

AUDIT REPORT



City of Seattle
HOME Program
Seattle, Washington

1999-SE-155-1001

November 20, 1998

OFFICE OF AUDIT, NORTHWEST/ALASKA DISTRICT
SEATTLE, WASHINGTON



Issue Date	November 20, 1998
Audit Case Number	1999-SE-155-1001

To: John Peters, Director, Office of Community Planning and Development, OAD

From: Robert H. Woodard, District Inspector General for Audit, OAGA

Subject: City of Seattle
HOME Program

We have completed our audit of the City of Seattle's (City's) HOME Program. We performed the audit as part of our national annual audit plan. Our objectives were to determine whether the City established controls in its rental development program to ensure that HOME-funded units were in a decent, safe, and sanitary condition and affordable HOME-funded units were provided to eligible families. This report contains one finding.

Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

If you have any questions please contact Wayne Rivers or myself at (206) 220-5360.

EXECUTIVE SUMMARY

We have completed an audit of the City of Seattle's (City's) HOME Program. The objectives of the audit were to determine whether the City established controls to ensure that:

- HOME-funded units were in a decent, safe, and sanitary condition and
- Affordable HOME-funded units were provided to eligible families.

The City did not have controls to ensure that subrecipients under its HOME rental development program continued to provide decent, safe, sanitary, and affordable housing. Specifically, the City did not have controls that required annual reviews of subrecipients' performance. As a result, subrecipients did not consistently maintain rental units in accordance with the City's minimum housing standards. Our inspections of 45 units at 8 completed projects identified 22 units which were not decent, safe and sanitary. However, our review of the rents and resident files for these eight projects showed that rents were affordable and units were provided to eligible families. The City has not developed controls that require review of subrecipient performance because it has focused on development, not ongoing performance.

We are recommending that the City demonstrate to HUD that they have implemented the necessary controls to ensure subrecipients continue to provide decent, safe, sanitary and affordable housing.

We submitted a draft of the report to the City on October 13, 1998. The Director, Department of Housing and Human Services provided comments on October 20, 1998, agreeing with the finding. We made revisions to the draft report and incorporated the City's comments into the report as appropriate. The City's comments are included in their entirety in Appendix B.

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INTRODUCTION

BACKGROUND

The City of Seattle (City) operates under a mayor/city council form of government and is a participating jurisdiction (a unit of local government approved by HUD to receive funding) under HUD's HOME Investment Partnerships Program (HOME). As such, the City receives formula-based allocations of HOME funds. These are administered through the City's Department of Housing and Human Services.

Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990 created the HOME program. In general, the purpose of the HOME program is twofold: 1) to expand the supply of decent, safe, and affordable housing for very low-income and low-income Americans, and 2) to strengthen public-private partnerships in the production and operation of such housing. As a housing block grant, the HOME program gives participating jurisdictions discretion over which housing activities to pursue. These activities may include acquisition, rehabilitation, new construction, and resident-based rental assistance. In addition, participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investments, and interest subsidies. Up to ten percent of the HOME funds received by a participating jurisdiction may be used to administer the program.

Section 215 of the Act defines requirements for rental housing funded by the HOME program to be considered affordable. These requirements include the following:

- All units must be occupied by low-income families;
- Not less than 20 percent of the units must be occupied by very low-income families and a) family contribution toward rent should not exceed 30 percent of the adjusted income of the family or b) rents should not exceed 30 percent of 50 percent of area median income, as determined by HUD; and
- Rents must not be more than the lesser of a) existing fair market rents or b) a rent that does not exceed 30 percent of 65 percent of area median income, as determined by HUD.

From 1992 to 1998, the City's allocations under the HOME program (per its partnership agreements with HUD) totaled \$23,363,000. HUD's reporting system for the HOME program showed that \$16,145,137 of this total had been drawn down as of May 1998. A table showing the annual allocations and drawdowns is on the next page.

Fiscal Year	Allocations	Drawdowns
1992	\$ 3,928,000	\$ 3,928,000
1993	\$ 2,588,000	\$ 2,588,000
1994	\$ 3,086,000	\$ 3,086,000
1995	\$ 3,348,000	\$ 3,081,118
1996	\$ 3,441,000	\$ 3,312,818
1997	\$ 3,358,000	\$ 149,201
1998	\$ 3,614,000	\$ 0
Total	\$23,363,000	\$16,145,137

In the last two years, the City allocated 75 percent of its HOME funds for the following 3 rental programs:

Rental Unit Preservation and Development: As of June 1998, City records showed that loan amounts totaling \$12,493,275 had been allocated to this program for 16 projects with a total of 527 HOME units. As of the date of our audit, 9 of these 16 projects had been completed; 3 were under construction; and 4 were in the pre-development stage.

HOME Rental Assistance: This program had assisted 292 recipients (49 of whom were still active as of June 1998) for a total cost of \$537,513.

Salvation Army Homeless Family Assistance: For the period 1993 to mid-1998, allocations for this program totaled \$1,118,141. The program had assisted 329 households and spent \$964,730.

The City allocated the remaining 25 percent of its HOME funds for 4 homebuyer assistance programs, as follows:

REACH: This loan program focused on preserving single family homes and maintaining the City's supply of low to moderate income housing. The program offered low interest loans to qualifying homeowners and landlords for repair and weatherization. Since 1992, the City has provided about 200 loans. City records showed that \$3,318,550 had been budgeted and \$2,636,685 expended under this program as of May 1998.

Mobile Home Park Development: Because nonprofit agencies had not applied to participate in the program, no projects were developed. As a result, the City transferred the funds to the Down Payment Assistance program.

Community Land Trust: As of the date of our audit, the program had funded only one project: nine town home units for first-time homeowners. The City

had executed a commitment letter, and loan negotiations were in process. The City expected construction on this project to be completed in 1998, and the project was expected to cost \$33,889 per unit.

Down Payment Assistance: This program was in the development stage and the City had not offered any loans as of June 1998. The program is expected to provide down payment assistance to low-income households who purchase homes in special Objectives Areas (as defined by the City's Consolidated Plan). The City plans to offer the loans at a maximum amount of \$25,000 and an interest rate of 3 percent.

The City's Department of Housing and Human Services and its HOME program records are located at 618 Second Avenue, Seattle, WA.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

We audited the City's administration of the HOME program to determine whether the City established controls to ensure that:

- HOME-funded units were in a decent, safe, and sanitary condition, and
- Affordable HOME-funded units were provided to eligible families.

To achieve our objectives we performed the following procedures:

- Reviewed applicable HUD regulations to gain an understanding of program requirements for multifamily project development, income determination, property standards, affordability, and monitoring;
- Interviewed City managers and staff who administer the HOME program to gain an understanding of the structure of the City's HOME program, to identify procedures and controls in the program, and to identify any monitoring processes in place;
- Interviewed subrecipient staff at 8 of the City's 9 completed rental development projects to gain an understanding of their policies for rental charges and unit inspections;
- Reviewed 48 resident files at the 8 completed projects to determine whether the units were affordable and that the housing had been provided to eligible participants; and
- Inspected 45 units currently occupied by residents in the 8 completed projects, as well as a common area at one project, to determine whether the projects were decent, safe, and sanitary.

Because the City allocated over 60 percent (\$14,077,525/\$23,363,000) of its HOME funds to rental housing production in the last 7 years, the audit focused on this program. The audit covered the period January 1995 through May 1998 and was extended as appropriate to meet our objectives. Field work was conducted from May through September 1998.

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

FINDING

Controls Were Not In Place To Ensure That Rental Housing Continued To Be Decent, Safe, Sanitary, And Affordable.

The City did not have controls to ensure that subrecipients under its HOME rental development program continued to provide decent, safe, sanitary, and affordable housing. Specifically, the City did not have controls that required annual reviews of subrecipients' performance, which would include inspections of a sample of units and a review of rents charged. As a result, subrecipients did not consistently maintain rental units in accordance with the City's minimum housing standards. Our inspections of 45 units at 8 completed projects identified 22 units which were not decent, safe and sanitary. However, our review of the resident files for these 8 projects showed that rents were affordable and units were provided to eligible families. The City has not developed controls that require review of subrecipient performance because it has focused on development, not ongoing performance.

As a participating jurisdiction, the City is responsible for ensuring that HOME funds are used in accordance with all program requirements and written agreements. In addition, the City is required to review the performance of each contractor and subrecipient at least annually to ensure that funds are used in accordance with all program requirements and to take appropriate action when performance problems arise (24 CFR 92.504(a)).

Controls to ensure that rental housing is decent, safe, and sanitary.

24 CFR 92.251 requires participating jurisdictions to have written standards to ensure that housing constructed or rehabilitated with HOME funds is decent, safe, and sanitary. Participating jurisdictions are required to perform on-site inspections of a sufficient sample of HOME-assisted rental housing to determine compliance with these standards. These inspections must be performed at regular intervals (between one and three years, depending on the project size) throughout the project's affordability period.

The City's loan agreement for HOME projects requires the properties to meet, at a minimum, Housing Quality Standards, as defined at 24 CFR 882.109.

At the time of our review, the City's Multifamily Housing Manager told us that the City did not do any monitoring of properties funded

by the HOME program. Other City staff stated that they have not yet developed the necessary organizational structure to effectively follow up on rental developments.

As a result, subrecipients did not consistently maintain units in a decent, safe, and sanitary condition. Using HUD's Housing Quality Standards, we inspected 45 units and one common area at 8 completed HOME projects. We found that 22 of the units, as well as the common area, did not meet the City's minimum standards for decent, safe, and sanitary housing. The units had 41 separate (mostly minor) deficiencies. (See Appendix A for a breakdown of deficiencies.) These included an inoperable window lock, bathroom outlets without ground fault interrupter switches, and a broken door handle. At one of the eight projects, deficiencies identified in an inspection six months earlier had not been corrected as of the date of our inspection. These deficiencies included a leaky dishwasher, a bathroom sink that was not attached to the counter top, and missing handles on oven and refrigerator doors.

At another project, a resident told us that project management was notified two years ago about inadequate ventilation in common restrooms. A project manager for the subrecipient told us that these ventilation problems were first identified by the previous property manager about six months after initial occupancy (early 1997). The project manager initially tried to address the problem by having the rehabilitation contractors attempt repairs. He stated that the contractor assured him that the repairs corrected the problem. However, after our review, the project manager hired an independent engineer to conduct additional tests. The engineer indicated that the ventilation system still does not meet requirements.

The residents in these units were not living in housing that met the Housing Quality Standards and, without annual reviews, the City has no assurance that HOME program requirements are being met.

Controls to ensure that rental housing remains affordable to eligible families.

We found that the City has controls in place to review and approve initial rent levels at HOME-funded rental developments, but lacks controls to ensure that subrecipients continue to set affordable rents and provide units to eligible families. Although controls were lacking, our review of 48 resident files at 8 projects showed that rents are being set at affordable levels, as defined by program requirements and the families are eligible.

The City has not focused on performance.

The lack of subrecipient monitoring occurred because the City has focused on development, not ongoing performance. In April 1997,

the local HUD office conducted a monitoring review of the City's Community Development Block Grant program (CDBG). One of the report's findings pertained to the HOME program. In its review, HUD found that the City was not monitoring completed multifamily housing projects to determine that all program requirements were met.

Responding to the HUD review, the Director of the City's Department of Housing and Human Services gave reasons why the City has not established controls to monitor its rental development subrecipients. She stated that until recently the City's staff activities have focused on project development, not ongoing performance of CDBG and HOME projects.

To address HUD's finding, the City hired a consultant to review its organization and procedures, and to develop a monitoring program that addresses all federal program requirements. Our review of the consultant's draft report, dated June 1998, indicates that implementing the proposal may ensure that the City's HOME programs operate in compliance with on-site inspection requirements and rent requirements. However, at the time of our review, the City had not yet implemented the proposal. Therefore, the control deficiency still exists. The City is responsible for taking whatever action necessary to ensure that it implements the HOME program in compliance with applicable requirements. A start to this would be to implement the consultant's report.

Auditee
Comments.

The City agreed with our finding, noting that HUD's review of their CDBG program in 1997 noted a similar finding. The City notes in their comments that their Compliance Monitoring Program is intended to respond to concerns raised in the audit report. The City also notes that a number of governmental jurisdictions are looking at their new program as a model that can be adopted elsewhere. The City closes by stating that our audit finding identified an issue of which they are already aware and stating that they appreciate knowing the monitoring finding is the only area of concern within a large and complex federal program.

OIG
Evaluation of
Auditee
Comments.

We recognize that the City plans to have their Compliance Monitoring Program operational on November 1, 1998. It should be noted that this is over one year after HUD's monitoring review identified this problem in the CDBG program. Although we reviewed the consultant's draft report on this, it is the City's responsibility to take whatever action necessary to ensure it implements the HOME program in compliance with applicable requirements, including monitoring its subrecipients. We also note

that our audit objectives were specific to the rental development program. We are not able to offer an opinion on the HOME program as a whole, but are concerned that the City does not have assurance that its subrecipients continue to provide decent, safe, sanitary and affordable housing, which is the intent of the HOME program.

Recommendations:

We recommend that you require the City of Seattle to:

- 1A. Demonstrate they have implemented procedures necessary to ensure that subrecipients continue to provide decent, safe, sanitary, and affordable housing, by:
 - Submitting a copy of their formally adopted Compliance Monitoring Program.
 - Submitting a monitoring strategy for the upcoming program years which includes a schedule of what agencies will be monitored.
- 1B. Provide HUD a status report on the actions they intend to take and the actions taken to date to correct deficiencies noted in Appendix A.

Management Controls

In planning and performing our audit, we considered the management controls of the City of Seattle to determine our auditing procedures and not to provide assurance on management controls. Management control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Management control consists of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

We determined the following management control categories were relevant to our audit objectives:

- Determination of participant eligibility and income;
- Monitoring of subrecipient performance, including physical inspections and setting tenant rents.

We assessed these controls. To the extent possible, we obtained an understanding of the City's procedures and HUD requirements, assessed control risk, and performed various substantive tests of the controls.

A significant weakness exists if a management control does not give reasonable assurance that goals and objectives are met; that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our audit, significant weaknesses existed in the City's management controls over monitoring subrecipient performance as discussed in the finding.

Summary of Housing Quality Standards Deficiencies Identified in Unit Inspections

Development	Unit No.	Deficiencies Identified
Ambassador Condos	E407	1. Oven door handle missing
Ambassador Condos	E213	1. Missing electrical outlet cover plate
Ambassador Condos	E411	1. Missing microwave door handle 2. Sealant needs to be replaced in shower/tub
Ambassador Condos	E310	1. Dishwasher leaks 2. Missing oven handle 3. Missing clothes dryer control switch 4. Running water in toilet
Ambassador Condos	E311	1. Microwave fan over stove inoperable 2. Smoke alarm in hallway, weak signal 3. Bathroom sink not attached to counter top 4. Running water, toilet tank to bowl 5. Poor seal in shower 6. Toilet paper holder pulled out
Ambassador Condos	E309	1. Missing oven handle 2. Broken refrigerator door handle 3. Delaminating counter top 4. Smoke detector disconnected
Pacific Hotel	109	1. Leak under kitchen sink
Pacific Hotel	311	1. Broken bathroom sink handle
Seattle Emergency Housing Inst.	2502	1. Hole in kitchen counter top
Seattle Emergency Housing Inst.	2504	1. Hole in kitchen counter top 2. Hole through bathroom porcelain 3. Smoke detector not properly functioning 4. Broken light fixture in bathroom 5. Hole in bedroom wall
Seattle Emergency Housing Inst.	2506	1. Bathroom bare wood exposed around wash basin 2. Poor seal around tub and floor
Seattle Emergency Housing Inst.	2508	1. Missing electrical plug cover, living room
Seattle Emergency Housing Inst.	2510	1. Poor seal, kitchen refrigerator door 2. Chips in bathroom wash basin 3. Chips in tub porcelain
Las Brisas del Mar	2	1. Smoke detector not working
Las Brisas del Mar	7	1. Missing switch plate
Las Brisas del Mar	11	1. Door handle broken
Denice Hunt Townhomes	8537	1. Smoke alarm missing
Denice Hunt Townhomes	8557	1. Missing GFI switch in bathroom
Cal Anderson House	204	1. Smoke alarm batteries taken out by tenant
Glen Hotel	116	1. Window lock broken
Glen Hotel	Common Area	1. Inadequate ventilation in common restrooms
Villa Park Apartments	9101F	1. Missing GFI switch in bathroom
Villa Park Apartments	9113G	1. Missing GFI switch in bathroom
	Total	41 unit deficiencies; 1 common area deficiency

AUDITEE COMMENTS



City of Seattle

Paul Schell, Mayor

Department of Housing & Human Services
Venerria L. Knox, Director

RECEIVED

OCT 20 1998

HUD/OIG AUDIT
SEATTLE, WA

October 16, 1998

Robert H. Woodard
Acting District Inspector General for Audit
U.S. Department of Housing and Urban Development
909 First Avenue, Suite 125
Seattle, Washington 98104-1000

Dear Mr. Woodard:

I received your report, dated October 13, 1998, presenting the results of your recent audit of the City's HOME program. The purpose of my letter is to provide written comments on your audit report.

I was not surprised at your "finding" that the City needs to improve its monitoring of rental development subrecipients. We mentioned at our audit entrance meeting with you in April that we were aware this would be an issue. The HUD compliance monitoring review of the City's Community Development Block Grant (CDBG) Program performed by HUD staff in 1997 included a finding relating to lack of project monitoring. As you noted in your report, in response to the HUD review we hired consultants in November, 1997, to help us develop a Compliance Monitoring Program. Our consultants completed their report and presented recommendations to us in June.

Our Compliance Monitoring Program is intended to respond to concerns raised in your audit report. The program will help ensure housing projects funded with CDBG and HOME program funds are in compliance with all federal regulations. In particular, our new procedures and requirements include controls designed to address the two deficiencies noted in your report:

- (1) HOME-funded units must be maintained in decent, safe, and sanitary condition, and
- (2) Residents in HOME-funded units must be charged affordable rents.

We are now identifying City staff who will be responsible for implementing our new program. The program will be fully operational on November 1, 1998. I am anxious to



Housing and Community Services Division
618 Second Avenue, 6th Floor, Seattle, WA 98104-2232
Tel: (206) 386-1001, Fax: (206) 233-7117, TTY/TDD: (206) 684-0274

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ls are used by the City to produce housing.

unt's draft report in June and asked if you had advice
ign. I greatly appreciate your review and feedback
ncern that our program will not ensure that all
efficiencies are corrected has prompted us to ask our
ress your concern. We will be performing follow-up
e found to ensure deficiencies are corrected. Your
ecause, as we mentioned to you, a number of other
re looking at our new program as a model that can be
rojects meet all federal requirements is a goal of our

of your audit. The City of Seattle has received \$23.4
. The HOME program is very important to us. HUD
a program that is "user friendly," that provides
us address local housing needs. Your audit funding
already aware. I appreciate knowing that the
of concern within a large and complex federal
administering.

spond to your draft audit report.

Services

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cc: Larry Taylor, DHHS
Jack Peters, HUD
Tom Kenney, HUD
Denna Cline, Mayor's Office


housing when federal and local

We gave you a copy of our con
on how to improve the program
noted in your audit report. You
Housing Quality Standard (HQ
consultant to add procedures to
inspections when HQS problem
comments are particularly help
nearby governmental jurisdic
adopted elsewhere. Ensuring th
new program.

I also appreciate the thoroughn
million in HOME funds since 1
has done an excellent job desig
critically needed funding that h
identified an issue of which we
monitoring finding is the only e
program that we are responsibl

Thank you for the opportunity t

Sincerely,



Venerria L. Knox, Director
Department of Housing and Hu

cb/h:\docs\woodard-rh.doc

cc: Larry Taylor, DHHS
Jack Peters, HUD
Tom Kenney, HUD
Denna Cline, Mayor's C

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The Honorable John Glenn, Ranking Member
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The Honorable Fred Thompson, Chairman
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