



Housing Authority of the County of
Alameda,
Hayward, CA
Rental Assistance Demonstration Program

Office of Audit, Region 9
Los Angeles, CA

Audit Report Number: 2019-LA-1002
December 11, 2018



To: Thomas Davis, Director, Office of Recapitalization, HTR
Gerard Windt, Director, Office of Public Housing, San Francisco, 9APH
//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: The Housing Authority of the County of Alameda, Hayward, CA, Generally Administered Its Rental Assistance Demonstration in Accordance With HUD Requirements

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 Housing Authority of the County of Alameda's Rental Assistance Demonstration.

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 213-534-2471.



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The Housing Authority of the County of Alameda, Hayward, CA, Generally Administered Its Rental Assistance Demonstration in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the Housing Authority of the County of Alameda's Rental Assistance Demonstration (RAD) conversion to the Section 8 Project-Based Voucher Program. We selected the Authority because reviews of RAD conversions were aligned with the goals of our annual audit plan. The objective of our review was to determine whether the Authority administered its RAD conversion in accordance with HUD requirements. Specifically, we wanted to determine whether the Authority (1) executed appropriate written agreements, (2) ensured that project financing sources were secured, (3) ensured that the required environmental reviews were accomplished, (4) maintained separate books and records for the RAD conversion, (5) complied with HUD occupancy requirements, and (6) complied with HUD requirements related to increases in tenant rental payments as a result of the conversion.

What We Found

The Authority generally administered its RAD conversion in accordance with HUD requirements. Specifically, the Authority ensured that it (1) executed proper written agreements, (2) secured project financing sources, (3) completed required environmental reviews, (4) maintained separate books and records for its RAD conversion, and (5) complied with HUD occupancy requirements, and (6) did not increase tenant rental payments as a result of the conversion complied with HUD requirements.

What We Recommend

This report contains no recommendations.

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Background and Objective

The Housing Authority of the County of Alameda, Hayward, CA, operates a number of HUD programs that provide rental housing or rental assistance for low-income families, the elderly, people with disabilities, and others in much of Alameda County, CA. Its primary sources of funding are through grants received from the U.S. Department of Housing and Urban development and rents collected from properties it owns. It administers more than 6,000 Housing Choice Voucher Program units. It is governed by appointed Commissioners that are responsible for preserving and expanding the Authority's resources and assuring continued viability.

The Authority's mission is to deliver housing, housing assistance, and related services to low-, very low-, and extremely low-income persons, including elderly persons and persons with verifiable disabilities, to enable them to live as independently as possible within their economic resources. For persons who are not elderly or do not have verifiable disabilities, the Authority provides these services to enable them to become self-sufficient and economically independent.

The Rental Assistance Demonstration Program (RAD) was created and authorized in 2012¹ to give public housing agencies a tool to preserve and improve their public housing properties and address a \$26 billion nationwide backlog of deferred maintenance. RAD's purpose is to provide an opportunity to test the conversion of public housing and other U.S. Department of Housing and Urban Development (HUD)-assisted properties to long-term, project-based Section 8 rental assistance properties to achieve certain goals, including preserving and improving these properties by enabling public housing agencies to use private debt and equity to address immediate and long-term capital needs.

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

The first component allows projects funded under the public housing program to convert their assistance to long-term, project-based Section 8 rental assistance contracts. Under this component of RAD, public housing agencies may choose between two forms of Section 8

¹ Consolidated and Further Continuing Appropriations Act of 2012 (Public Law 112-55), which provided fiscal year 2012 appropriations for HUD (2012 Appropriations Act). The second component of RAD received additional authorization by the Consolidated Appropriations Act of 2014 (Public Law 113-76), which provided fiscal year 2014 appropriations for HUD (2014 Appropriations Act).

housing assistance payments contracts: project-based vouchers or project-based rental assistance.

The Authority applied for the RAD conversion of its two remaining public housing projects, Emery Glen, a 36-unit property located in Emeryville, CA, and Mission View, a 36-unit property located in Union City, CA, in 2013. The Authority received its commitments to enter into housing assistance payments contracts in March 2015. It began converting a total of 72 units from its Emery Glen and Mission View public housing projects to project-based voucher RAD units. The projects did not require construction or rehabilitation; therefore, no tenants were displaced as a result of the conversion. The Authority used more than \$1.4 million in operating reserves, \$1.1 million in replacement housing factor funds, and \$2 from the sale of the projects to finance future legal expenses and replacement reserves. The conversion was completed on March 30, 2016.

Project	Source of funds			Total
	Public housing operating reserves	Replacement housing factor funds ²	Proceeds from sale of property	
Emery Glen	\$704,508	\$585,892	\$1	\$1,290,401
Mission View	714,508	585,892	1	1,300,401
Total	1,419,016	1,171,784	2	2,590,802

The Authority’s component unit, Preserving Alameda County Housing, Inc. (PACH), was formed in March 2011. The Authority is the managing agent for properties owned by PACH. In March 2016, HACA completed the Rental Assistance Demonstration (RAD) conversion and sold its remaining 72 units of Public Housing to PACH.

Our objective was to determine whether the Authority administered its RAD conversion in accordance with HUD requirements. Specifically, we wanted to determine whether the Authority (1) executed appropriate written agreements, (2) ensured that project financing sources were secured, (3) ensured that the required environmental reviews were accomplished, (4) maintained separate books and records for the RAD conversion, (5) followed occupancy requirements, and (6) complied with HUD requirements related to increases in tenant rental payments as a result of the conversion.

² Replacement housing factor funds are Public Housing Capital Fund grants awarded to public housing agencies that have removed units from their inventory for the purpose of developing new public housing units. Office of Public and Indian Housing (PIH) Notice PIH 2012-32 (HA), REV-2, permits the use of available public housing funding, including operating reserves, capital funds, and replacement housing factor funds, as a source of capital in the development budget to support the RAD conversion.

Results of Audit

Finding: The Authority Generally Administered Its RAD Conversion in Accordance With HUD Program Requirements

The Authority generally administered its RAD conversion in accordance with HUD requirements. Specifically, the Authority ensured that it (1) executed proper written agreements, (2) secured project financing sources, (3) completed required environmental reviews, (4) maintained separate books and records for its RAD conversion, and (5) complied with HUD occupancy requirements, and (6) did not increase tenant rental payments as a result of the conversion complied with HUD requirements.

Written Agreements Were Properly Executed

The Authority properly executed written agreements for both of the RAD projects in accordance with HUD requirements. Specifically, it established a use agreement for each project, which included the necessary provisions to ensure that the agreements would be superior to all liens on the property, run for the same term as the initial housing assistance payments contract, automatically renew upon extension or renewal of the contract, and remain in effect even in the case of abatement or termination of the contract. The Authority's agreement also provided appropriate provisions in case the housing assistance payments contract was removed due to breach, noncompliance, or insufficiency of appropriations.

Financing Sources Were Secured

The Authority's financing plans for Emery Glen and Mission View generally met the requirements outlined in Notice PIH 2012-32 (REV-1). Financing sources were identified in the Authority's RAD application and included the key terms required by the Notice. The Authority used its operating reserves and replacement housing factor funds to fund the conversions.

Environmental Requirements Were Met

The Authority obtained the necessary environmental reviews and certifications³ to ensure that no environmental issues would impact the Emery Glen and Mission View conversions. No problems were noted, and reviewing officials determined that no further action was required. In addition, we did not find evidence that any environmental remediation costs were charged to any of the projects.

³ Notice PIH 2012-32 (REV-1), attachment 1A, 1A.1(D)(3), requires that proposed RAD projects receive environmental review under either 24 CFR (Code of Federal Regulations) Part 50 or Part 58, as applicable, and environmental documents be submitted as a part of the applicant's financing plan.

Separate Books and Records Were Maintained

The Authority sold the Emery Glen and Mission View projects to its blended component unit, Preserving Alameda County Housing, Inc., as part of its RAD conversion. The audited financial statements of the Authority and Preserving Alameda County Housing showed that the books and records of the RAD ownership entity were maintained separately from those of the Authority.

HUD Occupancy Requirements Were Followed

The Authority administered its RAD conversion in accordance with HUD's tenant occupancy requirements. Meetings to discuss the RAD conversion were held at the appropriate times, and no residents were displaced as a result of the conversion activities. Additionally, the Authority's waiting list was properly described in the Authority's Housing Choice Voucher Program administrative plan.

Contract Rent Implementation Was Adequate

The Authority did not increase tenants' rental payments by more than the greater of 10 percent or \$25 as a result of the conversion in accordance with Notice PIH 2002-32, REV-1. We reviewed a random sample of 10 of 72 RAD units and determined that none of 10 residents sampled experienced conversion-related rent increases by more than the greater of 10 percent or \$25.

Conclusion

The Authority generally administered its RAD conversion in accordance with HUD requirements. Specifically, the Authority executed the proper written agreements, secured project financing sources, completed required environmental reviews, maintained separate books and records, followed occupancy requirements, and did not increase tenants' rental payments as a result of the conversion in accordance with HUD requirements.

Recommendations

This report contains no recommendations.

Scope and Methodology

We performed our audit work at the Authority's office located in Hayward, CA, from July to August 30, 2018. Our review covered the period January 2015 through June 2018.

To accomplish our objective, we performed the following:

- Reviewed HUD regulations and requirements.
- Interviewed appropriate Authority personnel.
- Reviewed the Authority's policies, procedures, and controls.
- Reviewed status reports from HUD's RAD Online Resource Desk.⁴
- Reviewed and analyzed supporting documents, including financing plans, written agreements, and program expenditures.

The audit universe consisted of the two projects, Emery Glen and Mission View, which the Authority selected for RAD conversion. The two projects included 72 units, 36 units in each property. For our survey, we selected a random sample of 10 units for contract rent testing. We stratified the units by project and used Excel's random selection formula to select a 5 units for each of the two properties. We used a random sample for our review in order to select a non-judgmental sample of unit contract rents. We reviewed the 10 sample units, 14 percent of the universe, during the survey to determine whether the Authority increased tenants' rental payments after its RAD conversion. Based on the survey sample results, we did not select additional samples for testing. Since we used a nonstatistical method, our results cannot be projected to the universe.

We did not rely on computer-generated data as audit evidence or to support our audit conclusions. We based our conclusions primarily on supporting documentation obtained and reviewed during the audit. We also used reporting data from HUD's RAD Online Resource Desk to verify information received from the Authority and to obtain background information. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

⁴ The RAD Online Resource Desk serves as a comprehensive information archive, enabling searches of all published guidance on RAD. The Desk also serves as the main portal for RAD participants to ask questions, search for information and forms, upload documents, and track their progress toward closing. Access is available to the public as well as HUD employees and public housing agency staff.

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:

- Effectiveness and efficiency of program operations – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure compliance with applicable HUD rules and requirements.

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.

We evaluated the internal controls related to our audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Appendixes

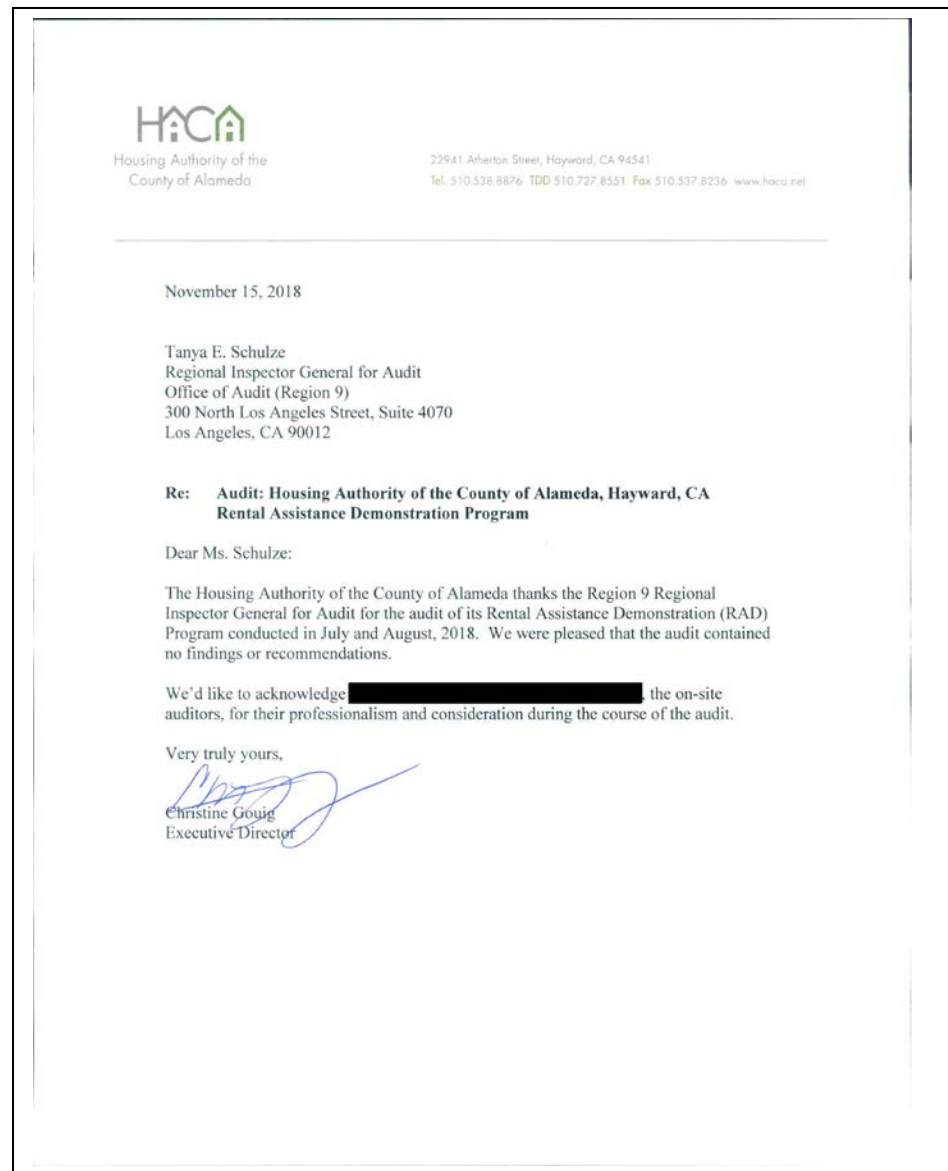
Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1



OIG Evaluation of Auditee Comments

Comment 1 We appreciate and value the Authority's cooperation during our review and the courtesies extended to our staff. We redacted individuals' names mentioned in the letter for privacy.