



Issue Date	May 9, 2012
Audit Report Number	2012-SE-1003

TO: Jack Peters, Director, Office of Community Planning and Development, OAD

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FROM: Ronald J. Hosking, Regional Inspector General for Audit, OAGA

SUBJECT: Washington State Generally Complied With HOME Program Requirements;  
However, It Did Not Always Verify Project Accessibility or Report Accurate  
Matching Contributions

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Washington State Department of Commerce to determine whether it complied with the HOME Investment Partnerships Program project eligibility, administrative cost, program income, accessibility, and match fund requirements. We selected the State because it received more than \$31 million in HOME grants from the U.S. Department of Housing and Urban Development (HUD) in fiscal years 2009 through 2011, which placed it at the top of our risk assessment for Region X (Alaska, Idaho, Oregon, Washington).

### **What We Found**

The State generally complied with HOME requirements. It selected eligible projects and correctly accounted for administrative costs and program income. However, it did not always (1) verify that HOME projects met accessibility standards or (2) report accurate matching contributions to HUD.

## **What We Recommend**

We recommend that HUD require the State to develop and implement procedures for more detailed HOME project inspections and direct the project in Stanwood, WA, to bring its accessible units into compliance with accessibility standards. We also recommend that the State develop and implement procedures to verify that funds included as match meet all HOME affordability requirements and reduce the match carry-forward by \$797,135.

The Seattle Office of Community Planning and Development provided a management decision on May 7, 2012. It included planned actions with implementation dates for all of the recommendations as required under HUD Handbook 2000.06, REV-4. We concur with the management decision.

## **Auditee's Response**

We provided the discussion draft of the audit report to the State on April 18, 2012, and requested its comments by May 3, 2012. The State chose not to provide a written response.

# TABLE OF CONTENTS

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Background and Objective	4
Results of Audit	
Finding 1: The State Did Not Verify HOME Project Accessibility	5
Finding 2: The State Did Not Report Accurate Matching Contributions	7
Scope and Methodology	9
Internal Controls	10

## BACKGROUND AND OBJECTIVE

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### State of Washington

The HOME Investment Partnerships Program funds allocated to the State of Washington are administered by the State's Department of Commerce Housing Division. The State works with private lenders, nonprofit organizations, and other government sources to create, preserve, and enhance safe and affordable housing for Washington residents. It uses HOME funds for new construction, acquisition, and rehabilitation of affordable rental housing and provides tenant-based rental assistance. The State has received more than \$31 million in HOME funds over the past 3 years.

Grant year	Grant amount
2009	\$11,401,291
2010	\$10,595,235
2011	\$9,266,253
<b>Total</b>	<b>\$31,262,779</b>

### HOME Program

The U.S. Department of Housing and Urban Development's (HUD) HOME program is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act. The HOME regulations are contained in 24 CFR (Code of Federal Regulations) Part 92. HOME funds are awarded annually as formula grants to State and local governments to create affordable housing for low-income households. According to 24 CFR 92.218(a), each fund recipient must make matching contributions to housing that qualifies as affordable housing under the HOME program. The contributions must total not less than 25 percent of the HOME funds drawn.

Our objective was to determine whether the State complied with HOME program project eligibility, administrative cost, program income, accessibility, and matching contribution requirements.

## RESULTS OF AUDIT

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### Finding 1: The State Did Not Verify HOME Project Accessibility

The State did not verify that HOME projects met accessibility standards. This condition occurred because the State relied entirely on an inspection contractor to conduct site visits. As a result, it lacked assurance that projects' units complied with accessibility standards.

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#### Accessibility Was Not Verified

The State did not verify that HOME projects met accessibility standards. State inspectors did not complete detailed inspections for accessibility compliance. According to 24 CFR 8.22(b), new multifamily housing projects must have at least two units readily accessible and usable by individuals with handicaps. The State is required to perform onsite inspections of HOME-assisted rental housing to determine compliance with accessibility standards as specified under 24 CFR 92.504(d)(1). The design, construction, or alteration of buildings in conformance with the Uniform Federal Accessibility Standards (UFAS) meets these requirements.

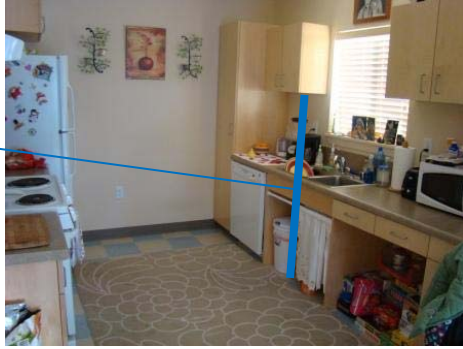
#### Monitoring Was Inadequate

The State relied entirely on inspection contractors to conduct site visits to verify project construction progress, including compliance with accessibility requirements. The inspection contractor issued a project evaluation report that did not identify accessibility noncompliance in the accessible unit we inspected at a project in Stanwood, WA. The State should have used its annual monitoring inspections to verify the contractor's inspection results. It would have identified this noncompliance if it had performed a more detailed inspection during its annual monitoring visit.

#### Units Might Not Meet Standards

The State lacked assurance that its units complied with accessibility standards. For example, at the Stanwood project, the accessible unit's kitchen cabinets were too high from the floor to be reached by a person in a wheelchair.

60 inches



UFAS 4.34.6.10(1) requires kitchen cabinets that are mounted over counters be a maximum of 48 inches above the floor.

**Recommendations**

We recommend that the Director of HUD’s Seattle Office of Community Planning and Development require the State to

- 1A. Develop and implement procedures for more detailed HOME project inspections, including accessible unit compliance with accessibility standards.
- 1B. Direct the project to bring its accessible units into compliance with accessibility standards.

## RESULTS OF AUDIT

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### Finding 2: The State Did Not Report Accurate Matching Contributions

The State did not report accurate matching contributions to HUD. This condition occurred because the State did not review the projects' contracts for HOME affordability compliance. As a result, it could incorrectly apply \$797,135 in ineligible excess matching funds toward future match liabilities.

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#### **Inaccurate Match Contributions Were Reported**

The State did not report accurate matching contributions to HUD. It used its funding of non-HOME-assisted projects to meet its matching contribution requirement. To qualify non-HOME project funding as a matching contribution under 24 CFR 92.219(b)(2)(ii), the State must have contracts with the project owners incorporating all of the HOME affordability requirements. The requirements at Part 92.252(a) state that rent cannot exceed 30 percent of the adjusted income of a family whose annual income equals 65 percent of the median income for the area.

The State's 2010 reported matching contributions consisted of the funding provided to seven housing projects. The contracts for two of the projects exceeded the HOME affordability requirements by allowing rents of up to 30 percent of household income at or below 80 percent of the median income for the area. Therefore, the funding of the two projects, totaling \$797,135, could not be included in the reported matching contributions.

#### **Match Project Contracts Were Not Reviewed**

The State did not review the projects' contracts for HOME affordability compliance. The State obtained non-HOME project information from its database to determine its matching contribution. However it did not consistently verify that the selected projects met HOME grant matching requirements.

#### **Ineligible Matching Funds Could Be Carried Forward**

The State could incorrectly apply \$797,135 in ineligible excess matching funds toward future match liabilities. According to 24 CFR 92.221(b), excess matching contributions may be carried over and applied to future fiscal years' match liabilities.

## Recommendations

We recommend that the Director of HUD's Seattle Office of Community Planning and Development require the State to

- 2A. Develop and implement procedures to verify that funds included as match meet all the HOME affordability requirements.
- 2B. Reduce its excess matching contribution balance by \$797,135.



## SCOPE AND METHODOLOGY

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We performed our onsite audit work between January and February 2012 at the State’s office located at 1011 Plum Street SE., Olympia, WA, and at six project sites located in the State of Washington. Our review covered the period January 1, 2009, through December 31, 2011.

To accomplish our objective, we reviewed applicable laws, regulations, and HUD requirements; met with HUD and State staff members; and examined the State’s policies and procedures, reports to HUD, project monitoring schedules, and grant agreements. We also analyzed the State’s program income, administrative costs, and matching funds relevant to the HOME program during our audit period.

We selected all seven of the HOME projects approved during the audit period for review. We examined each project’s file, including applications, contracts, and the first and last HOME fund drawdown. We conducted site visits at six of the seven projects selected; inclement weather prevented one project visit. During the site visits, we inspected the exterior of the property and interior of four randomly selected HOME units, including at least one unit for each bedroom size and an accessible unit when applicable. We also reviewed the tenant files of these units for eligibility at the five projects that had tenants.

Project	1	2	3	4	5	6	7
HOME funds received	\$2,550,000	\$1,123,235	\$1,280,000	\$1,920,207	\$1,996,443	\$1,393,654	\$2,000,000
Number of HOME units	19	20	11	11	10	7	10
Number of drawdowns	8	9	6	9	5	5	1

We used the source documentation maintained at the State to compare to information in HUD’s Integrated Disbursement and Information System. We did not rely on automated data to support our audit conclusions. All conclusions were based on source documentation reviewed during the audit.

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

# INTERNAL CONTROLS

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

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

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

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## Relevant Internal Controls

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

- Controls over inspecting HOME projects for accessibility compliance.
- Controls over properly reporting matching contributions.

We assessed the relevant controls identified above.

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

## Significant Deficiencies

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

- The State did not inspect HOME projects for compliance with accessibility standards (finding 1).
- The State did not check project contracts for conformance with affordability requirements before reporting projects as matching contributions (finding 2).

## **Separate Communication of Minor Deficiencies**

Minor internal control issues were reported to the auditee in a separate memorandum.