.27	290.27	290.27	290.27	196.27	145.27	264.27	290.27
Apr-07	608.73	290.27	290.27	290.27	290.27	196.27	145.27	264.27	290.27
Mar-07	608.73	290.27	290.27	290.27	290.27	57.27	145.27	264.27	290.27
Feb-07	608.73	290.27	290.27	264.22	290.27	57.27	145.27	264.27	290.27
Jan-07	608.73	290.27	290.27	264.22	290.27	57.27	145.27	264.27	290.27
Dec-06	608.73	264.22	264.22	264.22	264.22	196.27	196.27	264.27	264.27
Nov-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
Oct-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
Sep-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
Aug-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
Jul-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
Jun-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
May-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
Apr-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
Mar-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
Feb-06	590.53	282.43	282.43	282.43	282.43	214.48	214.48	282.48	282.48
Jan-06	590.53	282.43	282.43	259.48	282.43	193.48	214.48	282.48	282.48
Dec-05	590.53	259.48	259.48	259.48	259.48	193.48	193.48	259.48	259.48
Nov-05	574.82	275.18	275.18	398.18	275.18	209.18	209.18	275.18	275.18
Oct-05	574.82	275.18	275.18	353.18	275.18	287.18	209.18	275.18	275.18
Sep-05	574.82	275.18	275.18	353.18	275.18	287.18	209.18	275.18	275.18
Aug-05	574.82	275.18	275.18	353.18	275.18	287.18	209.18	275.18	275.18
Jul-05	574.82	234.18	234.18	234.18	234.18	102.18	102.18	234.18	234.18
Jun-05	574.82	234.18	234.18	234.18	234.18	102.18	102.18	234.18	234.18
May-05	574.82	234.18	234.18	234.18	234.18	102.18	102.18	234.18	234.18
Apr-05	574.82	234.18	234.18	234.18	234.18	102.18	102.18	234.18	234.18
Mar-05	574.82	234.18	234.18	234.18	234.18	102.18	102.18	234.18	234.18
Feb-05	574.82	234.18	234.18	234.18	234.18	102.18	102.18	234.18	234.18
Jan-05	574.82	234.18	234.18	234.18	234.18	102.18	102.18	234.18	234.18
Dec-04	574.82	234.18	234.18	234.18	234.18	102.18	102.18	234.18	234.18
Nov-04	557.28	251.72	251.72	251.72	251.72	119.72	119.72	251.72	251.72
Oct-04	557.28	251.72	251.72	251.72	251.72	119.72	119.72	251.72	251.72
Sep-04	635.28	-35.28	0.00	-35.28	0.00	-42.28	-35.28	-35.28	-35.28
Aug-04	635.28	-35.28	-35.28	-35.28	-42.28	-42.28	-35.28	-35.28	-35.28
Jul-04	635.28	0.00	-35.28	-35.28	-42.28	-42.28	-35.28	-35.28	-35.28
Total by unit		\$8,778.98	\$8,778.98	\$9,025.65	\$8,764.98	\$5,350.30	\$5,408.30	\$8,614.30	\$8,744.30
Grand total	\$63,465.81								

Appendix D

FEDERAL REQUIREMENTS

Regulations at 24 CFR [*Code of Federal Regulations*] 882.408(a) state: “The Fair Market Rent Schedule for Moderate Rehabilitation is 120 percent of the Existing Housing Fair Market Rent Schedule, except that the Fair Market Rent limitation applicable to single room occupancy housing is 75 percent of the Moderate Rehabilitation Fair Market Rent for a 0-bedroom unit.”

Regulations at 24 CFR 882.410(a)(1) state: “The Annual Adjustment Factors which are published annually by HUD (see Schedule C, 24 CFR part 888) will be utilized. On or after each annual anniversary date of the Contract, the Contract Rents may be adjusted in accordance with HUD procedures, effective for the month following the submittal by the Owner of a revised schedule of Contract Rents. The changes in rent as a result of the adjustment cannot exceed the amount established by multiplying the Annual Adjustment Factor by the base rents.”

Regulations at 24 CFR 882.805(b)(2) state: “After HUD has approved the HA’s [housing authority] application, the review and comment requirements of 24 CFR part 791 have been complied with, and the HA has submitted (and HUD has approved) the items required by paragraph (b)(1) of this section, HUD and the HA must execute the ACC [annual contributions contract] in the form prescribed by HUD. The initial term of the ACC must be 11 years. This term allows one year to rehabilitate the units and place them under a 10-year HAP [housing assistance payments] contract. The ACC must give HUD the option to renew the ACC for an additional 10 years.”

Regulations at 24 CFR 402.5 (b)(1) require that upon renewal of the Section 8 Mod Rehab Single Room Occupancy Housing Assistance Payments contract, existing rents will be adjusted by an operating cost adjustment factor.

Regulations at 24 CFR 982.507(a)(1) state: “The PHA [public housing agency] may not approve a lease until the PHA determines that the initial rent to owner is a reasonable rent.”

Regulations at 24 CFR 982.507(a)(2) state: “The housing authority must redetermine reasonable rent: (i) Before any rent increase in the rent to the owner; (ii) If there is a 5% decrease in the published FMR [fair market rent] in effect 60 days before the contract anniversary; or (iii) If directed by HUD.”

Regulations at 24 CFR 982.507(a)(4) state: “At all times during the assisted tenancy, the rent to owner may not exceed the reasonable rent as most recently determined or redetermined by the PHA.”

Regulations at 24 CFR 982.507(a)(4)(b) state: “The PHA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units. To make this determination, the PHA must consider: (1) the location, quality, size, unit type, age of the

contract unit; and (2) amenities, housing services, maintenance and utilities to be provided by the owner in accordance with the lease.”

Regulations at 24 CFR 982.507(a)(4)(c) state: “By accepting each monthly housing assistance payment from the PHA, the owner certifies that the rent to owner is not more than rent charged by the owner for other units in the premises. The owner must give the PHA information requested by the PHA on rents charged by the owner for other units in the premises or elsewhere.”