



Northline Point Apartments, Houston, TX

Multifamily Section 8 Project-Based Rental Assistance

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

**Audit Report Number: 2019-FW-1003
June 10, 2019**





To: Mary Walsh, Southwest Region Director, Multifamily Housing, 6AHMLA

//signed//

From: Kilah S. White, Regional Inspector General for Audit, 6AGA

Subject: Northline Point Apartments, Houston, TX, Multifamily Section 8 Program, Subsidized Unsupported Tenants and Uninspected Units

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Northline Point Apartments in Houston, TX.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



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**Northline Point Apartments, Houston, TX, Multifamily Section 8 Program,
Subsidized Unsupported Tenants and Uninspected Units**

Highlights

What We Audited and Why

We audited the multifamily Section 8 Project-Based Rental Assistance (PBRA) program at the Northline Point Apartments. We selected Northline Point in accordance with our goal to review the U.S. Department of Housing and Urban Development's (HUD) multifamily housing programs and because of a request from HUD to audit the property based on extensive findings from its project-based contract administrator's management and occupancy review. This is the fifth audit in a series of Office of Inspector General, Region 6, reviews of multifamily Section 8 PBRA programs. Our objective was to determine whether the owner administered its Section 8 PBRA program in accordance with applicable requirements.

What We Found

The owner did not administer its Section 8 PBRA program in accordance with applicable requirements. Specifically, the owner billed HUD for at least 51 tenants whose eligibility it could not adequately support and subsidized uninspected units. These conditions occurred because the owner and its identity-of-interest management agent did not implement appropriate controls and lacked proper oversight of their staff, which allowed onsite managers to engage in questionable practices and mismanage the program. As a result, the owner received more than \$1 million in housing assistance payments for tenants whose eligibility and unit physical condition standards it could not support. Further, the owner could not assure HUD that its certifications for reimbursement were based on accurate information, which could adversely affect the program.

What We Recommend

We recommend that the Southwest Region Director of Multifamily Housing require the Northline Point Apartments' owner to (1) support or repay HUD more than \$1 million for tenants whose eligibility the owner could not support; (2) perform annual inspections as required; and (3) implement appropriate controls to ensure that tenants are eligible, housing assistance subsidies are accurate, tenants are properly moved and transferred, transactions are properly coded, units are inspected as required, and tenant files contain all required documentation.

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Background and Objective

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

Northline Point Apartments is located at 7313 Northline Drive, Houston, TX. It is not Federal Housing Administration insured, but HUD subsidized 103 specifically designated units of its 200 units under the Section 8 PBRA program. The owner of the property is Northline Apartments, Ltd., and its identity-of-interest¹ management agent is Price-Riley Management.

Under its housing assistance payments contract with the owner, between July 2015 and July 2018, HUD paid the owner more than \$2.4 million in tenant subsidies. The contract summarized the terms and conditions for subsidy payments. Based on the tenant's income, the owner determined how much rent each tenant was responsible for and submitted monthly claims to HUD for the difference between the tenant's portion of the rent and the total approved rent for an adequate housing unit.

On June 9, 2018, a fire destroyed a building that had 15 Section 8 PBRA units. As a result, six tenants had to move out of the apartment complex. The entire property had no hot water from June 9 to June 19, 2018, due to the fire. The owner repaid HUD for all Section 8 PBRA units during the time the units had no hot water.

Southwest Housing Compliance Corporation (Southwest) was HUD's project-based contract administrator for Northline Point's Section 8 PBRA program. Due to litigation between HUD and other parties, HUD amended its contracts with administrators throughout the country to delete certain monitoring tasks, effective October 1, 2011. HUD reinstated the monitoring tasks in May 2016. The contract administrator conducted a management and occupancy review at Northline Point on January 31, 2018.

Southwest's management and occupancy review of Northline Point resulted in a rating of unsatisfactory. Based on extensive findings, Southwest required the owner to conduct a 100 percent tenant file review. In addition, during the management and occupancy review, Southwest noted that Northline Point had failed its most recent Real Estate Assessment Center

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

(REAC) physical inspection and either the deficiencies had not been corrected, substandard repairs had been performed, or issues had recurred.

The owner hired Hudson's Unified Solutions, an outside consultant,² in June 2018 to help it bring the property into compliance and respond to the management and occupancy review and REAC reports. After hiring the consultant, the owner dismissed the former property manager and her team due to the review findings and inadequate and untimely responses to the findings.

Because of the major issues found during Southwest's review, HUD requested that we audit Northline Point's Section 8 PBRA program. Our audit objective was to determine whether the owner administered Northline Point's Section 8 PBRA program in accordance with applicable requirements.

² On October 1, 2018, the owner hired the consultant as the contract regional supervisor for its management agent, Price-Riley Management.

Results of Audit

Finding: Northline Point Apartments Subsidized Unsupported Tenants and Uninspected Units

The Northline Point Apartments' owner did not administer its Section 8 PBRA program in accordance with applicable requirements. It billed HUD for at least 51 tenants whose eligibility it could not adequately support and subsidized uninspected units. Specifically, the former onsite manager falsified move-in dates and used incorrect move-out and unit transfer dates. Further, this former onsite manager did not always properly verify tenant income and was not always able to support that the staff reviewed income. In addition, the files did not contain inspection reports to show that the units met the physical condition standards or passed annual inspections to ensure that the assisted units were decent, safe, and sanitary. These conditions occurred because the owner and its identity-of-interest management agent did not implement appropriate controls and lacked proper oversight of their staff, which allowed onsite managers to engage in questionable practices and mismanage the program. As a result, the owner received more than \$1 million in housing assistance payments for tenants whose eligibility and unit physical condition standards it could not support. Further, the owner could not assure HUD that its certifications for reimbursement were based on accurate information, which could adversely affect the program.

The Owner Billed HUD for Unsupported Tenants

The owner billed HUD for at least 51 tenants whose eligibility it could not support. The owner could not locate four tenant files, which left it unable to support that the subsidies HUD paid benefited eligible tenant families. A review of the remaining 47 tenant files showed that all of the files contained deficiencies. The files (1) showed incorrect move-in, move-out, and unit transfer³ dates; (2) lacked Enterprise Income Verification (EIV) reports,⁴ third-party income verification, or both; (3) had income discrepancies; (4) lacked certification documents and signed forms HUD-50059, which are used to submit eligibility information to HUD for housing assistance payments, or the forms were dated or signed late; and (5) had no support for child care expense deductions. As shown in appendix D, the resulting unsupported payments for these deficiencies totaled more than \$1 million.⁵

³ The owner had to follow program requirements and procedures when an existing tenant transferred to a different unit in the property.

⁴ The Enterprise Income Verification system is a web-based computer system containing employment and income information on individuals participating in HUD's rental assistance programs. Regulations at 24 CFR (Code of Federal Regulations) 5.233 and HUD Handbook 4350.3, REV-1, require its use as a third-party verification source.

⁵ Through voucher adjustments, Northline Point reimbursed HUD \$93,570 during our review period for deficiencies it identified for 47 files in our sample. These amounts were not included in our schedule of questioned costs in appendix A or for recommendation 1A.

Missing Tenant Files

The owner could not locate 4 of the 51 tenant files requested. Therefore, only 47 of the files were available for review. The missing files were for three tenants who moved out of the apartment complex in February and April 2017 and one tenant who moved out in May 2018. HUD required the owner to maintain the tenant files for at least 3 years after the tenant moved out.⁶ As of February 1, 2019, the owner had not repaid HUD \$71,306 for the subsidies it received. The amounts related to these four missing tenant files were included in in appendix D and our recommendation to support or reimburse HUD for identified deficiencies.

Falsified Move-In Dates and Incorrect Move-Out and Unit Transfer Dates

The former onsite property manager falsified move-in dates and used incorrect move-out and unit transfer dates.

The former onsite property manager falsified the move-in dates in three files during the review period by using information from applicants or non-Section 8 PBRA tenants living at the apartment complex. The former property manager billed HUD, although she had not processed and completed the applications or the tenants had not yet moved in.

The former onsite manager falsified move-in dates.

In one instance, the form HUD-50059, occupancy records, and vouchers showed that a family moved into a unit on September 3, 2016. However, documentation in the file⁷ showed that the family moved in on March 1, 2017, 179 days later. The consultant hired by the owner corrected the move-in date and the owner repaid HUD \$3,886. In another instance, occupancy records and vouchers showed that a tenant moved in on August 1, 2016, but documentation in the file showed that the tenant moved in on August 12, 2016, 11 days later. As a result, HUD overpaid \$279 in rental subsidies. The consultant prepared a new form HUD-50059 to correct the move-in date; however, as of February 1, 2019, the owner had not repaid HUD the \$279.

In another instance, as part of its January 31, 2018, management and occupancy review, Southwest inspected a vacant unit and found that the owner received January and February 2018 housing assistance payments for this unit. The consultant changed the move-in date from January 3 to March 1, 2018, and the owner repaid HUD \$1,339 for the falsified move-in. The tenant had lived at the apartment complex as an unsubsidized tenant in a different unit before moving into the Section 8 PBRA unit as a subsidized tenant on March 1, 2018.

In addition, the former onsite property manager falsified the move-in dates in six other files before the review period, ranging from 4 days to 347 before the actual move-in dates. Documentation in one file showed that a tenant moved in on March 1, 2014, but the owner received housing assistance payments beginning on March 19, 2013, nearly a year before the tenant moved into the unit. In this instance, the tenant involved in the falsification scheme was the former assistant property manager's daughter. The consultant made a correction and the

⁶ HUD Handbook 4350.3, REV-1, section 5-23

⁷ Documentation included the lease and income verification documents.

owner repaid HUD \$9,528 for the oversubsidized unit. In addition to the falsified move-in date, the former onsite manager certified that this tenant had only \$1,200 in gift income for 2017, when the tenant had \$16,914 in employment income in 2017.⁸

Incorrect Move-Out Dates

Three tenant files contained incorrect move-out dates. Although HUD required the owner to complete move-in and move-out inspections and to document these inspections,⁹ there were no move-out inspections or evidence to support when the tenants moved out. Unit payment history reports and vouchers showed that the move-outs occurred on the last day of the month and other tenants moved in on the first day of the next month, with no turnaround days. This quick turnaround was unusual because owners generally need time to prepare a unit for a new occupant once a unit is vacated.

Because there was no support for the move-out dates, the consultant adjusted the move-out dates to allow for a 4-day turnaround. Although the consultant attempted to account for time when the units were vacant, the owner could not assure HUD that subsidies were paid for units occupied by eligible tenants.

Incorrect Unit Transfer Dates and Coding Errors

Two tenant files contained incorrect transfer dates. In one case, vouchers in the file showed that the tenant transferred from a two-bedroom unit to a three-bedroom unit on August 1, 2017. However, documentation in the file showed that the tenant transferred to a larger unit on September 27, 2017, 57 days later. Because the owner certified that the tenant was in a larger unit during this time, HUD overpaid \$196 in subsidies.

In addition, the former property manager did not adequately process and code the unit transfers. The transfers were coded as interim certifications¹⁰ instead of unit transfers. Further, the files did not contain required inspection reports for the transferred tenants' new units. In two cases, the former property manager prepared forms HUD-50059 and processed termination for tenants who moved to other units. The forms showed that the tenant was being terminated from the program because the total tenant payment was more than the housing assistance payment or the tenant was being moved to market rate. This action is usually taken when tenants' income is too high for their rent to be subsidized. However, there was nothing in the file to support that the tenant's income had increased. Northline Point did not terminate the tenant from the program; the tenant had just transferred to a different unit. There were different procedures for processing interim certifications and unit transfers. Coding incorrect transactions could cause incorrect or inadequate certifications, resulting in incorrect subsidy payments.

⁸ See the Missing Income Verification discussion for more information about gift and unreported income for this tenant.

⁹ HUD Handbook 4350.3, REV-1, paragraph 6-29(B)(1), Key Requirement 1

¹⁰ HUD requires interim certifications when a tenant experiences a change in income or family composition between annual recertification.

Missing Income Verification

Of the 47 tenant files reviewed, 45 had missing EIV reports, inadequate third-party income verification, or both for one or more certifications. HUD required the use of the EIV system for verification of employment and income of tenants and for reducing administrative and subsidy errors.¹¹ HUD also required third-party verification of tenant income.¹²

Missing EIV Reports

Of the 47 tenant files reviewed, 35 had missing EIV reports. The files did not always contain (1) EIV existing tenant match reports for move-ins, (2) EIV income reports within 90 days after move-in, (3) EIV income reports for interim certifications, or (4) annual recertifications.¹³

Inadequate Third-Party Income Verification

Of the 47 tenant files reviewed, 35 had inadequate third-party income verification. The former property manager used the same amount of income from prior certifications without updated verification or support. The table below shows examples of this practice.

Same employment or gift income used for multiple actions without verification or support

Employment income of \$9,431 used for these actions	Employment income of \$18,720 used for these actions	Gift income of \$3,600 used for these actions	Gift income of \$1,200 ¹⁴ used for these actions
Move-in certification, dated June 1, 2015	Annual recertification, dated April 1, 2015	Annual recertification, dated December 1, 2015	Annual recertification, dated March 1, 2014
Interim certification, dated April 1, 2016			Annual recertification, dated March 1, 2016
Annual recertification, dated June 1, 2016	Annual recertification, dated April 1, 2016	Annual recertification, dated December 1, 2016	Annual recertification, dated March 1, 2017
Annual recertification, dated June 1, 2017			Annual recertification, dated March 1, 2018

The former property manager also relied on tenant certifications without required third-party verifications. She filled out the employment verification or child support verification forms and had tenants sign the forms. However, there was no evidence that the former property manager mailed the forms for verification or contacted the employer for verification.

To respond to the management and occupancy review, the consultant generally obtained the most current EIV reports for current tenant files that had missing EIV reports and calculated annual recertification income amounts for those tenants. The EIV reports used for these calculations were obtained much later than the years under review. The consultant did not obtain third-party

¹¹ 24 CFR 5.233

¹² 24 CFR 5.659(d)

¹³ HUD required the owner to perform yearly recertification of family composition and income in order to recalculate the tenant's total tenant payment, tenant rent, and the assistance payment provided by HUD.

¹⁴ This tenant was the former assistant property manager's daughter.

verification for employment or Social Security¹⁵ income disclosed in the EIV reports. Although HUD required¹⁶ the owner to project tenants' annual income, the consultant's process of using reported income from prior-year information in the current EIVs appeared to be the most expedient method to respond to the management and occupancy review findings.

The consultant obtained third-party support for gift income for current tenants. Further, in two cases, the consultant persuaded tenants to provide tax returns, which showed employment income ranging from \$15,341 to \$21,320, although the tenants certified that they only had public assistance of \$5,352 or gift income of \$1,200.¹⁷ EIV reports for these tenants disclosed no income or very limited employment income. The consultant revised the recertifications and the owner repaid HUD \$16,400 for the additional income it identified from reviewing the tax returns.

Income Discrepancies

Of the 47 tenant files reviewed, 25 contained income discrepancies. The consultant identified and made corrections for these tenants based on the most current EIV reports and the owner repaid HUD for the discrepancies. We agreed with the consultant's corrections and deducted the repaid amounts from our unsupported housing assistance questioned costs in appendixes A and D.

Missing or Late Forms HUD-50059 and Signatures

Of the 47 tenant files reviewed, 19 did not contain forms HUD-50059. In 18 files, the original forms HUD-50059 were not in the files but had been replaced with new forms that the consultants prepared to correct income and housing assistance payments in August and November 2018.¹⁸

In addition, in 42 of the 47 tenant files, the owner representative, the tenants, or both did not sign the forms HUD-50059 or signed them after the certification due dates. HUD required the owner to complete the annual recertifications by the recertification anniversary date and submit electronic files to Southwest only after the tenant and the owner signed the forms HUD-50059.¹⁹ Without the required forms, properly signed forms, or forms dated after the certification dates, the owner could not assure HUD that eligible tenants occupied the subsidized units or that the recertifications were completed in a timely manner.

Unsupported Child Care Expense Deductions

There was no support for child care expenses in two tenant files. In one case, the child care expense deduction of \$9,100 for 2015 and 2016 annual recertifications was not supported. In another case, there was no support in the file for child care expenses of \$7,800 for a 2015 move-in certification or child care expense of \$3,312 for the 2016 annual recertification. However, the

¹⁵ HUD allowed the owner to use EIV as the only source of Social Security income at recertification; however, the owner was required to obtain third-party verification of the income at Initial Certification/Move-in.

¹⁶ HUD Handbook 4350.3, REV-1, section 5-5

¹⁷ See footnote 8.

¹⁸ It appeared that the consultant had removed old forms and replaced them with forms prepared to respond to the management and occupancy review.

¹⁹ HUD Handbook 4350.3, REV-1, chapter 7

owner certified to HUD that the housing assistance payment calculations for these tenants were correct in its submissions for reimbursement. As a result, the owner could not support that \$4,977 in housing assistance subsidies was accurate.

The Owner Billed HUD for Uninspected Units

The Northline Point owner billed HUD for uninspected units. All 47 files²⁰ had missing inspection reports, or inspection reports were not completed for the entire review period. The files did not always contain inspection reports for move-ins, unit transfers, and annual inspections. Further, three of seven tenants interviewed said that the management staff did not always perform annual inspections. They said that the staff left notices on the door saying they would be inspecting but did not show up. HUD required the owner to complete annual inspections to ensure that the units for which it provided subsidies were decent, safe, sanitary, and occupied or available for occupancy.²¹

During the January 2018 management and occupancy review, Southwest noted that Northline Point had failed its most recent REAC physical inspection and either the deficiencies had not been corrected, substandard repairs had been performed, or the reported issues had recurred. To respond to the review findings, the owner completed mass inspections in June and July 2018. It inspected 44 of 51 units in the sample. It did not inspect the five units destroyed by fire and two other units. Southwest accepted the owner's mass inspection report and closed its finding. In November 2018, Northline Point passed its REAC physical inspection.

The Owner and Management Agent Lacked Oversight and Relied on Former Onsite Staff

The owner and its management agent lacked oversight of their staff and did not have appropriate controls to prevent or detect the conditions cited above. Instead, they relied on the previous onsite property managers to operate the program properly. These former managers engaged in questionable practices and mismanaged the program. The files reviewed contained multiple issues, which the onsite staff should not have allowed. These issues included falsified move-ins, incorrect move-out or unit transfer dates, income discrepancies, missing required documents, and a lack of required inspections and signatures.

The Owner and Management Agent Repaid HUD and Made Changes

In June 2018, the owner hired an outside consultant, Hudson's Unified Solutions, to help it bring the property into compliance and respond to the management and occupancy review and REAC reports. The owner also dismissed the former property manager and related staff. The consultant made corrections to the tenants' files and the owner had repaid HUD \$181,663 as of September 1, 2018, by adjusting the owner's voucher billings. Southwest cleared the review findings based on the owner's responses on October 10, 2018. The consultant made additional

²⁰ If the file did not contain an inspection report for each year of the audit period (2015 through 2018), we counted the file as a missing inspection report error.

²¹ 24 CFR 5.705 and form HUD-52670, Part V- owner's certification.

adjustments in November 2018, after it received the list of 51 tenant files for this audit, and the owner repaid an additional \$24,834. These repayments totaled more than \$206,000.²²

The owner and management agent implemented some changes to their oversight procedures after the owner hired the outside consultant. The outside consultant began pulling the EIV reports in a timely manner, reviewing paperwork to make sure it was correct before placing it into the tenant files, and performing annual inspections as required.

Reimbursement Requests Were Based on Inaccurate Information

The owner certified to HUD that (1) each tenant's eligibility was verified and assistance payments were computed in accordance with HUD's regulations, administrative procedures, and the contract and assistance was payable under the contract; (2) all required inspections had been completed; (3) the units for which assistance was billed were decent, safe, sanitary, and occupied or available for occupancy; and (4) all the facts and data on which the request for payment was based were true and correct. The issues identified in this report showed that the owner certifications were often based on falsified, incorrect, or unverified information.

Further, in some cases, the owner billed HUD based on inaccurate information and made voucher billing adjustments later. For example, for the vacant unit that Southwest inspected on January 31, 2018, the owner continued to bill HUD and received housing assistance subsidies for the unit until May 2018. It did not make an adjustment until June 2018. In another instance, the former property manager did not complete an annual recertification that was due April 1, 2018, but the owner continued to bill HUD until August 2018 and made adjustments in September 2018.

The owner's failure to assure HUD that its certifications for housing assistance reimbursements were based on accurate information could adversely affect its Section 8 PBRA program.

Conclusion

The owner violated its housing assistance payments contract with HUD for its Section 8 PBRA program by submitting certifications to bill HUD for unsupported tenants and charging HUD for units that it failed to ensure were decent, safe, and sanitary. This condition occurred because the owner relied on its former onsite manager, who engaged in questionable practices and mismanaged the program. Further, the owner and its identity-of-interest management agent lacked oversight of their staff and did not implement appropriate controls to ensure that they could support the eligibility of their tenants and that HUD housing assistance payments were accurate as certified on their reimbursement requests. To respond to its unsatisfactory management and occupancy review, the owner hired an outside consultant to conduct a 100 percent file review and mass inspections and repaid HUD for current tenant files with income discrepancies or a lack of income verification. However, the owner collected housing assistance payments of more than \$1 million, which it could not support.

²² Of this amount, repayments of \$93,570 related to the 51 tenant files in our sample during our audit period. See appendix D.

Recommendations

We recommend that the Southwest Region Director of Multifamily Housing require the Northline Point Apartments' owner to

- 1A. Support that the subsidies for 51 units without annual physical inspections, without required EIV reports, or missing files were eligible and accurate or repay HUD \$1,054,150 for those subsidies. Repayment must be from nonproject funds.
- 1B. Use correct dates for tenants who move in or out of subsidized units or transfer to other units. The move-ins, move-outs, and transfers must be adequately documented and supported.
- 1C. Ensure that form HUD-50059 transactions are properly coded and adequately document and support the transactions.
- 1D. Ensure that tenant income is properly verified and maintain EIV reports as required.
- 1E. Perform and document annual inspections as required.
- 1F. Implement appropriate controls to ensure that tenants are eligible, housing assistance subsidies are accurate, tenants are properly moved and transferred, transactions are properly coded, units are inspected as required, and tenant files contain all required documentation.

We also recommend that the Southwest Region Director of Multifamily Housing

- 1G. Verify that the owner is providing oversight to its onsite staff and its recently implemented quality control procedures are working as designed and in accordance with HUD requirements.

Scope and Methodology

We performed our fieldwork at Northline Point’s office located in Houston, TX, and the Office of Inspector General (OIG) Office of Audit in Houston, TX, from August 2018 through March 2019. Our audit period was July 1, 2015, through July 31, 2018. We expanded the audit to review transactions from February 2013 through June 30, 2015, to determine the accuracy of the move-in dates.²³ We also reviewed unit payment history reports through February 2019 to determine the amounts the owner repaid HUD for the files reviewed.

To accomplish our objective, we

- Reviewed relevant HUD regulations and requirements.
- Reviewed the management agent’s policies and procedures.
- Reviewed the contract administrator’s most recent management and occupancy review for Northline Point, dated March 2, 2018.
- Reviewed the owner’s response to the contract administrator, dated September 13, 2018, and the contract administrator’s finding closure, dated October 10, 2018.
- Reviewed Northline Point’s November 4, 2015, and November 20, 2018, REAC inspection reports.
- Reviewed the monthly housing assistance payment requests for the audit period.
- Reviewed HUD’s Tenant Rental Assistance Certification System (TRACS) move-in – move-out reports, TRACS assistance payment reports, and unit payment history reports.
- Reviewed the rent rolls, occupancy records, list of units destroyed by fire, and Lexis Nexis reports.
- Interviewed the moved out tenants when we could locate them.
- Interviewed the property manager, the assistant property manager, the owner’s consultant and the outside consultant-regional supervisor.
- Contacted and interviewed HUD’s staff and contract administrator for information needed for the review.

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

²³ We did not question the costs for inaccurate move-in dates if the date was outside our audit period.

During the survey, we selected and reviewed files for a sample of 15 of 151 subsidized tenants²⁴ during our review period of July 1, 2015, through July 31, 2018. We selected 15 files for tenants who met one or more of the following conditions: (1) had housing assistance payment amounts of more than \$10,000; (2) had limited tenant income (\$2,400 per year or less based on HUD's TRACS reports); (3) had income discrepancies; (4) were on a new hire report but had no income change in TRACS; and (5) whose move-in, transfer, or move-out was on the first or last day of the month. We reviewed the tenant files to determine whether documentation supported the tenant's eligibility for subsidized housing. During the audit, we expanded the review to include an additional 36 tenants who met conditions (1) and (2) from our survey work. Therefore, during the assignment, we reviewed 51 tenant files (15 during survey + 36 during audit).²⁵ We did not project questioned costs.

We also reviewed tenant files for three vacant units that the contract administrator inspected during its management and occupancy review on January 31, 2018, but for which the owner continued to receive housing assistance during January to May or June 2018 to determine why the owner received housing assistance payments when the units were vacant.

This is the fifth audit in a series of OIG Region 6 reviews of multifamily Section 8 PBRA programs. We also conducted the following audits: (1) The Beverly Place Apartments, Groves, TX, Subsidized Nonexistent Tenants, Unqualified Tenants, and Tenants With Questionable Qualifications, audit report 2017-FW-1009, issued June 29, 2017; (2) Villa Main Apartments, Houston, TX, Subsidized Nonexistent Tenants, Unsupported Tenants, and Uninspected Units, audit report 2018-FW-1002, issued January 31, 2018; (3) Eastwood Terrance Apartments, Nacogdoches, TX, Multifamily Section 8, Subsidized Questionable Tenants, Overhoused Tenants, and Uninspected Units, audit report 2018-FW-1005, issued August 2, 2018; and (4) Louis Manor Apartments, Houston, TX, Multifamily Section 8 Program, Subsidized Unsupported Tenants and Uninspected Units, audit report 2018-FW-1006, issued August 31, 2018.

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.

²⁴ There were more tenant families (151) than subsidized units (103) due to move-ins and move-outs during the review period.

²⁵ Of 151 tenant families, 51 families with housing assistance payment amounts of more than \$10,000 totaled \$1,191,248 of \$2,445,799 in housing assistance payments during the audit period (49 percent of the total payments during the audit period).

Internal Controls

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

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

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

Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

Significant Deficiency

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

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

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$1,054,150
Totals	1,054,150

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3

Comment 4

Comment 5

Northline Apartments, Limited

MEMORANDUM

TO: Kilah S. White, Regional Inspector General for Audit, U. S. Department of Housing and Urban Development, Office of Inspector General—Office of Audit (Region 6), (*via Email*)

CC: Danita Wade, Assistant Regional Inspector General for Audit (*via Email*)
Frank Hoang, Auditor-In-Charge (*via Email*)
Mary Walsh, Southwest Region Director, Multifamily housing (*via Email*)

FROM: Northline Apartments, Ltd.

DATE: May 15, 2019

RE: Northline Point Apartments, Houston, TX, Multifamily Section 8 Program Project-Based Rental Assistance – Response to Draft Audit Report

This memorandum is in response to the Audit Report discussion draft (the "Draft Report") concerning Northline Point Apartments (the "Property") issued by the U. S. Department of Housing and Urban Development Office of Inspector General – Office of Audit Region 6 (the "OIG") on May 1, 2019 addressed to Northline Apartments, Limited (the "Owner").

The owner respectfully submits that the Draft Report does not fully reflect and sufficiently account for certain facts and circumstances, favorable to the Owner and the Property that shed important light on the OIG audit itself and the conclusions reached in the Draft Report. We respectfully present the below responses and look forward to working with HUD to resolve allegations made in the Draft Report.

The Owner hired Hudson's Unified Solutions (the "Consultant") in June 2018. On November 20, 2018, another REAC inspection was conducted by a Washington, D.C. Quality Assurance Inspector. This inspection resulted in a score of 74c. The OIG's recommendation to perform inspections as required was implemented by the consultant prior to the OIG's investigation.

As part of the MOR repair, corrections were made to incorrect move in dates and move out dates largely based on guidance received from Southwest Housing Compliance Corporation (SHCC). The owner subsequently repaid HUD almost \$90,000 in corrections as a result of these adjusted dates.

The Draft Report appears to allege improper coding of unit transfers as Interims. As required by HUD guidelines, when there are changes made to a household at the time of a unit transfer, the certification is to be coded as an Interim/Unit Transfer. When reviewing the 50059, one will notice these Interims are actually Interim/Unit Transfers as required by HUD guidelines.

The Draft Report appears to allege improper verification of employment and income of tenants requiring third-party verification of tenant income. Appendix 3 of the HUD 4350.3 handbook provides guidance for acceptable sources of verification of employment and income of tenants. This includes "Notarized statements or affidavits signed by the applicant...". The consultant

**Ref to OIG
Evaluation**

Auditee Comments

Comment 5

followed standard protocol for correcting prior year certifications including utilizing all sources available to determine the proper portion HUD would be responsible for paying on behalf of the applicant (the "resident") and the amount the resident would be responsible for paying. These sources included EIV reports, employment verifications, actual paycheck stubs, bank accounts, tax returns and meetings with the resident. As required by HUD, EIV is to be the primary source for Social Security and SSI income and no further verifications are required. Since EIV reports contain historical information, utilizing these reports were, in some instances, the most accurate way to determine prior year income.

Comment 6

The Draft Report alleges missing or late forms HUD-50059 (aka certification) and signatures. As required by the MOR repair, corrections were made to prior year certifications. The corrected certifications were signed with the current date since no back-dating is allowed. To avoid confusion, the original certifications were normally not in the resident's file provided to the OIG. Further, if a resident moved out, they were not available to sign the certification. Despite the resident not being available to sign the certification, the owner made corrections and returned overpaid subsidy. Additionally, HUD allows owners 15 months to complete the annual recertifications. There were no annual recertifications that were beyond this 15-month period.

Comment 7

The Draft Report alleges "the owner billed HUD based on inaccurate information and made voucher billing adjustments later...Further, several units were destroyed by a fire on June 9, 2018, but the owner billed HUD for July and made adjustments in August 2018". As required by HUD, the July 2018 billing had a cut-off day of 6/1/18 and all changes after 6/1/18 must appear on the August 2018 or later voucher. This means the billing of the fire units on the July 2018 was proper since funds are always billed one month in advance. The billing adjustment for the fire units (returning subsidy) were properly billed on the earliest possible voucher which was August 2018.

Comment 8

The Draft Report indicates "...the owner continued to receive housing assistance during January to May or June 2018..." for three vacant units that the contract administrator inspected during its management and occupancy review on January 31, 2018. As indicated in the Draft Report, "The former onsite property manager falsified move-in dates and used incorrect move-out and unit transfer dates". The Draft Report acknowledges the owner's pro-active decision to dismiss the former property manager and her team and hired Hudson's Unified Solutions. As part of the MOR repair, the property returned all funds previously received in error for these three units mentioned in the Draft Report.

Comment 1

The report references "Southwest" in multiple locations of the Draft Report. We assume this was meant to refer to Southwest Housing Compliance Corporation (SHCC).

As indicated in our opening response, we look forward to working with HUD to provide documentation to support proper payments and determine the amount HUD should be repaid for tenants whose eligibility could not be properly supported.

OIG Evaluation of Auditee Comments

- Comment 1 The owner stated that the report did not fully reflect and sufficiently account for certain facts and circumstances, favorable to the owner and the property that shed important light on the OIG audit itself and the OIG conclusions. The owner stated that it looked forward to working with HUD to resolve the allegations identified in the report.
- Although the owner referred to the identified issues as allegations, we found deficiencies in all 51 files selected for review. We maintain our position as described in the finding and did not make any changes to the conclusion of the report. We encourage the owner to work with HUD to resolve the finding and recommendations during the audit resolution process.
- Comment 2 The owner stated that the owner implemented the inspection requirement before the OIG audit, and the REAC inspection conducted on November 20, 2018 resulted in a score of 74c.²⁶
- We reported that the owner completed mass inspections in June and July 2018 to respond to Southwest's review findings and that the outside consultant began performing required annual inspections. However, all 47 tenant files reviewed had missing inspection reports. Therefore, we recommended that HUD require the owner to perform and document the inspections, as required. In addition, the property was still required to be inspected every year, instead of every 2 to 3 years, because the property REAC score was below 80. We revised the audit report to include that the property received a passing REAC score in November 2018.
- Comment 3 The owner stated that they corrected move-in dates and move-out dates, and the owner repaid HUD almost \$90,000 in corrections as a result of the adjusted dates.
- OIG recognized that the owner corrected some move-in and move-out dates and repaid HUD. However, there was no evidence that almost \$90,000 was specifically for incorrect move-in and move-out dates. We adjusted any questioned costs in this report to account for all funds repaid to HUD by the owner.
- Comment 4 The owner disagreed with the coding errors finding, and stated that the forms HUD-50059 showed the certifications were coded as Interim/Unit Transfer.
- We reviewed the forms HUD-50059 and found that the forms showed the unit transfers were coded as Interim, not as Interim/Unit Transfer. In addition, the files did not contain required inspection reports for new units when the tenants' transferred units. We maintain our position as stated in the report.
- Comment 5 The owner stated that the acceptable sources of verification of employment and income of tenants included notarized statements or affidavits signed by the applicants. The owner also stated that the consultant followed standard protocol for correcting prior year certifications including utilizing all sources available, including EIV reports, employment verifications, actual paycheck stubs, bank accounts, tax returns and meeting with the

²⁶ The lower-case letter "c" is given if one or more health and safety deficiencies were observed.

resident. In addition, the owner stated that EIV, according to HUD, is the primary source for Social Security and SSI income and no further verifications are required.

OIG agrees that self-declaration or self-certification was an acceptable form of verification, but it is not a third-party verification. If a third-party verification was not available, HUD required the owner to document the tenant file to explain why third-party verification was not available. There was no documentation in the tenant files to explain why third-party verification was not available.

We maintain our position as stated in the report that the consultant generally obtained the most current EIV reports for current tenant files that had missing EIV reports and calculated annual recertification income amounts for those tenants. The report specified that we agreed with the consultant's corrections and deducted the repaid amount from our unsupported housing assistance costs questioned. In addition, while HUD allowed the owner to use EIV as the only source of Social Security income at recertification, it was required to obtain third-party verification of the income at Initial Certification/Move-in. Further, if the recertification EIV disclosed discrepancies or errors, HUD required the owner to obtain third-party verification to support the Social Security income. We revised the report to clarify the Social Security income issue.

Comment 6 The owner explained that the original certifications were not in the resident's file provided to the OIG to avoid confusion when they corrected the recertifications. The owner also stated that if a resident moved out, they were not available to sign the certification; HUD allowed owners 15 months to complete the annual recertifications; and there were no annual recertifications that were beyond this 15-month period.

The complete tenant files were requested and should have been provided to OIG for review. The owner can provide its documentation to HUD for consideration during the audit resolution process. The files without the corrected forms HUD-50059 done in August and November 2018 still had missing or late forms HUD-50059 and signatures. Tenants did not sign the certifications when the tenants still resided at the property. HUD Handbook 4350.3, REV-1, chapter 7, paragraph 7-4.A.1 required the owner to conduct recertifications annually. The 15-month deadline, discussed in HUD Handbook 4350.3 REV-1, chapter 7, section 7-6, is about termination of assistance, and does not apply to completion of annual recertification by the owner. We maintain our position as stated in the report.

Comment 7 The owner disputed the units destroyed by fire example used for the reimbursement requests based on inaccurate information finding. The owner explained the billing was proper because the funds were always billed one month in advance. In addition, the owner discussed its repayment to HUD for three vacant units.

Since the owners could submit billing forms HUD-52670, by the 10th day of the month before the month for which they were requested, we revised the report to remove the units destroyed by fire example. As stated by the owner, we acknowledged in the report that it repaid HUD for the three vacant units.

Comment 8 The owner assumed "Southwest" meant "Southwest Housing Compliance Corporation."

We referred to Southwest Housing Compliance Corporation as Southwest throughout the report to shorten the corporation's name.

Appendix C

Unsupported Tenant File Results

Sample	Missing tenant files	Incorrect move dates	Missing EIV reports	Missing third-party verification	Income discrepancies	Missing certifications	Missing or late signatures	Unsupported child care expenses	Missing inspection reports
1		X ^a	X	X	X		X		X
2		X ^c	X	X	X		X		X
3		X ^a	X	X	X		X		X
4		X ^a	X	X	X		X		X
5				X	X		X		X
6				X		X	X		X
7			X	X			X		X
8				X	X		X		X
9				X	X		X		X
10			X	X	X	X	X		X
11			X				X		X
12		X ^a	X	X	X		X		X
13			X	X			X		X
14		X ^{a & c}	X	X			X		X
15		X ^a	X	X	X		X		X
16			X	X	X	X	X		X
17			X	X	X		X		X
18							X	X	X
19				X			X		X
20			X				X		X
21			X	X	X	X	X		X
22	X								
23				X	X	X	X		X
24	X								
25			X		X	X	X		X
26	X								
27			X	X			X		X
28			X	X	X	X	X		X
29		X ^a		X			X		X

a = incorrect move-in date
b = incorrect move-out date
c = incorrect transfer date

Sample	Missing tenant files	Incorrect move dates	Missing EIV reports	Missing third-party verification	Income discrepancies	Missing certifications	Missing or late signatures	Unsupported child care expenses	Missing inspection reports
30		X ^a	X	X		X	X		X
31			X	X	X				X
32		X ^b	X				X		X
33			X	X	X	X	X		X
34					X		X		X
35			X	X		X			X
36		X ^b	X				X		X
37			X	X	X	X	X		X
38			X		X		X		X
39			X		X	X	X		X
40			X	X	X				X
41		X ^b		X					X
42			X			X	X		X
43			X				X		X
44				X			X		X
45			X	X		X			X
46				X	X	X	X		X
47			X	X		X	X	X	X
48			X		X	X	X		X
49			X	X		X	X		X
50	X								
51			X	X		X	X		X
Totals	4	12	35	35	25	19	42	2	47

Appendix D

Unsupported Tenant Subsidy Payments and Repayment Adjustments to HUD

Sample	Unsupported housing assistance payments	Housing assistance payments adjustments to HUD	Remaining unsupported housing assistance payments
1	\$35,025	-\$481	\$34,544
2	33,271	-1,009	32,262
3	31,235	-374	30,861
4	29,786	-5,125	24,661
5	28,298	-3,506	24,792
6	28,716	-244	28,472
7	28,478	-244	28,234
8	28,585	-3,240	25,345
9	28,463	-5,845	22,618
10	27,617	-390	27,227
11	28,262	-237	28,025
12	27,850	-3,806	24,044
13	27,576	-244	27,332
14	19,453	-277	19,176
15	15,240	-5,042	10,198
16	9,160	-509	8,651
17	14,411	-7,899	6,512
18	19,913	-160	19,753
19	21,876	0	21,876
20	4,561	-277	4,284
21	26,053	-5,353	20,700
22	13,540	29	13,569
23	22,238	-1,379	20,859
24	14,605	0	14,605
25	31,184	-4,534	26,650
26	23,176	0	23,176
27	12,735	-237	12,498
28	27,594	-2,255	25,339
29	25,186	-1,385	23,801

Sample	Unsupported housing assistance payments	Housing assistance payments adjustments to HUD	Remaining unsupported housing assistance payments
30	24,956	-961	23,995
31	13,831	-10,208	3,623
32	10,015	-101	9,914
33	29,994	-11,797	18,197
34	20,630	-229	20,401
35	12,185	-2,144	10,041
36	15,780	-146	15,634
37	20,294	1,410	21,704
38	27,267	-9	27,258
39	23,196	-4,220	18,976
40	25,787	-1,296	24,491
41	24,043	-77	23,966
42	25,675	-956	24,719
43	23,427	-219	23,208
44	23,052	-563	22,489
45	11,021	-226	10,795
46	24,434	-4,047	20,387
47	19,178	-1,042	18,136
48	29,559	-2,268	27,291
49	28,161	-204	27,957
50	19,956	0	19,956
51	11,192	-244	10,948
Totals	1,147,720	-93,570	1,054,150