



State of Washington

Office of Financial Management

**Independent Examination of the
Department of Commerce's Expenditures of
Private for Profit Rental Housing under
RCW 36.22.179(1)(b)**

For the Period Ended Dec. 31, 2015

**Reed & Associates, CPAs, Inc.
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State of Washington
Office of Financial Management
Olympia, Washington

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by the State of Washington, Office of Financial Management (OFM), solely to assist OFM with respect to determining whether the document recording fees received, accounted for and reported on by the Department of Commerce (Commerce) for calendar year 2015 were properly collected, recorded and reported and whether the stipulated portion of those fees were used for private rental housing payments in accordance with RCW 36.22.179(1)(b) for the period Jan. 1, 2015, through Dec. 31, 2015. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of OFM. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures and results are as described below.

Agreed-Upon Procedure	Results
Meet with OFM to establish the scope, objectives, and timing of the AUP:	
<ul style="list-style-type: none"> Hold a kickoff meeting to discuss the contract, the scope of each year’s attestation engagement, the period to be covered and assure all parties are in agreement. 	We held a kickoff meeting with OFM and Commerce. All parties agreed upon the contract scope, objectives and period.
<ul style="list-style-type: none"> Discuss the AUP and revise as necessary to assure that it meets OFM’s objectives and that OFM takes final responsibility for procedures in accordance with AT-201. 	We discussed the AUP with OFM. OFM made no updates to the AUP.
<ul style="list-style-type: none"> Discuss the sampling methodologies and obtain input based on both size (minimum and maximum samples) as well as stratification (lead grantee). 	We discussed the sampling methodologies and decided to use a risk-based approach that included grant amounts, results of Commerce monitoring and geographical diversity. The resulting sample was judgmentally selected based on these factors.
<ul style="list-style-type: none"> Prepare and document a project work plan (PWP) documenting final understanding, sample sizes, key milestones, timelines, personnel and deliverables. 	A PWP was prepared and provided to OFM and Commerce for approval of the deliverable timelines.
<ul style="list-style-type: none"> Establish weekly update/status meeting content, agenda, timing and methodology. 	Status meetings were held as necessary.
Obtain background and source documents including:	
<ul style="list-style-type: none"> sample grants 	We obtained sample agreements from Commerce.
<ul style="list-style-type: none"> sample invoices 	We obtained sample invoices used by the lead grantees from Commerce.
<ul style="list-style-type: none"> grantee communications 	We obtained Commerce’s communications with the lead grantees.
<ul style="list-style-type: none"> Commerce’s policies and procedures including instructions to counties. 	We obtained Commerce’s communications with the lead grantees, including guidance and instructions.
<ul style="list-style-type: none"> Document allowable uses associated with “private rental housing payments” and documentation required to support expenditures. 	We documented the allowable uses based on the RCW and Commerce’s implementation guidance. We obtained a description of the supporting documentation required from lead grantees and subgrantees to support the invoice from Commerce.
Perform an assessment of internal control over the data and data systems:	
<ul style="list-style-type: none"> Document the systems and procedures used to record document recording fees. 	The appropriation is made by the Legislature and recorded by OFM.
<ul style="list-style-type: none"> Test the input (collection), processing (accounting) and output (reporting) of data to assure it is 	An accounting system called the Contract Management System is used to

Agreed-Upon Procedure	Results
accurate and complete.	record the appropriation and the uses of the funds including Commerce's administrative expenses and grantee payments based on approved invoices.
<i>Perform an assessment of receipts to assure completeness and accuracy:</i>	
These procedures are to establish the document fees that are subject to the 45 percent regulation for use on Private rental housing. This should be for the period to which the regulation applies only.	
<ul style="list-style-type: none"> Obtain from OFM an assertion of the total document fees apportioned to Commerce from the Legislature upon which the 45 percent for private rental housing is based. 	OFM provided the total document fees appropriated for Private For Profit Rental Housing under RCW 36.22.179(1)(b).
<ul style="list-style-type: none"> If there is an allocation of fees from the entire year for only the period covered by the regulation, obtain the calculation of the allocation and review for reasonableness of the allocation methodology. 	The period covered by the AUP is Jan. 1, 2015, through Dec. 31, 2015. Therefore, no allocation was made and no review was necessary.
<ul style="list-style-type: none"> Determine what supporting documentation there is for the appropriation to assure the "revenue" is correct. Obtain that documentation and tie to or reconcile to the amount asserted by OFM. 	We traced the amount reported by OFM of \$18,384,534 to the biennium reports.
<ul style="list-style-type: none"> Identify and report any variances between the document fees identified and those supported by underlying records. 	We identified no variances.
<ul style="list-style-type: none"> Identify and report any variances based on the reasonableness or accuracy of the allocation (if applicable). 	Not applicable.
<ul style="list-style-type: none"> Recalculate the 45 percent private rental housing requirement to be used in comparing the actual expenditures. Post to lead sheets for reporting. 	We calculated and determined \$7,787,587 was to be used for Private For Profit Rental Housing under RCW 36.22.179(1)(b).
<i>Perform an assessment of expenditures to assure proper recording, use and reporting:</i>	
<ul style="list-style-type: none"> Obtain a list of all lead grantees. 	We obtained a list of all lead grantees and their subgrantees from Commerce.
<ul style="list-style-type: none"> Obtain a report of the grant amounts (budgets) to each of the lead grantees. 	We obtained a summary of the grant amounts for each lead grantee from Commerce.
<ul style="list-style-type: none"> Obtain the budget and expenditure reports for each of the lead grantees for the period. 	We obtained a summary of expenditures by lead grantee from Commerce.
<ul style="list-style-type: none"> Select samples for testing expenditures. The sampling methodology should take into consideration and include: <ul style="list-style-type: none"> A stratification of the lead grantees (local 	We reviewed a judgmental sample using a risk-based approach and the criteria specified in the statute. The resulting sample included eight counties
<ul style="list-style-type: none"> o A stratification of the lead grantees (local 	

Agreed-Upon Procedure	Results
governments, contractors and housing providers) into strata that take into consideration geographic location, median income and population served.	throughout Washington including local governments, contractors and housing providers that are geographically and demographically diverse. Within these eight counties, we selected 13 lead and/or subgrantees to test internal controls and expenditures, as applicable. We also selected a sample of seven additional lead grantees and their respective subgrantees, and performed offsite desk reviews of documentation to support their expenditures.
<ul style="list-style-type: none"> ○ A stratification of the lead grantees by amount of grant award as well as by expenditures by budget category (to assure both large and small grantees and all uses of funds are properly represented in the sample). 	
<ul style="list-style-type: none"> ○ An assessment of internal controls of the lead grantees as evidenced by monitoring reports, prior audit or review reports, accuracy and timeliness of annual reports, volume of expenditures, assessment and identification of subgrantees (e.g., related parties, numerous small or large expenditures, length of subgrant relationship, etc.). 	
<ul style="list-style-type: none"> ● Document the selected sample and prepare a site visit plan. Notify the selected lead grantees or subgrantees of the site visit and prepare and distribute both a notification letter as well as a list of documents to be readied and supplied during the site visit. This should include, for example and as applicable: 	We notified the sampled lead grantees of either the onsite visit or the desk review. We informed the lead grantees of the documents to be provided either on site or for the desk review (electronically or in hard copy).
<ul style="list-style-type: none"> ○ an organization chart for the lead grantee identifying personnel associated with the private rental housing and grant program. 	
<ul style="list-style-type: none"> ○ a description of the systems used for accounting and monitoring. 	
<ul style="list-style-type: none"> ○ accounting policies and procedures for grant funds (and subgrantees) 	
<ul style="list-style-type: none"> ○ subgrantee procurement policies 	
<ul style="list-style-type: none"> ○ subgrantee monitoring policies 	
<ul style="list-style-type: none"> ○ reports submitted by subgrantee accounting for grant funds. 	
<ul style="list-style-type: none"> ○ documentation to support subgrantee expenditures and monitoring. 	
<ul style="list-style-type: none"> ○ accounting reports used to prepare the county annual report or other report submitted to Commerce. 	
<ul style="list-style-type: none"> ○ reconciliations necessary to reconcile reports to the accounting system. 	
<ul style="list-style-type: none"> ● Conduct site visits. Meet with designated officials to discuss the grant, the subgrantee selections, the expenditures and the reporting. Obtain the 	For the sampled grantees, we examined internal controls over expenditures and the reported expenditures for a selected

Agreed-Upon Procedure	Results
<p>requested documentation and assess proper use of funds (through assessment of internal controls and a selection of a sample of expenditure transactions and attribute testing as established in the PWP) by the grantee and the subgrantee and compliance with grant terms and conditions.</p>	<p>period under both the Consolidated Homeless Grant (CHG) and the Independent Youth Housing Program Grant (IYHPG). Our procedures included reconciling the costs from the subgrantee's source documentation and systems to their invoice to the lead grantee, and from the lead grantee invoice to the records provided by Commerce. We examined supporting documentation for the sampled expenditures including lease information, landlord information and other supporting documentation provided.</p>
<ul style="list-style-type: none"> Prepare a summary, by grantee, of the total expenditures, expenditures sampled and tested, and the results of the attribute testing. Assess compliance with RCW 36.22.179(1)(b) at the grantee level. 	<p>We prepared a summary. See Exhibit B.</p>
<p><i>Conclude on compliance with both RCW 36.22.179(1)(b).</i></p>	
<ul style="list-style-type: none"> Summarize total document recording fees, as adjusted if necessary. 	<p>We summarized total document recording fees of \$18,384,534. See Exhibit A. No adjustments were required.</p>
<ul style="list-style-type: none"> Summarize total private rental housing payments reported and adjusted if necessary. 	<p>We summarized total private rental housing payments reported of \$7,831,374. We adjusted these payments by \$43,787, reducing the total to \$7,787,587. See Exhibit A.</p>
<ul style="list-style-type: none"> Calculate the percentage of document recording fees expended for proper private rental housing payments. 	<p>We calculated the percentage of document recording fees expended for private rental housing payments to be approximately 51 percent (expenditures on private rental housing divided by total fees, less administrative expenses). See Exhibit A.</p>
<ul style="list-style-type: none"> Assure that the total percentage of proper expenditures is in compliance with RCW 36.22.179(1)(b). 	<p>The total percentage of expenditures complies with RCW 36.22.179(1)(b).</p>
<ul style="list-style-type: none"> Identify any shortfall in expenditures below the required percentage per RCW 36.22.179(1)(b). 	<p>No shortfall was identified.</p>
<ul style="list-style-type: none"> Identify the condition, cause and effect of any shortfall in the required percentage of funds expended for private rental housing payments. 	<p>No shortfall was identified.</p>
<ul style="list-style-type: none"> Document recommendations to mitigate the condition and cause for the shortfall. 	<p>No shortfall was identified.</p>

Agreed-Upon Procedure	Results
Prepare Deliverables:	
<ul style="list-style-type: none"> • Prepare a draft report summarizing the: 	
<ul style="list-style-type: none"> ○ Assessment of Internal Controls, including those internal controls at the subgrantee level and the monitoring of those controls by Commerce or OFM 	<ol style="list-style-type: none"> 1. Commerce has not provided guidance to lead grantees for adjusting subgrantee invoices for eligible costs. 2. Commerce’s monitoring process is designed to accomplish monitoring activities based on staff workflow. 3. Commerce lacks a review and approval process for gathering and computing its compliance to the 45 percent for profit requirement. 4. Commerce should further clarify its guidance on searching the not for profit status of entities and how to act on the results of these searches.
<ul style="list-style-type: none"> ○ Assessment of the Document Recording Fee receipts 	See Exhibits A and B and the accompanying Notes to Schedule of Total Expenditures Sampled/Examined by Lead Grantee (County) and Subgrantee.
<ul style="list-style-type: none"> ○ Assessment of the Expenditures for Private Rental Housing Payments 	See Exhibits A and B and the accompanying Notes to Schedule of Total Expenditures Sampled/Examined by Lead Grantee (County) and Sub-Grantee.
<ul style="list-style-type: none"> ○ Assessment of overall compliance with and conclusion on compliance with RCW 36.22.179(1)(b) 	We determined that total expenditures set aside and expended on for profit private rental housing exceeded the requirements of RCW 36.22.179(1)(b). Therefore, Commerce is in compliance with the requirements even after adjustments made as a result of this examination.
<ul style="list-style-type: none"> • Meet with OFM, Commerce and landlord or grantee representatives to discuss the draft report. The meeting will most likely be remote unless significant deficiencies are identified. 	We met via a teleconference with OFM, Commerce and the landlord representatives and discussed the draft report and findings.
<ul style="list-style-type: none"> • Allow sufficient time for OFM, Commerce and the 	We provided sufficient time for OFM,

Agreed-Upon Procedure	Results
landlords or grantee representatives to review the draft report and provide comments or additional information for consideration.	Commerce and the landlord representatives to review the draft report and provide comments or additional information.
<ul style="list-style-type: none"> Assess any additional information or comments. Incorporate comments or information as appropriate. 	We incorporated all comments and information as appropriate and updated the draft report.
<ul style="list-style-type: none"> Prepare and deliver final report (hard copy and electronic). 	We prepared and delivered the final report.
<ul style="list-style-type: none"> Meet with or provide recommendations to OFM and the Legislature, as requested. 	We are available to meet with OFM and the Legislature as requested.

Based upon the agreed-upon procedures, we found that expenditures reported as allowable expenses to private for profit rental housing were overstated by \$43,787. The overstatement was due to the inclusion of not for profit expenditures or other expenditures not applicable to the for profit budget categories under these grants being included in the total expenditures reported. All the overstated expenditures were for allowable activities of the overall Consolidated Homeless Grant, but were recorded in the for profit rather than the not for profit budget categories. (The Consolidated Homeless Grant has 15 budget categories due to legislative provisos.) The overstatement also pertained to reconciliation errors comparing costs claimed to accounting records, costs claimed more than once and costs claimed without evidence of an established lease agreement. Detailed adjustments have been made in the Notes to Schedule of Total Expenditures Sampled/Examined by Lead Grantee (County) and Subgrantee (Exhibit B). Regardless, total expenditures exceeded the requirements of RCW 36.22.179(1)(b).

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.



Reed & Associates, CPAs, Inc.
 Centerbrook, CT
 July 1, 2016

EXECUTIVE SUMMARY

Reed & Associates, CPAs Inc. performed an independent examination of the private housing expenditures made for the period Jan.1, 2015, through Dec. 31, 2015, for the purpose of determining if those expenditures were made in accordance with RCW 36.22.179(1)(b). RCW 36.22.179(1)(b) requires that 45 percent of the document recording fees, after adjustments for administrative expenses, be set aside for private rental housing assistance.

We identified the total document recording fees received by the state of Washington, Department of Commerce (Commerce) in order to calculate whether Commerce had set aside the required 45 percent of those fees, after adjustments for administrative expenses, for private rental housing. We determined that Commerce had, in fact, set aside and budgeted approximately 48 percent of the document fees for private rental housing.

We also determined, with the exception of \$32,858 of eligible grant expenditures (such as utility expenses and rental lease costs) that should have been charged to other housing budget categories by subgrantees, the private rental housing expenditures examined were properly recorded, reported and were made in support of private rental housing. Total allowable expenditures for private for profit rental housing were approximately 51 percent, exceeding the 45 percent requirement.

OBJECTIVE

The objective of this report is to provide the Washington State Office of Financial Management (OFM) with an independent accountant's report, prepared in accordance with AICPA AT-201, providing information on whether the document recording fees received, accounted for and reported on by the Department of Commerce (Commerce) were properly collected, recorded and reported in accordance with RCW 36.22.179(1)(b), and whether the stipulated portion of those fees were used for private rental housing payments in accordance with RCW 36.22.179(1)(b).

BACKGROUND:

The Legislature enacted the Homeless Housing and Assistance Act (Act) in 2005, with the goal of reducing homelessness statewide and in each county by 50 percent by 2015. The act imposed a \$40 surcharge on the recording of certain documents with county auditors. Surcharge funds are for local homeless housing and assistance. The surcharge applies to certain documents relating to real property as specified in statute, including deeds, mortgages, community property agreements, leases and other documents related to property. The Legislature extended the \$40 document recording fee to June 30, 2019, with the requirement Commerce use 45 percent of the funds received for private rental housing payments. Private rental housing is housing owned by a private landlord and does not include housing owned by a nonprofit housing entity or government entity.

In accordance with RCW 43.185C.240, OFM must contract for an independent audit of Commerce's data and expenditures of state funds received under RCW 36.22.179(1)(b) on an

annual basis. The audit must review a sample of local governments, contractors and housing providers that is geographically and demographically diverse. The first audit of Commerce's expenditures was for calendar year 2014. This report covers calendar year 2015.

RCW 36.22.179(1)(b) states:

(b) The auditor shall remit the remaining funds to the state treasurer for deposit in the home security fund account. The department may use twelve and one-half percent of this amount for administration of the program established in RCW 43.185C.020, including the costs of creating the statewide homeless housing strategic plan, measuring performance, providing technical assistance to local governments, and managing the homeless housing grant program. Of the remaining eighty-seven and one-half percent, at least forty-five percent must be set aside for the use of private rental housing payments.¹

Commerce implemented this provision by:

- 1) Creating dedicated budget coding to track obligations and spending on private rental housing for both the Home Security Fund Account (10B) and THOR Fund Account (15A). The THOR account is funded by a transfer from 10B, and Commerce is interpreting that THOR funds appropriated to Commerce retain the 45 percent requirement.
- 2) Working with grantees to move 45 percent of the contracted 10B and 15A pass-through funds contracted by Commerce into new contract line items dedicated to private rental housing payments.

Two components affect the amount set aside for private rental housing: the revenue received from document recording fees throughout the state during the period and deposited by the State Treasurer into the "Home Security Fund Account" (10B) and the amount calculated for the use of administrative expenses. Therefore, the formula to calculate the amount set aside for private rental housing is as follows:

Revenue Collected * 16.7 percent² = maximum administrative expenditures

(Revenue Collected – maximum administration expenditures) * 45 percent = private rental housing set aside

Two grants are funded by the document recording fees: the Consolidated Homeless Grant (CHG) and the Independent Youth Housing Program Grant (IYHPG). Commerce guidelines define

¹ RCW 36.22.179(b), Surcharge for local homeless housing and assistance – Use.

² Maximum administrative expenditures is comprised of 12.5 percent from RCW 36.22.179, Surcharge for local homeless housing and assistance and 4.2 percent from RCW 36.22.1791, Additional surcharge for local homeless housing and assistance.

“private rental housing payments” as payments for rental units or facilities owned by for-profit entities. Payments include rent, rent arrears, late fees, deposits and landlord incentive payments. This does not include application or screening fees, utility payments or credit background checks.

DESCRIPTION OF COMMERCE’S INTERNAL CONTROL AND MONITORING

Commerce stated that it conducts three levels of monitoring:

1. Annual desk monitoring of sample for profit supporting documentation for all grantees. This monitoring is conducted in house by a dedicated .50 FTE and is completed based on workflow. This monitoring happens continually throughout the calendar year, hence no target dates. As soon as a calendar year review is completed, the next one begins. The monitoring and results are documented in the for profit status workbook.
2. Contract monitoring, both on-site and desk, based on risk assessment scores that include a review for profit documentation and procedures. This monitoring is conducted by the program managers. Dates with areas of concern are noted on the grantee monitoring plans. The dates of monitoring are recorded a second time on the monitoring calendar.
3. Program managers use the “*Budget CAP Calculator Worksheet*” to monitor grantees expenditures in meeting the 45 percent recording surcharge set aside for private market rental assistance payments. These calculations are made quarterly.

We reviewed the monitoring conducted during the period Jan. 1, 2015, through Dec. 31, 2015, and determined that Commerce performs a risk assessment of the grantees based on six categories captured on the CHG monitoring form. The categories are:

1. grantee administration
2. interested landlord list
3. lead grantees providing direct services
4. subgrantee administration
5. grantee fiscal review
6. general comments

Commerce uses the risk assessment results and the lead grantee and subgrantee Single Audit Act results to develop monitoring plans. These monitoring plans identify the sites Commerce scheduled for onsite monitoring and desk reviews. The on-site monitoring includes the areas listed above, and results are documented using the grantee monitoring plan. Commerce’s desk reviews are limited to ensuring documentation exists to support for profit lease costs and other eligible expenditures. Commerce maintains a tracking log to document the desk reviews performed. Additionally, Commerce grant managers use another monitoring spreadsheet entitled 2014-2015 Budget CAP Calculator Worksheet to monitor grantees expenditures and determine whether the 45 percent recording surcharge has been used for private market rental assistance payments.

In addition to formal monitoring, Commerce grant managers maintain direct communication with lead grantees and subgrantees on an as-needed basis to provide oversight and guidance.

RESULTS

We reviewed the total document recording fees received by the Commerce to assess whether Commerce has set aside the required 45 percent of those fees, after adjustments for administrative expenses, for private rental housing. We determined that Commerce had, in fact, set aside and budgeted approximately 48 percent of the document fees for private rental housing expenditures.

We also determined, with the exception of \$32,858 of eligible grant expenditures (such as utility expenses and rental lease costs) that should have been charged to other housing budget categories by subgrantees, the private rental housing expenditures examined were properly recorded, reported and were made in support of private rental housing. Total allowable expenditures for private for profit rental housing were approximately 51 percent, exceeding the 45 percent requirement.

In accordance with RCW 43.185C.240, the results of the examination were provided to and discussed with Commerce and landlord representatives, who were provided with an opportunity to review the preliminary report and provide written comments regarding the findings. Those comments are included with the final report.

Exhibit A

**Statement of Revenue and Expenditures
 Private Rental Housing Program
 January 1, 2015 – December 31, 2015**

	Reported	Adjustments	Adjusted	Notes
Document Fees Collected	\$18,3684,534	-	\$18,384,534	1
Department of Commerce Administrative Fees	3,070,217	-	3,070,217	2
Amount To Be Set Aside for Private Rental Housing	6,891,443	-	6,891,443	3
Private Rental Housing Expenditures	\$7,831,374	\$43,787	\$7,787,587	4

Notes to Statement of Revenue and Expenditures

1. Document recording fees collected for the period Jan. 1, 2015, through Dec 31, 2015, subject to RCW 36.22.179(1)(b).
2. Commerce maximum administrative fees equal to 16.7 percent of the document recording fees collected.
3. Commerce budgeted amounts set aside for private rental housing under RCW 36.22.179(1)(b) equal to 48 percent of the revenue after maximum administrative fees. Two grants are funded by the document recording fees: the Consolidated Homeless Grant (CHG) and the Independent Youth Housing Program Grant (IYHPG).
4. Expenditures reported by lead grantees. Adjustments that we made to reduce the reported expenditures by eliminating expenditures that are not allowable under the grants or budget categories established for RCW 36.22.179(1)(b) are detailed in Exhibit B and the notes for Exhibit B. Total allowable expenditures for private for profit rental housing exceeded the 45 percent requirement and were approximately 51 percent after adjustments.

We selected a sample of lead grantees and subgrantees that are geographically and demographically diverse to test expenditures made from Jan. 1, 2015, to Dec 31, 2015, to assure that expenditures by lead grantees and their subgrantees were in accordance with RCW 36.22.179(1)(b). The complete list of counties and their expenditures during that period are:

Schedule of Reported Expenditures by County Jan. 1, 2015 – Dec. 31, 2015	
County	Private Housing Expenditures
Adams	\$10,745
Asotin	132,484
Benton, Franklin	221,391
Benton, Franklin, Kittitas, Walla Walla, Yakima	31,499
Chelan, Douglas	177,768
Clallam	63,743
Clark	387,643
Columbia, Garfield	21,443
Cowlitz	216,982
Ferry	10,224
Grant	110,551
Grays Harbor	149,339
Island	93,675
Jefferson	48,831
King	2,416,420
Kitsap	245,555
Kittitas	54,127
Klickitat	36,891
Lewis	82,041
Lewis, Thurston	41,911
Lincoln	24,498
Mason	81,578
Okanogan	77,925
Pacific	57,682
Pend Oreille	16,981
Pierce	561,616
San Juan	23,228
Skagit	99,487
Skamania	21,217
Snohomish	562,971
Spokane	957,501
Stevens	54,534
Thurston	127,939
Wahkiakum	47,446
Walla Walla	117,021
Whatcom	179,778
Whitman	63,905
Yakima	202,804
Total – All Counties	\$7,831,374

We selected eight counties throughout Washington using the criteria established in RCW 36.22.179(1)(b). The sample must include local governments, contractors and housing providers

that are geographically and demographically diverse. For the sampled grantees, we performed procedures to examine internal controls over expenditures and the reported expenditures for calendar year 2015 under the CHG and the IYHPG. Within these eight counties, we selected 13 lead and/or subgrantees to test internal controls and expenditures, where applicable, as follows:

Cowlitz County:

- Lower Columbia Community Action Program

Grays Harbor:

- Coastal Community Action Program

King County:

- Solid Ground
- Catholic Community Services

Pierce County:

- Share and Care House
- Pierce County Alliance
- Helping Hand

Spokane County:

- Catholic Charities – city of Spokane
- Catholic Charities – Spokane County

Thurston and Lewis counties:

- Community Youth Services

Walla Walla County:

- Helpline
- Blue Mountain Action Council

Whitman County:

- Community Action Council

We also performed off-site desk reviews of seven counties and their respective subgrantees. The desk reviews entailed reconciling the costs on the invoice from the subgrantee to the lead grantee, and then from the lead grantee invoice to the records provided by Commerce. We also examined lease information, landlord information and other supporting documentation provided to support the expenditures sampled. The counties reviewed in this manner were:

- Adams
- Benton, Franklin
- Chelan, Douglas

- Clallam
- Clark
- Snohomish
- Whatcom

The expenditures reported by these counties' subgrantees, and the results of our examination of a sample of the reported expenditures are summarized in Exhibit B and in the Notes to Exhibit B. Unless stated in the Notes, our assessment of the internal controls of the lead grantees as evidenced by monitoring reports, prior audit or review reports, accuracy and timeliness of annual reports, volume of expenditures, assessment and identification of subgrantees, as applicable, did not identify any material weaknesses or reportable conditions related to those internal controls that would result in not meeting the objective of expending and reporting expenditures as instructed by Commerce in its communications for these grants.

Observations

1. We noted several instances of adjustments to subgrantee invoices that were initiated by the lead grantee (county). When reconciling the subgrantee accounting records to the voucher submitted by the county to Commerce, we identified variances that were the result of these adjustments. The subgrantee had no knowledge of these adjustments, requiring us to interact with the county and resolve the reconciling variances. We noted the variances pertained to shifting of costs between budget categories. Guidelines provided to the lead grantees pertain to adjusting vouchers for ineligible costs, but do not address budgetary adjustments.

We recommend the guidelines include these types of adjustments, and that the lead grantees and subgrantees reach agreement on adjustments made prior to submitting vouchers to Commerce.

2. Commerce has a monitoring process in place. The process encompasses site reviews as well as desk reviews. The process, however, does not provide specific dates for reviews or specific targets. Rather, Commerce performs what reviews it can, with its current resources and workflow. We noted exceptions in 11 of the 20 sites reviewed, as shown below in Exhibit B, thereby indicating that the monitoring process in place is not fully serving its purpose.

We recommend modifying the monitoring process to require reviews for each site with specific dates and targets. We specifically recommend strengthening monitoring procedures to detect nonprofit organizations coded as for profit organizations.

3. Commerce included not for profit items in its computation of 45 percent compliance costs as noted in items a. and j. below. The subgrantees appropriately identified costs incurred as Not for Profit and the lead grantee appropriately identified these same costs as not for profit in their voucher to Commerce. However, Commerce mistakenly included the amount as for profit and included it the calculation of the 45 percent needed to

comply with the RCW. It appears that the error was clerical, and could be avoided by implementing an internal control to verify the information.

We recommend that Commerce adopt a formal process to ensure the accuracy of the grouping of these costs, and formally review and approve the computation.

4. We noted instances where lead grantees and subgrantees had performed the required search to determine whether the landlord was a for profit entity. The searches were performed in accordance with the CHG guidelines, but the search results did not identify the entity as being an exempt organization. As a result, the grantees and subgrantees assumed these entities were for profit organizations. These assumptions proved to be incorrect because the property was either a government-owned facility or was a local subsidiary of a national not for profit organization. These instances are identified in Exhibit B in Notes c., f., g. and k.

The flowchart showed on Appendix C of the CHG Guidelines states that if the property is a government-owned facility, a search does not need to be performed. It does not stipulate that this type of landlord be termed a not for profit landlord. The flowchart also instructs the grantee and subgrantee to use the name of the owner in the IRS search for non-exempt entities. It does not, however, discuss instances where the property owner might be a local chapter of a larger not for profit organization, and therefore be termed as a not for profit regardless of whether the local subchapter appears on the IRS search. As a result, we recommend that CHG clarify the flowchart and provide specific instruction on these unique situations so coding exceptions as we uncovered do not occur.

Exhibit B

**Schedule of Total Private For Profit Rental Housing Expenditures Sampled
 By County and Subgrantee
 for the Period Jan. 1, 2015 – Dec. 31, 2015**

County	Subgrantee	Expenditures Sampled	Adjustments	Notes
Site Visits				
Cowlitz County				
	Lower Columbia Community Action Program	\$ 12,488	\$ 1,123	a
Pierce County				
	Share and Care House	8,174		
	Pierce County Alliance	11,849		
	Helping Hand	19,461	2,059	b
Walla Walla County				
	Blue Mountain Action Council	14,591		
	Help Line	9,137	1,222	c
Whitman County				
	Community Action Council	17,738	5,083	d
Grays Harbor				
	Coastal Community Action Program	9,551	97	e
Spokane County				
	Catholic Charities - city of Spokane	22,725	2,941	f
	Catholic Charities - Spokane County	47,042	17,336	g
King County				
	Solid Ground	30,621	4,387	h
	Catholic Community Services	20,641		
Thurston Lewis Counties				
	Community Youth Services	12,954		
Subtotal Site Visits		\$ 236,972	\$ 34,248	
Desk Reviews				
Adams County		\$ 3,780		
Benton Franklin Counties		8,510	4,453	i
Chelan Douglas Counties		17,702		
Clallam County		8,886	65	j
Clark County		9,703		
Snohomish County		40,086	5,021	k
Whatcom County		7,459		
Subtotal Desk Reviews		\$ 96,126	\$ 9,539	
Total Sampled Expenditures		\$ 333,098	\$ 43,787	

**Notes to Schedule of Total Private For Profit Rental Housing Expenditures Sampled
By County and Subgrantee**

- a. Lower Columbia County Community Action Plan (Cowlitz County). This subgrantee correctly reported and classified eligible operating costs of \$901 on its invoice to the lead grantee, who then correctly submitted the voucher to Commerce. Commerce, however, included these costs in its calculation of the 45 percent expended on for profit expenditures in calculating compliance in its computation schedule.

Separately, the subgrantee miscoded utility costs totaling \$222 paid to the local utility district, a not for profit organization, and included the costs as for profit costs.

- b. Helping Hand (Pierce County). This subgrantee understated its costs claimed to the lead grantee due to reconciling errors in its billing by \$270. However, errors were also made reporting other costs twice. This resulted in overstated costs reported to the lead grantee by \$2,329.
- c. Help Line (Walla Walla County). This subgrantee included \$1,222 of expenditures made to the Walla Walla Housing Authority, a government entity.
- d. Community Action Center of Whitman County (Whitman County). This subgrantee reported \$5,053 for costs of a tenant to stay at a facility it owned since the Community Action Center is a not for profit organization, these costs should not have been recorded as for profit costs. In addition, the subgrantee was erroneously reimbursed \$490 for a lease that was only \$460, representing a \$30 overstatement of costs claimed.
- e. Coastal Community Action Program (Grays Harbor). This subgrantee incurred and reported \$97 for utility payments made to the local utility district, a Not for Profit entity. These costs were charged to the for profit category but should have been charged to other budget categories.
- f. Catholic Charities (city of Spokane). This subgrantee included \$2,941 of rental costs for a government-owned facility.
- g. Catholic Charities (Spokane County). This subgrantee included \$17,336 of rental costs for a government-owned facility.
- h. Solid Ground (King County). This subgrantee failed to consistently establish a lease or rental agreement for tenants participating in the diversion program. A form with the lease-type information was created and maintained; however, it was not a lease or rental agreement as defined in Commerce's guidelines and may not be legally binding. As a result, we identified \$4,387 in unsupported costs.
- i. Benton Franklin County. The county could not reconcile the costs claimed to Commerce, thereby overstating costs claimed by \$171. In addition, a lease for one tenant could not be

located. The rent assistance paid on behalf of that tenant was \$4,282 during year 2015. These costs are unsupported.

- j. Clallam County. The county reimbursed one of its subgrantees \$65 for operating costs incurred and correctly coded these costs on its voucher to Commerce. However, Commerce incorrectly included these costs in its 45 percent compliance computation.
- k. Snohomish County. The county included \$5,021 of rental costs paid to the local YWCA, a not for profit organization, as for profit rental costs.

Appendix

Comments on the Independent Examination of the Department of Commerce's Expenditures for Private For Profit Rental Housing under RCW 36.22.179(1)(b)

Reed & Associates CPAs Inc. met with the Department of Commerce (Commerce) and the landlord representatives on June 17, 2016, to discuss the results presented in the draft report. The comments received from the landlord representatives are included in their entirety below. No comments were received from Commerce.



Address
Rental Housing Association
2414 SW Andover St, Ste D207
Seattle, WA 98106

Telephone
(206) 283 - 0816
(800) 335 - 2990

Fax
(206) 286 - 9461

Website
www.RHAWa.org

To Whom It May Concern:

Thank you for the opportunity to comment on the *Independent Examination of Expenditures for Private For Profit Rental Housing under RCW 36.22.3179(1)(b)* prepared by Reed & Associates, CPAs, Inc. (Reed Report).

RHA's primary concern is that the report secured under RCW 43.185C.240 follows the intent of statutory language, and that the reporting process and deliverables follow the steps set forth in the Agreed Upon Procedures of the Reed Report.

RCW 43.185C.240(1)(d) reads:

The independent audit must review a random sample of local governments, contractors, and housing providers that is geographically and demographically diverse...

In RHA's view, the intent of the statutory language in RCW 43.185C.240(1)(d) is to produce a report that presents a data set that encompasses the entire state, but is also a representative sample of the demographic makeup of the Washington. In order to give the Legislature, stakeholders, and Commerce the most valuable information upon which to make important decisions on the funding mechanisms of RCW 36.22.179, going into the future. RHA believes the Reed Report should contain a detailed explanation of sampling methodology; to include statistical relevance, randomness, and the determining factors in classifying's grantees' risk factors.

In King County, \$2,416,420 was reported in total expenditures, which is approximately 31% of the total private rental housing payments made in the state, yet the selected sample in King County only represents approximately 15% of the total monies examined by Reed. By contrast, Spokane County had a larger portion of the total sample, while the total expenditure was significantly lower than King County, at \$957,501. While the sampling by risk factors may move more of the sample outside of urban areas--although that was not reported in the adjustments in Spokane--without understanding specific risk factor methodology.

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RHA is grateful for the recommendations offered in the report to improve the Consolidated Homelessness Grant compliance. Specifically, the issue raised concerning sub-grantees reporting government owned housing as “for profit” because the properties did not return as “non-profit” in the search procedures. RHA would willingly participate in any further rulemaking or training, both in the private market and in local governments, to improve compliance.

RHA remains committed to working alongside the State and local governments to improve the private market’s access and responsibility for housing the homeless. While RHA understands the critical need for the funding of homelessness programs, we also are keenly aware of the concerns of funding housing programs through auditor filing fees.

Again, RHA is resolved that accurate and complete data obtained from this and other auditing requirements set out in ESSB 5785 will provide all stakeholders, and future legislatures who must reaffirm the current funding mechanisms, with the best possible tools to find educated solutions to Washington’s complex homelessness issues.

Sincerely,

Kyle Woodring
Lobbyist

Rental Housing Association of Washington

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