

June 30, 2018

State of Washington  
Office of Financial Management  
PO Box 43113  
Olympia, WA 98504-3113

To Whom It May Concern:

Please find our Final Report on the Independent Examination of the Department of Commerce's Expenditures for Private For Profit Rental Housing for the period January 1, 2017 through December 31, 2017 covered by RCW 36.22.179(1)(b).

This examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and was performed to meet the requirements of RCW 43.185C.240. The results of the examination were provided to and discussed with the Office of Financial Management, the Department of Commerce, and landlord representatives who were provided with an opportunity to review the preliminary report and provide written comments regarding the findings.

If you have any questions or comments, please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink that reads "Deirdre M. Reed".

Deirdre M. Reed, CPA, CISA, CGFM  
President



**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, 2017**

**Reed & Associates, CPAs, Inc.  
6 Main Street, Suite 316  
Centerbrook, CT 06409**



State of Washington  
 Office of Financial Management  
 PO Box 43113  
 Olympia, WA 98504-3113

**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 2017 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, 2017, through Dec. 31, 2017. 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, neither for the purpose for which this report has been requested, nor for any other purpose.

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

Agreed-Upon Procedure	Results
<b>Meet with OFM to establish the scope, objectives and timing of the AUP:</b>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	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"> <li>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.</li> </ul>	We discussed the AUP with OFM. OFM made no material updates to the AUP.
<ul style="list-style-type: none"> <li>Discuss the sampling methodologies and obtain input based on both size (minimum and maximum samples) as well as stratification (lead grantee).</li> </ul>	We discussed the sampling methodologies and decided to use a risk-based approach that included grant amounts, results of Commerce monitoring and geographical diversity as required by the statute as the criteria. The resulting sample was judgmentally selected based on these criteria.
<ul style="list-style-type: none"> <li>Prepare and document a project work plan (PWP) documenting final understanding, sample sizes, key milestones, timelines, personnel and deliverables.</li> </ul>	A PWP was prepared and provided to OFM and Commerce for approval of the deliverable timelines.

Agreed-Upon Procedure	Results
<ul style="list-style-type: none"> <li>Establish weekly update/status meeting content, agenda, timing and methodology.</li> </ul>	Status meetings were held as necessary.
<b><i>Obtain background and source documents, including:</i></b>	
<ul style="list-style-type: none"> <li>sample grants</li> </ul>	We obtained sample agreements from Commerce.
<ul style="list-style-type: none"> <li>sample invoices</li> </ul>	We obtained sample invoices used by the lead grantees from Commerce.
<ul style="list-style-type: none"> <li>grantee communications</li> </ul>	We obtained Commerce’s communications with the lead grantees.
<ul style="list-style-type: none"> <li>Commerce’s policies and procedures, including instructions to counties</li> </ul>	We obtained Commerce’s communications with the lead grantees, including guidance and instructions.
<ul style="list-style-type: none"> <li>Document allowable uses associated with “private rental housing payments” and documentation required to support expenditures.</li> </ul>	We documented the allowable uses based on the RCW and Commerce’s implementation guidance. We obtained, from Commerce, a description of the supporting documentation required from lead grantees and subgrantees to support the invoice.
<b><i>Perform an assessment of internal control over the data and data systems:</i></b>	
<ul style="list-style-type: none"> <li>Document the systems and procedures used to record document recording fees.</li> </ul>	The appropriation is calculated and made by the Legislature and recorded in the accounting system by OFM.
<ul style="list-style-type: none"> <li>Test the input (collection), processing (accounting) and output (reporting) of data to assure it is accurate and complete.</li> </ul>	An accounting system called the Contract Management System is used to record the appropriation and the uses of the funds, including Commerce’s administrative expenses and grantee payments based on approved invoices.
<b><i>Perform an assessment of receipts to assure completeness and accuracy:</i></b>	
<p>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.</p>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	OFM provided the assertion of the amount of the total document fee revenue for Private For Profit Rental Housing under RCW 36.22.179(1)(b).

Agreed-Upon Procedure	Results
<ul style="list-style-type: none"> <li>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.</li> </ul>	The period covered by the AUP is Jan. 1, 2017, through Dec. 31, 2017. Therefore, no allocation was made and no review was necessary.
<ul style="list-style-type: none"> <li>Determine what supporting documentation there is for the appropriation to assure the Home Security Fund Account Revenue (10B) retained by Commerce is correct. Obtain that documentation and tie to or reconcile to the amount asserted by OFM.</li> </ul>	We traced the amount reported by OFM of \$20,135,198 to the biennium reports.
<ul style="list-style-type: none"> <li>Identify and report any variances between the document fees identified and those supported by underlying records.</li> </ul>	We identified no variances.
<ul style="list-style-type: none"> <li>Identify and report any variances based on the reasonableness or accuracy of the allocation (if applicable).</li> </ul>	Not applicable.
<ul style="list-style-type: none"> <li>Recalculate the 45 percent private rental housing requirement to be used in comparing the actual expenditures. Post to lead sheets for reporting.</li> </ul>	We calculated and determined \$7,547,679 was to be used for Private For Profit Rental Housing under RCW 36.22.179(1)(b).
<b><i>Perform an assessment of expenditures to assure proper recording, use and reporting:</i></b>	
<ul style="list-style-type: none"> <li>Obtain a list of all lead grantees.</li> </ul>	We obtained a list of all lead grantees and their subgrantees from Commerce.
<ul style="list-style-type: none"> <li>Obtain a report of the grant amounts (budgets) to each of the lead grantees.</li> </ul>	We obtained a summary of the grant amounts for each lead grantee from Commerce.
<ul style="list-style-type: none"> <li>Obtain the budget and expenditure reports for each of the lead grantees for the period.</li> </ul>	We obtained a summary of expenditures by lead grantee from Commerce.
<ul style="list-style-type: none"> <li>Select samples for testing expenditures. The sampling methodology should take into consideration and include:</li> </ul>	We selected a judgmental sample using a data driven, risk-based approach as well as the criteria specified in the statute. Data in the risk matrix included the total expenditures by grantee, the results of and frequency of monitoring by lead grantees and by Commerce, changes in grantee staffing that may affect financial reporting, the results of all available audits including the prior year OFM Data and Expenditures audit, and the geographical and demographic information of the lead grantees. The criticality of each data input was assessed in determining the associated risk, and the actual data was assessed in determining the risk of not sampling.
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>A stratification of the lead grantees (local governments, contractors and housing providers) that takes into consideration geographic location, median income and population served.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>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).</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>An assessment of internal controls of the lead grantees as evidenced by monitoring reports, prior audit or review reports,</li> </ul> </li> </ul>	

Agreed-Upon Procedure	Results
<p>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 sub grant relationship, etc.).</p>	<p>As a result, eleven counties in Washington were identified to include in the sample, including local governments, contractors and housing providers that are geographically and demographically diverse. Within these eleven counties, we selected 18 lead and/or subgrantees to test internal controls, data and expenditures, as applicable.</p>
<ul style="list-style-type: none"> <li>• 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:</li> </ul>	<p>We documented the sample selections and prepared a site visit plan. We notified the sampled lead and subgrantees of the onsite visit. We notified the sampled lead and subgrantees of the desk audits. We informed all the lead grantees of the documents to be provided.</p>
<ul style="list-style-type: none"> <li>○ an organization chart for the lead grantee identifying personnel associated with the private rental housing and grant program.</li> </ul>	
<ul style="list-style-type: none"> <li>○ a description of the systems used for accounting and monitoring.</li> </ul>	
<ul style="list-style-type: none"> <li>○ accounting policies and procedures for grant funds (and subgrantees)</li> </ul>	
<ul style="list-style-type: none"> <li>○ subgrantee procurement policies</li> </ul>	
<ul style="list-style-type: none"> <li>○ subgrantee monitoring policies</li> </ul>	
<ul style="list-style-type: none"> <li>○ reports submitted by subgrantee accounting for grant funds</li> </ul>	
<ul style="list-style-type: none"> <li>○ documentation to support subgrantee expenditures and monitoring</li> </ul>	
<ul style="list-style-type: none"> <li>○ accounting reports used to prepare the county annual report or other report submitted to Commerce</li> </ul>	
<ul style="list-style-type: none"> <li>○ reconciliations necessary to reconcile reports to the accounting system</li> </ul>	
<ul style="list-style-type: none"> <li>• Conduct site visits. Meet with designated officials to discuss the grant, the subgrantee selections, the expenditures and the reporting. Obtain the 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.</li> </ul>	<p>For the sampled lead and subgrantees, we examined internal controls over expenditures and the reported expenditures for a selected period under the Consolidated Homeless Grant (CHG). Our procedures included reconciling the costs from the subgrantees' 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</p>

Agreed-Upon Procedure	Results
	documentation for the sampled expenditures, including lease information, landlord information and other supporting documentation.
<ul style="list-style-type: none"> <li>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.</li> </ul>	We prepared a summary. See Exhibit B.
Conclude on compliance with RCW 36.22.179(1)(b) and RCW 43.185C.240(1)(d).	
<ul style="list-style-type: none"> <li>Summarize total document recording fees, as adjusted if necessary.</li> </ul>	We summarized total document recording fees of \$20,135,198. See Exhibit A. No adjustments were required.
<ul style="list-style-type: none"> <li>Summarize total private rental housing payments reported and adjusted if necessary.</li> </ul>	We summarized total private rental housing payments reported of \$6,000,699. We adjusted these payments by \$3,110, reducing the total to \$5,997,589. See Exhibit B.
<ul style="list-style-type: none"> <li>Calculate the percentage of document recording fees expended for proper private rental housing payments.</li> </ul>	We calculated the percentage of document recording fees expended for private rental housing payments to be approximately 36 percent (expenditures on private rental housing divided by total fees, less administrative expenses). See Exhibit A.
<ul style="list-style-type: none"> <li>Assure that the total percentage of proper set aside is in compliance with RCW 36.22.179(1)(b).</li> </ul>	Commerce's actual budgeted amounts set aside for private rental housing equaled to 49 percent of the revenue, after maximum administrative fees. The total percentage set aside complies with RCW 36.22.179(1)(b).
<ul style="list-style-type: none"> <li>Identify any shortfall in the amount set-aside in compliance with RCW 43.185C.240(1)(d) which specifies that the auditor must identify a failure to set aside the 45 percent of funds received under RCW 36.22.179(1)(b).</li> </ul>	We determined that the amount set-aside exceeded the requirement in RCW 36.22.179(1)(b). The amounts expended had not reached the set-aside amounts as of Dec. 31; however, the grantees' fiscal years that coincide with the set-aside amount are through June 30, resulting in grantee spending not coinciding with the audit period.
<ul style="list-style-type: none"> <li>Identify the condition, cause and effect of any shortfall in the required percentage of funds expended for private rental housing payments.</li> </ul>	Commerce indicated that grantees historically spend-out their contracts at a faster rate during the initial months of a contract and during the final months

Agreed-Upon Procedure	Results
	of a contract. Because the examination period of the current audit does not align with the end of the contracts, lower expenditures would be expected as some contracts closed out while others started during the calendar year 2017.
<ul style="list-style-type: none"> <li>• Document recommendations to mitigate the condition and cause for the shortfall.</li> </ul>	Commerce should closely monitor the actual expenditures in each calendar year and the timing of expenditures in each grantee fiscal year against the budgeted, set-aside amounts and work with the grantees to assure set-aside amounts, budgets and actual expenditures can be properly matched to comply with the RCW.
<b>Prepare Deliverables:</b>	
<ul style="list-style-type: none"> <li>• Prepare a draft report summarizing the:</li> </ul>	
<ul style="list-style-type: none"> <li>○ Assessment of Internal Controls, including those internal controls at the subgrantee level and the monitoring of those controls by Commerce or OFM</li> </ul>	We reviewed and assessed the internal controls and procedures in place at Commerce, lead grantees and subgrantees. We 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.
<ul style="list-style-type: none"> <li>○ Assessment of the Document Recording Fee receipts</li> </ul>	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"> <li>○ Assessment of the Expenditures for Private Rental Housing Payments</li> </ul>	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"> <li>○ Assessment of overall compliance with and conclusion on compliance with RCW 36.22.179(1)(b)</li> </ul>	We determined that total expenditures set aside for private for-profit rental housing exceeded the requirements of RCW 36.22.179(1)(b). Therefore, Commerce is in compliance with the

Agreed-Upon Procedure	Results
	requirements even after adjustments recommended as a result of these agreed-upon procedures.
<ul style="list-style-type: none"> <li>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.</li> </ul>	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"> <li>Allow sufficient time for OFM, Commerce and the landlords or grantee representatives to review the draft report and provide comments or additional information for consideration.</li> </ul>	We provided sufficient time for OFM, Commerce and the landlord representatives to review the draft report and provide comments or additional information.
<ul style="list-style-type: none"> <li>Assess any additional information or comments. Incorporate comments or information as appropriate.</li> </ul>	No comments were provided to be included in the report.
<ul style="list-style-type: none"> <li>Prepare and deliver final report (hard copy and electronic).</li> </ul>	We prepared and delivered the final report.
<ul style="list-style-type: none"> <li>Meet with or provide recommendations to OFM and the Legislature, as requested.</li> </ul>	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 for private for-profit rental housing were overstated by \$3,110. The overstatement was due to the inclusion of not-for-profit expenditures or other expenditures not applicable to 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 based on legislative provisos.) Detailed recommended adjustments have been identified in the Notes to Schedule of Total Expenditures Sampled/Examined by lead grantee (County) and subgrantee (Exhibit 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.

This report is intended for the use of OFM and Commerce and its distribution should be limited to those parties that OFM and Commerce deem appropriate and necessary in meeting its reporting obligations under RCW 36.22.179(1)(b).



Reed & Associates, CPAs, Inc.  
 Centerbrook, CT  
 June 30, 2018

**EXECUTIVE SUMMARY**

Reed & Associates, CPAs, Inc. performed agreed-upon procedures related to the private housing expenditures made for the period Jan.1, 2017, through Dec. 31, 2017, for the purpose of assisting the Washington State Office of Financial Management (OFM) in 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. In accordance with AICPA Professional Standards AT-C Section 215.A38 and AT-C 215.A45, Reed & Associates, CPA, Inc. is providing the following explanatory paragraphs and additional information associated with our agreed-upon procedures engagement.

We identified the total document recording fees received by the Washington state Department of Commerce (Commerce) to calculate whether Commerce had set aside the required 45 percent of those fees - after adjustments for administrative expenses - for private rental housing. We calculated that Commerce had set aside and budgeted approximately 49 percent of the document fees for private rental housing.

We noted that the grant contract periods to expend the set-aside funding did not coincide with the examination period. This difference in periods resulted in the expenditures by the grantees during the examination period to be less than the set-aside amount. Commerce noted that grantees historically spend-out their contracts at a faster rate during the final months of a contract as well as the initial months of a new contract period. Because the examination period of the current audit does not align with the end of the contracts, lower expenditures would be expected.

Commerce provided the following table to support and illustrate how overall appropriations, fiscal year appropriations set aside for private rental housing and the intersection with the collection of the recording fee revenue crosses Commerce’s grant cycle.

<p><b>2015 – 2017 Biennium</b> (July 2015 – June 2017) <b>Appropriations to Commerce</b> <b>10B \$35,023,000</b> <b>15A \$7,500,000</b> <b>TOTAL: \$42,523,000</b></p>	<p><b>2017-2019 Biennium</b> (July 2017 – June 2019) <b>Appropriations to Commerce</b> <b>10B \$48,400,000</b></p>
<p><b>FY 17 July 2016 - June 2017</b> <i>Appropriations set aside for Private Rental Housing</i></p> <ul style="list-style-type: none"> <li>• 15A \$3,749,000</li> <li>• 10B(150) \$2,500,000</li> <li>• 10B (JC0) \$5,455,000</li> <li>• 10B (1U0) \$787,000</li> <li>• 10B (1M0) \$210,000</li> </ul> <p><b>Total: \$12,701,000</b></p>	<p><b>FY 18 July 2017 – June 2018</b> <i>Appropriations set aside for Private Rental Housing</i></p> <ul style="list-style-type: none"> <li>• 10B(1P0) \$7,397,290 (CHG)</li> <li>• 10B (1P0) \$1,874,250 (CHG TANF)</li> <li>• 10B (1U0) \$787,000 (HSSP)</li> </ul> <p><b>Total: \$10,059,040</b></p>
<p><b>Calendar year 2017 Document Recording Fees Collected by State Auditor</b></p>	

<b>Commerce receives recording fee revenue only during the biennial budget process.</b> \$20,135,198.16
<b>Total Document Fees contracted between January 2017-December 2017</b> \$41,198,795.71
<b>Document Fees in contracts active between January 2017 – December 2017 set aside for Private Rental Housing expenditures</b> \$20,125,231.24
<b>Percent Set Aside for Private Rental Housing</b> 48.8%
<b>Total Document Fees expended between January 2017 – December 2017</b> \$14,261,048.51
<b>Document Fees expended between January 2017 – December 2017 on Private Rental Housing expenditures</b> \$6,000,699.25
<b>Percent Expended for Private Rental Housing between January 2017 – December 2017 on Private Rental Housing expenditures</b> 42.1%

Commerce provided additional context and details of the amounts expended in the previous contract that was in effect from January 2016 through June 2017:

The last Consolidated Homeless Grant contracts lasted 18 months - January 2016 to June 2017. During the period of those contracts, the actual non-exempt 10B spending equaled \$15,054,315. Of those expenditures, \$8,600,449 (57%) were for-profit expenditures. This represents a surplus (beyond the 45% requirement) of \$1,826,007 for-profit spending.

**Period of last closed CHG contracts - January 2016 to June 2017 - 18 months**

	Actual Spending
<b>Other</b>	\$6,453,866
<b>For profit</b>	<u>8,600,449</u>
<b>Total</b>	\$15,054,315
<b>% for profit</b>	57%

We also determined, with the exception of \$3,110 of eligible grant expenditures (such as housing inspection fees 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.

## **OBJECTIVE**

The objective of this report is to provide OFM with an independent accountant's report 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). The report was prepared in accordance with AICPA AT-C-215, applying agreed-upon procedures.

## **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, until June 30, 2019. 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 2017.

RCW 36.22.179(1)(b) states:

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.<sup>1</sup>

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<sup>1</sup> RCW 36.22.179(b), Surcharge for local homeless housing and assistance – use.

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 percent<sup>2</sup> = maximum administrative expenditures
- (Revenue Collected – maximum administration expenditures) \* 45 percent = private rental housing set aside

The Consolidated Homeless Grant (CHG) is funded by the document recording fees. Commerce guidelines define “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.

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<sup>2</sup>Maximum administrative expenditures is composed 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.

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.

In connection with the data driven, risk-based sampling approach, we reviewed the monitoring conducted during the period Jan. 1, 2017, through Dec. 31, 2017, 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 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**

In connection with our agreed-upon procedures, we reviewed the total document recording fees received by the Commerce to assess whether Commerce had set aside the required 45 percent of those fees, after adjustments for administrative expenses, for private rental housing. We calculated that Commerce had set aside and budgeted approximately 49 percent of the document fees for private rental housing expenditures.

We also verified, with the exception of \$3,110 of eligible grant expenditures (such as inspection fees 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 36 percent of the document fees.

In accordance with RCW 43.185C.240, the results of this agreed-upon procedures engagement 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 results. Those comments are included with the final report.

**Exhibit A**

**Statement of Revenue and Expenditures  
Private Rental Housing Program  
Jan. 1, 2017 – Dec. 31, 2017**

	<b>Reported</b>	<b>Adjustments</b>	<b>Adjusted</b>	<b>Notes</b>
<b>Document Fees Collected</b>	\$20,135,198	-	\$20,135,198	1
<b>Department of Commerce Administrative Fees</b>	3,362,578	-	3,362,578	2
<b>Minimum Amount To Be Set Aside for Private Rental Housing (45%)</b>	7,547,679	-	7,547,679	3
<b>Private Rental Housing Expenditures</b>	\$6,000,699	\$3,110	\$5,997,589	4

**Notes to Statement of Revenue and Expenditures**

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1. Document recording fees collected for the period Jan. 1, 2017, through Dec. 31, 2017, 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's actual budgeted amounts set aside for private rental housing under RCW 36.22.179(1)(b) equaled 49 percent of the revenue after maximum administrative fees.
4. Expenditures reported by lead grantees. Adjustments that we recommend 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 were approximately 36 percent after adjustments.

We used a data-driven, risk-based, judgmental sample of lead grantees and subgrantees that are geographically and demographically diverse to test expenditures made from Jan. 1, 2017, to Dec. 31, 2017, 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:

<b>Schedule of Reported Expenditures by County Jan. 1, 2017 – Dec. 31, 2017</b>	
<b>County</b>	<b>Private Housing Expenditures</b>
Asotin	\$ 130,024.79
Benton, Franklin	235,921.38
Chelan	20,497.00
Chelan, Douglas	59,787.84
Clallam	49,687.80
Clark	269,853.27
Columbia, Garfield	19,467.73
Cowlitz	409,685.05
Ferry	11,603.73
Ferry, Stevens	24,666.24
Grant	70,130.40
Grays Harbor	130,792.99
Island	40,905.38
Jefferson	27,858.00
King	1,222,131.89
Kitsap	147,606.11
Kittitas	34,890.91
Klickitat	24,645.07
Klickitat, Skamania	31,574.29
Lewis	87,150.15
Lincoln	19,362.65
Mason	29,363.92
Okanogan	63,964.33
Pacific	48,597.11
Pend Oreille	26,834.32
Pierce	665,131.57
San Juan	24,321.95
Skagit	89,842.26
Skamania	7,400.55
Snohomish	574,569.03
Spokane	671,808.53
Stevens	11,006.00
Thurston	162,917.65
Wahkiakum	40,908.35
Walla Walla	101,898.34
Whatcom	131,504.01
Whitman	41,945.41
Yakima	240,443.25
<b>Total – All Counties</b>	<b>\$6,000,699.25</b>

We sampled 18 lead and/or subgrantees throughout Washington based on the criteria stated in RCW 36.22.179(1)(b), including the stipulation that the sample must include local governments,

contractors and housing providers that are geographically and demographically diverse. For the sampled grantees, we performed the agreed-upon procedures to examine internal controls over expenditures and the reported expenditures for calendar year 2017 under the CHG. We sampled lead and/or subgrantees as follows:

Asotin County

- Quality Behavioral Health

Grant County

- Housing Authority of Grant County

King County

- Evergreen Treatment Service
- Wellspring Family Services
- MultiService Center

Mason County

- Crossroads Housing

Skagit County

- Community Action of Skagit County

Spokane County

- Spokane County
- Goodwill
- YWCA

Thurston County

- Sidewalk
- Family Support Center

Wahkiakum County

- Wahkiakum County Health and Human Services

Walla Walla County

- Blue Mountain Action Counsel

Whitman County

- Community Action Center

Yakima County

- Catholic Charities of the Diocese of Yakima
- Northwest Community Action Center
- Yakima Neighborhood Health Services

The expenditures reported by these grantees, and the results of our agreed-upon procedures 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 results for the internal controls of the lead grantees did not identify any material weaknesses or reportable conditions related to those internal controls that would result in failing to meet the objective of expending and reporting expenditures according to the CHG guidelines and requirements

**Exhibit B**

**Schedule of Total Private For Profit Rental Housing Expenditures Sampled  
By Lead and Sub grantee  
for the Period Jan. 1, 2017 – Dec. 31, 2017**

<b>Lead</b>	<b>Sub grantee</b>	<b>Expenditures Sampled</b>	<b>Adjustments</b>	<b>Notes</b>
<b>Site Visits</b>				
Asotin County	Quality Behavioral Health	\$ 23,886.00	\$ -	
King County		-		
	Evergreen Treatment Services	41,543.65	-	
	Wellspring Family Services	36,085.42	-	
	MultiService Center	17,551.29	-	
Spokane County	Spokane County	20,762.95	-	
	Goodwill	9,348.84	-	
	YWCA	11,904.00	200.00	a
Thurston County		-		
	Sidewalk	1,160.25	-	
	Family Support Center	35,861.00	-	
Walla Walla County				
	Blue Mountain Action Council	10,829.00	1,478.57	b
Whitman County	Community Action Center	6,201.19	-	
Yakima County				
	Catholic Charities of the Diocese of Yakima	3,854.50	-	
	Yakima Neighborhood Health Service	6,635.00	-	
	Northwest Community Action Center	19,636.00	1,431.60	c
<b>Desk Reviews</b>				
Grant County				
	Housing Authority of Grant County	8,306.01	-	
Mason County	Crossroads Housing	3,447.96	-	
Skagit County	Community Action of Skagit Count	1,200.00	-	
Wahkiakum County	Wahkiakum Co Health and Human Services	9,117.68	-	
<b>Total Sampled Expenditures</b>		<b>\$ 267,330.74</b>	<b>\$3,110.17</b>	

**Notes to Exhibit B - Schedule of Total Private For Profit Rental Housing Expenditures  
Sampled By Lead and Subgrantee**

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- a. YWCA (Spokane County) This grantee incurred and reported \$200.00 for housing inspection services. These costs were charged to the for-profit rent category but should have been charged to other budget categories.
- b. Blue Mountain Action Council (Walla Walla County) This subgrantee included \$1,478.57 of expenditures made to the nonprofit owned properties.
- c. Yakima Valley Conference of Governments (Yakima County). This lead grantee invoiced CHG for \$1,431.60 that was originally invoiced by its subgrantee, Northwest Community Action Center, to the Emergency Service Center Grant (ESG). The ESG funding was converted to CHG funding by the lead grantee without the subgrantee's knowledge.