



## **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, 2016**

**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 2016 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, 2016, through Dec. 31, 2016. 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 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.

Agreed-Upon Procedure	Results
<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.
<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>Obtain background and source documents including:</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 a description of the supporting documentation required from lead grantees and subgrantees to support the invoice from Commerce.
<b>Perform an assessment of internal control over the data and data systems:</b>	
<ul style="list-style-type: none"> <li>Document the systems and procedures used to record document recording fees.</li> </ul>	The appropriation is made by the Legislature and recorded 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>Perform an assessment of receipts to assure completeness and accuracy:</b>	
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"> <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 total document fee revenue for Private For Profit Rental Housing under RCW 36.22.179(1)(b).
<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, 2016, through Dec. 31, 2016. Therefore, no allocation was made and no review was necessary.

Agreed-Upon Procedure	Results
<ul style="list-style-type: none"> <li>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.</li> </ul>	We traced the amount reported by OFM of \$19,890,656 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 \$7,456,012 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: <ul style="list-style-type: none"> <li>A stratification of the lead grantees (local governments, contractors and housing providers) into strata that take into consideration geographic location, median income and population served.</li> <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> <li>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 sub grant relationship, etc.).</li> </ul> </li> </ul>	We selected a judgmental sample using a data driven, risk-based approach as well as the criteria specified in the statute. Data included 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 to obtain a balanced distribution. 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. As a result, seven counties throughout Washington were identified, including local governments, contractors and housing providers that are geographically and demographically

Agreed-Upon Procedure	Results
	diverse. Within these seven counties, we selected 13 lead and/or subgrantees to test internal controls and expenditures, as applicable.
<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 notified the sampled lead and subgrantees of the onsite visit. We informed the lead grantees of the documents to be provided.</p>
<ul style="list-style-type: none"> <li> <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> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>a description of the systems used for accounting and monitoring.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>accounting policies and procedures for grant funds (and subgrantees)</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>sub grantee procurement policies</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>sub grantee monitoring policies</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>reports submitted by sub grantee accounting for grant funds.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>documentation to support sub grantee expenditures and monitoring.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>accounting reports used to prepare the county annual report or other report submitted to Commerce.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>reconciliations necessary to reconcile reports to the accounting system.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>Conduct site visits. Meet with designated officials to discuss the grant, the sub grantee 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 sub grantee 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 both the Consolidated Homeless Grant (CHG). Our procedures included reconciling the costs from the sub grantee'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.</p>

Agreed-Upon Procedure	Results
<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 both 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 \$19,890,656. 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 \$5,298,475. We adjusted these payments by \$9,444, reducing the total to \$5,289,031. See Exhibit A.
<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 32 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>	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 forty-five 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 December 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 final months of a contract. Since the examination period of the current audit does not align with the end of the contracts, which expire June 2017, lower expenditures would be expected until the final months during contract closeouts.
<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



Agreed-Upon Procedure	Results
	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 statute.
<b>Prepare Deliverables:</b>	
<ul style="list-style-type: none"> <li>• Prepare a draft report summarizing the: <ul style="list-style-type: none"> <li>○ Assessment of Internal Controls, including those internal controls at the sub grantee level and the monitoring of those controls by Commerce or OFM</li> </ul> </li> </ul>	We reviewed and assessed the internal controls and procedures in place at Commerce, lead grantee 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 sub grantee.
<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 sub grantee.
<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 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"> <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</li> </ul>	We provided sufficient time for OFM, Commerce and the landlord representatives to review the draft

Agreed-Upon Procedure	Results
draft report and provide comments or additional information for consideration.	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>	We incorporated all comments and information as appropriate and updated the draft 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 to private for profit rental housing were overstated by \$9,444. 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 due to legislative provisos.) Detailed adjustments have been made in the Notes to Schedule of Total Expenditures Sampled/Examined by lead grantee (County) and sub grantee (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*

Reed & Associates, CPAs, Inc.  
Centerbrook, CT  
June 30, 2017



## EXECUTIVE SUMMARY

Reed & Associates, CPAs, Inc. performed an independent examination of the private housing expenditures made for the period Jan.1, 2016, through Dec. 31, 2016, 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. 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 examination.

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 50 percent of the document fees for private rental housing.

We noted that the grant 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. Since the examination period of the current audit does not align with the end of the contracts, which expire June 2017, lower expenditures would be expected until the final months during contract close-outs.

The following table was provided 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.

<b>2015 – 2017 Biennium</b> <b>July 2015 – June 2017</b> <b>Appropriations to Commerce Homeless Programs</b>	
<b>10B \$35,023,000</b> <b>15A \$7,500,000</b> <b>TOTAL: \$42,523,000</b>	
<b>FY 16 July 2015 - June 2016</b> <b>Appropriations <i>subject to the</i> set aside for</b> <b>Private Rental Housing</b> <ul style="list-style-type: none"> <li>• 15A \$3,751,000</li> <li>• 10B(150) \$2,500,000</li> <li>• 10B (JC0) \$3,506,000</li> </ul> <b>Total: \$9,757,000</b>	<b>FY 17 July 2016 - June 2017</b> <b>Appropriations <i>subject to the</i> set aside for</b> <b>Private Rental Housing</b> <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> <b>Total: \$12,701,000</b>

<p align="center"><b>2015-2017 Biennium Percent Set Aside for Private Rental Housing</b></p> <p align="center">52%</p>
<p align="center"><b>Calendar year 2016 Document Recording Fees Collected by State Auditor</b></p> <p align="center">Commerce <u>only</u> receives recording fee revenue during the biennial budget process.</p> <p align="center">\$19,890,656</p>
<p align="center"><b>Document Fees <u>subject to set aside requirement</u> contracted between January 2016 – June 2017 (18 month contract period)</b></p> <p align="center">\$ 15,299,099</p>
<p align="center"><b>Document Fees <u>subject to set aside requirement</u> contracted between January 2016 – June 2017 set aside for Private Rental Housing expenditures</b></p> <p align="center">\$8,242,186</p>
<p align="center"><b>Percent Set Aside for Private Rental Housing</b></p> <p align="center">54%</p>
<p align="center"><b>Document Fees <u>subject to set aside requirement</u> expended between January 2016 – December 2016</b></p> <p align="center">\$ 6,911,489</p>
<p align="center"><b>Document Fees expended between January 2016 – December 2016 on Private Rental Housing expenditures*</b></p> <p align="center">\$5,298,475</p> <p align="center">Audit Adjustment (\$9,444)</p> <p align="center">Adjusted: \$5,289,031</p>
<p align="center"><b>Percent Expended for Private Rental Housing between January 2016 – December 2016 on Private Rental Housing expenditures</b></p> <p align="center">76%</p>

**\*Contract cycle spanning Calendar Year 2016. For Profit Examination January 2016 – June 2017, therefore all fees not expended in Examination period.**

We also determined, with the exception of \$9,444 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.

## **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 2016.

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.<sup>1</sup>

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.

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

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.
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, 2016, through Dec. 31, 2016, and determined that Commerce performs a risk assessment of the grantees based on six categories captured on the CHG monitoring form. The categories are:

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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.

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

Commerce uses the risk assessment results and the lead grantee and sub grantee 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**

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 50 percent of the document fees for private rental housing expenditures.

We also determined, with the exception of \$9,444 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 32 percent.

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 Jan. 1, 2016 – Dec. 31, 2016

	Reported	Adjustments	Adjusted	Notes
<b>Document Fees Collected</b>	\$19,890,656	-	\$19,890,656	1
<b>Department of Commerce Administrative Fees</b>	3,321,740	-	3,321,740	2
<b>Amount To Be Set Aside for Private Rental Housing</b>	7,456,012	-	7,456,012	3
<b>Private Rental Housing Expenditures</b>	\$5,298,475	\$9,444	\$5,289,031	4

#### Notes to Statement of Revenue and Expenditures

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1. Document recording fees collected for the period Jan. 1, 2016, through Dec. 31, 2016, 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 50 percent of the revenue after maximum administrative fees.
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 were approximately 32 percent after adjustments.



We selected a risk-based, judgmental sample of lead grantees and subgrantees that are geographically and demographically diverse to test expenditures made from Jan. 1, 2016, to Dec 31, 2016, 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, 2016 – Dec. 31, 2016</b>	
<b>County</b>	<b>Private Housing Expenditures</b>
Asotin	\$120,580.69
Benton, Franklin	154,172.95
Chelan, Douglas	61,223.33
Clallam	99,204.59
Clark	160,856.85
Columbia, Garfield	38,802.44
Cowlitz	86,400.43
Ferry	22,684.22
Grant	51,414.66
Grays Harbor	195,994.79
Island	37,334.02
Jefferson	37,902.00
King	1,566,574.49
Kitsap	120,562.50
Kittitas	56,873.06
Klickitat	20,256.92
Lewis	97,391.57
Lincoln	27,301.98
Mason	75,140.22
Okanogan	140,759,.61
Pacific	36,350.23
Pend Oreille	18,244.749
Pierce	218,618.59
San Juan	20,050.00
Skagit	38,482.76
Skamania	27,081.45
Snohomish	818,809.04
Spokane	236,157.89
Stevens	58,596.37
Thurston	171,087.25
Wahkiakum	48,304.75
Walla Walla	73,251.02
Whatcom	153,586.18
Whitman	62,172.78
Yakima	146,251.36
<b>Total – All Counties</b>	<b>\$5,298,475.48</b>

We selected 13 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 procedures to examine internal controls over expenditures and

the reported expenditures for calendar year 2016 under the CHG. We selected lead and/or subgrantees to test internal controls and expenditures, where applicable, as follows:

Benton Franklin County:

- Department of Human Services
- Community Action Committee

City of Spokane:

- Catholic Charities
- Spokane Neighborhood Action Partners

Clallam County:

- Serenity House

Grays Harbor County:

- Coastal Community Action Program

King County:

- Solid Ground
- Valley Cities Counseling and Consultation

Pierce County:

- Share and Care House
- Exodus Home
- Associated Ministries

Yakima County:

- Northwest Community Action Center
- Yakima Neighborhood Health Services

The expenditures reported by these counties' grantees, 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.

**Exhibit B**

**Schedule of Total Private For Profit Rental Housing Expenditures Sampled  
By Lead and Sub grantee  
for the Period Jan. 1, 2016 – Dec. 31, 2016**

Lead	Sub grantee	Expenditures Sampled	Adjustments	Notes
<b>Site Visits</b>				
Benton Franklin Counties				
	Department of Human Services	\$11,224	\$2,967	a
	Community Action Committee	20,501		
		31,725		
City of Spokane				
	Catholic Charities	28,811		
	Spokane Neighborhood Action Partners	35,859		
		64,670		
Clallam County				
	Serenity House	15,571		
Grays Harbor County				
	Coastal Community Action Program	25,722		
King County				
	Valley Cities Counseling and Consultation	40,011		
	Solid Ground	46,078	2,727	b
		86,089		
Pierce County				
	Share and Care House	2,217		
	Exodus Home	19,825	3,163	c
	Associated Ministries	21,923		
		32,086		
Yakima County				
	Northwest Community Action Center	11,274		
	Yakima Neighborhood Health Services	10,639	587	d
		21,913		
<b>Total Sampled Expenditures</b>		<b>\$ 289,655</b>	<b>\$9,444</b>	

**Notes to Schedule of Total Private For Profit Rental Housing Expenditures Sampled  
By Lead and Sub grantee**

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- a. Department of Human Services (Benton Franklin). This grantee incurred and reported \$2,697 for utility payments and deposits made to a city and a local utility district, a Government and Not for Profit entities. These costs were charged to the for profit category but should have been charged to other budget categories.
- b. Solid Ground (King County) This sub grantee included \$2,727 of expenditures made to the nonprofit owned properties.
- c. Exodus House (Pierce County) This sub grantee included \$3,163 of expenditures made to a nonprofit owned property.
- d. Yakima Neighborhood Health Services (Yakima County). This sub grantee included \$587 of expenditures made to the Yakima Housing Authority, a government entity.

## **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 20, 2017, to discuss the results presented in the draft report. All comments received from Commerce were considered and incorporated into the final report. The comments received from the landlord representatives are included in their entirety below.



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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). The Rental Housing Association of Washington (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.

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 future funding mechanisms of RCW 36.22.179, RHA believes it is critical that the Reed Report contain a detailed explanation of sampling methodology.

RHA is also concerned that the Reed Report explicitly states that any monies that were not appropriated to private rental housing payments at the time of the report, remain set-aside and unused in the fund. While there are understood difficulties, known by all stakeholders, in aligning fiscal and calendar years alongside two-year grant cycles, it is critical that the report defines and accounts for any shortfalls

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accurately. According to the Reed Report, the total monies set aside by Commerce in the 2016 calendar year equaled \$7,456,012, with only \$5,289,031 being reported by lead grantees as expended to private rental housing payments. It is RHA's belief that the unused monies should be specifically accounted for in both the 2017 report, and in considering the methodology of future reports. While the term 'shortfall' may not best describe the unused monies in the context of the fiscal year, the Reed Report should accurately state the current expenditures at the time of reporting, and should not speculate on future use.

RHA understands that accurate and complete data obtained from this and other auditing requirements set out in statute 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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