TENNESSEE COMPTROLLER OF THE TREASURY

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE HOUSING DEVELOPMENT AGENCY

Performance Audit Report

May 2017

Justin P. Wilson, Comptroller

Division of State Audit
Sunset Performance Section

DEBORAH V. LOVELESS, CPA, CGFM, CGMA
Director

JOSEPH SCHUSSLER, CPA, CGFM
Assistant Director

DENA W. WINNINGHAM, CGFM
Audit Manager

Mason Ball, CPA, CFE, CGFM
Alan Hampton
In-Charge Auditors

Fonda Douglas
Staff Auditor

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Suite 1500, James K. Polk State Office Building
505 Deaderick St.
Nashville, TN 37243-1402
(615) 401-7897

Reports are available at
www.comptroller.tn.gov/sa/AuditReportCategories.asp

Mission Statement
The mission of the Comptroller's Office is to make government work better.

Comptroller Website
www.comptroller.tn.gov

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

May 15, 2017

The Honorable Randy McNally
Speaker of the Senate
The Honorable Beth Harwell
Speaker of the House of Representatives
The Honorable Mike Bell, Chair
Senate Committee on Government Operations
The Honorable Jeremy Faison, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Ralph Perrey, Executive Director
Tennessee Housing Development Agency
Andrew Jackson Building, Third Floor
502 Deaderick Street
Nashville, TN 37243

Ladies and Gentlemen:

Transmitted herewith is the sunset performance audit of the Tennessee Housing Development Agency. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated.*

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the agency should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

16234

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Performance Audit

Tennessee Housing Development Agency

May 2017

AUDIT FINDING

The Tennessee Housing Development Agency did not have formal written operating procedures for and did not monitor the Community Investment Tax Credit program

The only documentation for administering and monitoring the Community Investment Tax Credit program is the program summary located on the program website. The agency did not have any formal written procedures, rules, or regulations in place for the program. It also did not require tax credit recipient agencies to submit progress reports or completion reports as required by the program guidelines or visit project sites to determine a project's progress, completion, or compliance with program guidelines (page 6).

OBSERVATIONS

The audit also discusses the following issues: monitoring procedures for the Weatherization Assistance Program; monitoring efforts for the Low-Income Home Energy Assistance Program; the impact of the Low-Income Housing Tax Credit on the availability of affordable housing; and THDA policies and procedures for the Hardest Hit Fund – Blight Elimination Program.

Performance Audit
Tennessee Housing Development Agency

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Purpose and Authority for the Audit	1
Organization and Statutory Responsibilities	1
AUDIT SCOPE	4
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	4
Community Programs – Community Investment Tax Credit Program	4
Finding – THDA did not have formal written operating procedures for and did not monitor the Community Investment Tax Credit program	6
Section 8 Rental Assistance Program	8
Weatherization Assistance Program	14
Observation 1 – THDA has implemented monitoring procedures for the Weatherization Assistance Program, yet completed projects often fail to meet technical standards	15
Low-Income Home Energy Assistance Program	16
Observation 2 – LIHEAP monitoring efforts are limited due to data reliability issues and under-sampling, which may impair THDA's ability to know if applicants are waiting beyond the allowable time frame for benefit distribution	17
Multifamily Programs	19
Observation 3 – Impact of Low-Income Housing Tax Credit on the availability of affordable housing	20

TABLE OF CONTENTS (CONT.)

	Page
Hardest Hit Fund – Blight Elimination Program	21
Observation 4 – THDA has successfully implemented policies and procedures designed to effectively administer the Blight Elimination Program	22
APPENDIX	23
Actual, Estimated, and Recommended Revenue and Expenses	23

Performance Audit
Tennessee Housing Development Agency

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Tennessee Housing Development Agency was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*. Under Section 4-29-239, the Tennessee Housing Development Agency is scheduled to terminate June 30, 2018. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the agency should be continued, restructured, or terminated.

ORGANIZATION AND STATUTORY RESPONSIBILITIES

The Tennessee Housing Development Agency (THDA) was created in 1973 by Section 13-23-101, *Tennessee Code Annotated*. THDA is responsible for promoting the production of more affordable new housing units for very low-, low-, and moderate-income individuals and families in Tennessee; promoting the preservation and rehabilitation of existing housing units; and bringing greater stability to the residential construction industry and related industries. THDA works closely with lenders; real estate professionals; builders; and nonprofit and for-profit developers and planners to help communities serve the housing needs of their constituents. THDA finances mortgage loans for moderate-income homebuyers, most looking for their first home. THDA also administers eight federal programs (see listing of federal programs on page 2) for households in the State of Tennessee. (See THDA's organization chart on page 3.)

Section 13-23-105, *Tennessee Code Annotated*, designates that the agency's executive director is hired by and reports to a board of directors. According to Sections 13-23-106 and 107, *Tennessee Code Annotated*, the board is composed of the following 15 individuals:

- an at-large member appointed by the Governor,
- a homebuilding professional,
- a mortgage banker,
- a Speaker of the House appointee,
- a Section 8 resident (federal requirement),
- a real estate broker,
- a member of a nonprofit organization,

- a member of a local public housing agency,
- a local government representative,
- a Speaker of the Senate appointee,
- a designee within the Governor's office,
- the Commissioner of Finance and Administration,
- the Secretary of State,
- the State Treasurer, and
- the Comptroller of the Treasury.

The Governor's designee, the Commissioner of the Department of Finance and Administration, the Secretary of State, the State Treasurer, and the Comptroller of the Treasury all serve ex-officio roles—other board members are appointed to serve a term of four years and cannot serve more than two consecutive terms, unless one term is an appointment to fill an unexpired term with less than two years remaining (Section 13-23-108, *Tennessee Code Annotated*). Section 13-23-112, *Tennessee Code Annotated*, also requires the board to create an Audit and Budget Committee.

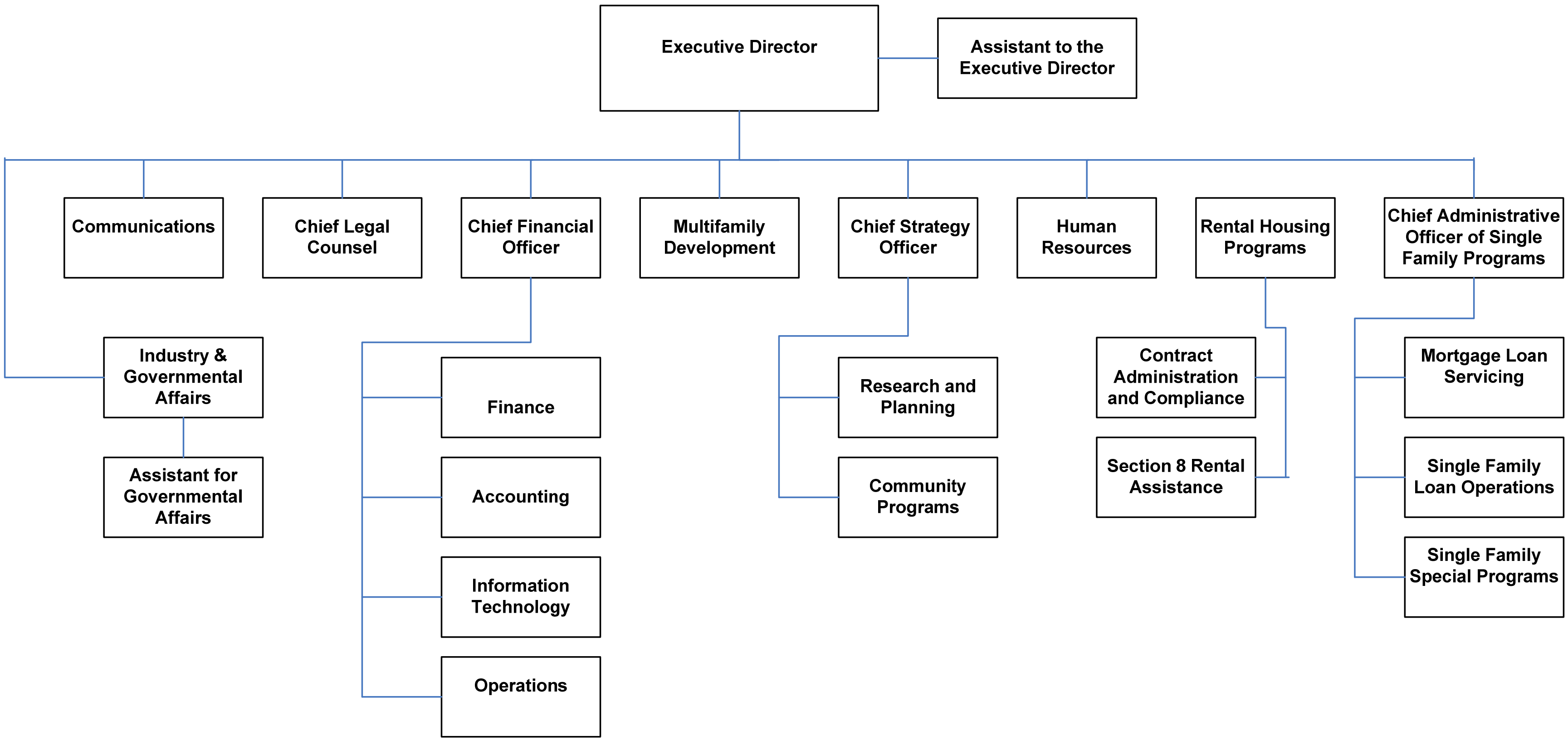
THDA administers the following federally funded programs:

Federal Program	Responsible Federal Agency
Low-Income Housing Tax Credit	Department of the Treasury – Internal Revenue Service
Section 8 Housing Choice Voucher	Department of Housing and Urban Development
Multifamily Contract (project-based program)	Department of Housing and Urban Development
Weatherization Assistance Program	Department of Energy
Low-Income Home Energy Assistance Program	Department of Health and Human Services
HOME Program (pass-through grant)	Department of Housing and Urban Development
Emergency Shelter (grants)	Department of Housing and Urban Development
Hardest Hit Fund – Blight Elimination Program	Department of the Treasury

THDA has also created programs funded by earnings from its mortgage portfolio such as the Housing Trust Fund and Community Investment Tax Credit program. The Housing Trust Fund supports programs such as the Competitive Grants Program; the Emergency Repair Program; the Housing Modification and Repair Program (administered by United Cerebral Palsy of Middle Tennessee); and the Rebuild and Recover Program.

As of April 2017, THDA had 227 employees located in the central office in Nashville and four field offices (Cookeville, Nashville, Lewisburg, and Jackson). THDA funding sources and expenses are presented in the Appendix on page 23.

Tennessee Housing Development Agency
Organization Chart as of February 16, 2017



Source: Tennessee Housing Development Agency.

AUDIT SCOPE

We audited the agency's activities for the period January 1, 2010, to February 28, 2017. Our audit scope included a review of internal controls and compliance with laws, regulations, and provisions of contracts or grant agreements that are significant within the context of the audit objectives. Management of the Tennessee Housing Development Agency is responsible for establishing and maintaining effective internal controls and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient, appropriate audit evidence to support the conclusions in our report. We present more detailed information about our methodologies in the individual report sections.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The General Assembly has designated the Comptroller of the Treasury both to serve as a board member of and to audit the agency. We do not believe the Comptroller's service as a board member affected our ability to conduct an independent audit.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

COMMUNITY PROGRAMS – COMMUNITY INVESTMENT TAX CREDIT PROGRAM

The Community Investment Tax Credit program was established in Section 67-4-2109(h), *Tennessee Code Annotated*. Financial institutions may obtain a credit against their franchise and excise tax liability when they extend qualified loans, qualified investments, grants, or contributions to eligible housing entities for engaging in eligible low-income housing activities. The dollar-for-dollar tax credit is received either one time (based on the initial amount of the loan, investment, grant, or contribution) or received annually (based on the unpaid principal of the loan at December 31). Characteristics of eligible investments and options to receive the tax credit are listed in Table 1, while eligible housing entities and activities are listed in Table 2.

Table 1
Community Investment Tax Credit Program
Eligible Investments and Credit Amounts

Eligible Investments	Credit Amount
Qualified loan (2% below prime rate)	5% credit applied one time or 3% credit applied annually to unpaid principal balance as of December 31 of each year for the life of the loan or 15 years, whichever comes first
Qualified investment (longer than 5 years)	5% credit applied one time
Qualified low-rate loan (4% below prime rate)	10% credit applied one time or 5% credit applied annually to unpaid principal balance as of December 31 of each year for the life of the loan or 15 years, whichever is earlier
Grant or contribution (any amount)	10% credit applied one time

Source: Tennessee Housing Development Agency.

For example, if a financial institution negotiated a $100,000 qualified low rate loan at 4% below prime, the financial institution could 1) take a one-time 10% tax credit of $10,000 against its state franchise and excise tax or 2) take an annual 5% tax credit on the loan principal at December 31 over the life of the loan or 15 years, whichever comes first.

Table 2
Community Investment Tax Credit Program
Eligible Housing Entities and Activities

Eligible Housing Entities	Eligible Activities
Tennessee-based non-profit organizations with an *Internal Revenue Code* 501(c)(3) status	Activities that create or preserve affordable housing for low-income Tennesseans (those who are at or below 80% of the area median income as adjusted for family size).
Public housing authorities	Activities that assist low-income Tennesseans in obtaining safe and affordable housing.
Development districts	Activities that build the capacity of an eligible nonprofit organization to provide housing opportunities for low-income Tennesseans.
Tennessee Housing Development Agency	Any other low-income housing-related activity approved by the THDA Executive Director and the Commissioner of the Department of Revenue.

Source: Tennessee Housing Development Agency.

The program is administered in cooperation with the Tennessee Department of Revenue. The Tennessee Housing Development Agency (THDA) certifies the housing entity and activity as eligible to receive the tax credits, and the Department of Revenue awards the tax credits to the financial institutions. THDA requires the eligible housing entity to maintain records to document the availability of affordable housing opportunities.

According to data from the Department of Revenue, 43 taxpayers used $8,248,491 in tax credits in calendar year 2014, and 48 taxpayers used $9,222,516 in tax credits in calendar year 2015.

Our audit objective was to evaluate the administration of the Community Investment Tax Credit program. Specifically, we reviewed

- the process for granting the tax credits to developers and financial institutions;
- the interagency relationship between THDA and the Department of Revenue;
- how the amount of the tax credit is determined and how long it is available; and
- how THDA monitors projects awarded tax credits and the type of reports developers submit to THDA.

We reviewed relevant statutes, policies and procedures, and reports related to the program. We interviewed THDA and Department of Revenue staff. In addition, we performed a file review of documents submitted with the application and as part of program monitoring.

Finding

THDA did not have formal written operating procedures for and did not monitor the Community Investment Tax Credit program

Written Procedures

The only documentation for administering and monitoring the Community Investment Tax Credit program is the program summary located on the website. THDA did not have any formal written procedures, rules, or regulations for the program. THDA staff responsible for the program completed draft procedures on September 24, 2014, and submitted them to the agency's legal section, but legal staff did not review the draft procedures because of other priorities. The lack of written detailed procedures contributed to the agency's failure to monitor program participants.

Program Monitoring

According to the program summary, each recipient agency is required to submit scheduled progress reports to THDA on its approved activity. THDA informs the recipient agency of the required reporting schedule upon certification, and the recipient must submit a completion report to THDA within 30 days of the project's completion. THDA did not require recipients to submit progress or completion reports until November 2016 and December 2016, after auditors requested the documents during audit field work (October 2016) and 11 years after the program began in 2005. THDA management cited staffing shortages as the reason for not requiring recipients to submit these forms. THDA now requires recipients to submit an annual report, either a progress report or a completion report, by January 31 each year. As of April 2017, THDA management indicated that of the 62 projects approved in 2015, THDA received 52 reports. Management also indicated that THDA approved 38 projects in 2016 and received 31 reports.

THDA also does not visit project sites to determine a project's progress, completion, or whether it is compliant with program guidelines. Due to a lack of reporting and site visitation, THDA does not know whether a project is compliant, completed, or even in existence. Also, due to the failure to monitor projects, THDA has not decertified any organization that might be noncompliant with the program's guidelines.

Recommendation

THDA should adopt formal written procedures for operating and monitoring the Community Investment Tax Credit program, should make them available to the public and participating organizations, and should put them into practice. THDA should also improve program monitoring by requiring appropriate reports (progress or completion) from organizations that participate in the program, and by making site visits to active projects.

Management's Comment

We concur that formal operating procedures were not in place at the time of the review, but note that draft operating procedures have been used for program purposes and formal operating procedures for the Community Investment Tax Credit (CITC) will be finalized by July 31, 2017.

We concur that THDA has not monitored projects as fully as the Comptroller recommended and are taking measures to address this. Among these, THDA will include a desk monitoring of progress and completion reports submitted for the approved housing activity to determine compliance with CITC requirements. Additionally, THDA will further evaluate the Comptroller's suggestion to make site visits to active eligible activities as applicable and include in its policies any on-site monitoring steps determined to be feasible.

THDA took action to initiate this desk review process with the hiring of additional staff in August 2016 to work, in part, on CITC. To date, THDA has requested and received progress and completion reports for 86 of 100 CITC projects approved in 2015 and 2016. Further, eligible housing entities that have not responded to THDA's requests for these reports were suspended on May 4, 2017, from eligibility to participate in THDA programs until the requested reports are received.

SECTION 8 RENTAL ASSISTANCE PROGRAM

Section 8 Rental Assistance – Housing Choice Voucher – Tenant-based Application and Voucher Issuance Process

The Housing Choice Voucher program provides monthly rental assistance to eligible participants who are elderly, disabled, or of very low income. This program, funded entirely by the U.S. Department of Housing and Urban Development (HUD), enables households or individuals to obtain decent, safe, and sanitary housing by paying a portion of rental costs. Participants are able to find their own housing in the private market, including single-family homes, townhouses, and apartments. The Tennessee Housing Development Agency (THDA) pays the housing subsidy directly to the landlord on behalf of the participating household. The household then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program. THDA administers the voucher program in 72 Tennessee counties. The program is administered by other public housing authorities in the remaining counties, including Memphis/Shelby County, Nashville/Davidson County, Chattanooga, and Knoxville. As shown in Table 3 and according to program evaluations by HUD, THDA is performing above other public housing authorities within the State of Tennessee and across the nation in terms of percent of issued vouchers in use. During calendar years 2013 through 2015, THDA made rental assistance payments on 97% to almost 100% of the authorized vouchers allotted to THDA.

Table 3
U.S. Housing and Urban Development Housing Choice Voucher Data

Agency	Number of HUD-Authorized Vouchers	Number of Vouchers in Use	Percent of Authorized Vouchers in Use	Total Payments to Owners
Calendar Year 2013				
THDA	6,131	6,087	99.3%	$32,209,504
Tennessee*	35,979	34,508	95.9%	$196,549,537
National†	2,356,833	2,147,074	91.1%	$16,660,895,099
Calendar Year 2014				
THDA	6,131	5,933	96.8%	$31,912,750
Tennessee*	36,179	34,512	95.4%	$195,254,447
National†	2,388,491	2,112,516	88.8%	$16,332,760,552
Calendar Year 2015				
THDA	6,131	6,113	99.7%	$32,321,628
Tennessee*	36,280	34,703	95.7%	$193,550,833
National†	2,413,335	2,164,252	89.7%	$16,704,050,849

Source: Tennessee Housing Development Agency – Section 8 Rental Assistance.

*All public housing authorities in Tennessee including THDA.
†All HUD public housing authorities in the United States.

Individuals interested in the Housing Choice Voucher program must apply online when the waiting list is open for new applicants. Applying for the program online can occasionally present difficulties, such as if individuals live in rural communities where broadband/Internet access is limited, applicants are less familiar with computers, and/or have limited access to computers.

When each field office (Cookeville, Nashville, Lewisburg, or Jackson) is prepared to issue new vouchers, staff send letters to applicants on the waiting list notifying them to come to the field office and bring the documentation outlined in the letter. The applicants on the waiting list are ranked on factors such as locality, level of need, reason for lack of housing, and disability status. The field office staff conduct a group meeting and individual briefings with applicants to review the required documentation and HUD eligibility requirements. Eligible applicants have 14 days to turn in all required documentation to continue toward an award decision. The field office verifies the applicant's income and citizenship, and performs a criminal background check.

If an applicant is found eligible, field office staff mail the applicant a rent range letter that describes what type of housing the applicant qualifies for and must locate. If an applicant is determined to be ineligible, the applicant receives a denial letter that indicates the reason for ineligibility and the procedure to appeal the field office's decision. THDA annually purges the waiting list of individuals who are no longer interested in the program or have moved away from the field office's region.

Our audit objective was to assess the administration of the Section 8 Tenant-based Housing Choice Voucher Program. Specifically, we reviewed

- the application process;
- the briefing and eligibility determination process;
- the process of awarding a voucher;
- the process for finding a rental unit and calculating rental assistance;
- the process for rental unit inspection;
- the annual recertification process;
- continued participation in the program; and
- customer access to field office staff.

We reviewed THDA rules and regulations and HUD policies and procedures; conducted interviews with staff at the central office and four field offices (Cookeville, Nashville, Lewisburg, and Jackson); and reviewed reports related to the program. We also performed file reviews at each field office to focus on the length of time program participants spent on the voucher waiting lists. Except for the Middle Tennessee region, waiting time for a Section 8 housing voucher is generally less than one year.

We found the following results for the length of time applicants waited to receive Section 8 housing vouchers.

Table 4
Percent of Section 8 Voucher Applicants on Waiting List Less Than One Year by Region
Sample of Applicants
January 1, 2010, Through October 31, 2016

Region	Percent on Waiting List Less Than One Year
South Central Tennessee	82%
East Tennessee	64%
West Tennessee	50%
Middle Tennessee	29%

We obtained from THDA a list of applicants who received housing choice voucher payments between January 1 and October 31, 2016. We removed duplicates in the list and reduced the population from 90,773 to 6,626. We selected a random sample of 79 individuals to determine the time between applying for and receiving a voucher. Length of time on the waiting list by county within each region is detailed in Table 5. The largest number of individuals in the sample (28) was from the Middle Tennessee region, and the smallest (14) was from the East Tennessee region.

Only 14% of the individuals in the sample were on the waiting list more than one year before receiving vouchers. The Middle Tennessee region had 20 individuals in this category, and the West Tennessee region had 10. Of those who received vouchers, 43% of the individuals were from four counties: Montgomery (16%), Madison (10%), Maury (9%), and Knox (8%).

Table 5
Time on Housing Choice Voucher Waiting List by Field Office and County
Sample of Applicants
January 1, 2010, Through October 31, 2016

Time on Waiting List	**Number of Field Offices by County**			
	East Field Office	**Middle Field Office**	**South Central Field Office**	**West Field Office**
1 to 3 months	Hamblen (1) Knox (1) Putnam (3)	Sumner (1) Wilson (1) Montgomery (2)	Bedford (1) Coffee (1) Giles (1) Lincoln (1) Marshall (2) Maury (4)	Chester (1) Madison (2) Obion (1)
4 to 6 months	Loudon (1) Anderson (1)	Robertson (1) Sumner (1)	Marshall (1) Maury (1) Rutherford (1)	Haywood (1) Madison (4) Gibson (1)
7 to 9 months	Knox (1)	Robertson (2)	Warren (1)	
10 to 12 months	Knox (1)			
13 to 24 months (1 to 2 years)	Anderson (1) Knox (3) Putnam (1)	Montgomery (10) Sumner (2) Wilson (4)	Bedford (1) Maury (2)	Chester (1) Madison (1) Hardeman (1)
25 to 36 months (2 to 3 years)				Dyer (1) Madison (1) Tipton (3)
37 to 48 months (3 to 4 years)		Sumner (1) Montgomery (1)		Fayette (1) Hardeman (1)
More than 48 months (4 years)		Robertson (1) Sumner (1)		
Total (79 individuals)	**14**	**28**	**17**	**20**

Source: Data obtained from the THDA Section 8 Rental Assistance Elite data system.

Table 6
Time on the Housing Choice Voucher Waiting List by Calendar Year
Sample of Applicants
January 1, 2010, Through October 31, 2016

Time on Waiting List	**Number by Year**						
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1 to 3 months	3	--	9	1	7	--	3
4 to 6 months	3	--	6	--	1	3	--
7 to 9 months	--	--	2	--	--	1	1
10 to 12 months	--	--	--	--	--	1	--
13 to 24 months	--	1	7	5	8	--	6
25 to 36 months (1 to 2 years)	--	--	1	--	4	1	--
37 to 48 months (3 to 4 years)	--	--	--	1	1	--	1
More than 48 months (4 years)	1	--	--	--	--	--	1
Total	**7**	**1**	**25**	**7**	**21**	**6**	**12**

Source: Data obtained from the THDA Section 8 Rental Assistance Elite data system.

The majority of the 79 issued vouchers (58%) were issued in calendar years 2012 (32%) and 2014 (26%). In calendar year 2012, 17 of the 25 applicants (68%) were on the voucher waiting list for less than 9 months, and the remaining 8 were on the waiting list for more than 1 year. In calendar year 2014, 8 of the 21 applicants (38%) were on the waiting list 6 months or less, and the remaining 13 were on the waiting list for one to two years. Over the total time period reviewed, 41 of the 79 applicants (51%) were on the waiting list less than one year before receiving a voucher.

THDA staff mentioned several variables outside the agency's control that impact the ability to issue vouchers to applicants on the waiting list. These variables include

- unpredictable demand for a limited number of vouchers;
- attrition levels (number of individuals leaving the program) as the number of times an annual voucher can be renewed is not limited;
- technological changes (the shift from a paper process to a web-based process resulted in a larger applicant pool to process);
- dynamic market factors (potential oversaturation of vouchers in areas served by multiple public housing authorities or a lack of available affordable units within a region);

- federal funding pro-ration (HUD places a cap on the amount of administrative fees THDA can receive, limiting the number of vouchers they can service, with the cap based on the dollar volume of vouchers issued); and
- changes in federal program (new administration, HUD program changes, budget cuts).

Section 8 Rental Assistance – Project-Based Program Complaint Process

According to the Section 8 manual, THDA is required to operate a customer complaint call center that is available Monday through Friday from 8:00 a.m. to 4:30 p.m., Central Standard Time. Management stated that complaints received after weekday hours, on weekends, and on holidays are addressed when call center staff return to work during normal office hours. We reviewed complaints classified as either life-threatening (cessation of essential services; air quality; and electrical hazards, elevator issues, emergencies, fire hazards, and miscellaneous hazards) or non-life-threatening (maintenance, air quality, garbage and debris, infestation, and security issues). Staff are required to respond to life-threatening complaints within one hour and non-life-threatening complaints within 48 hours during scheduled office hours. The complaint section maintains a customer complaint log that is submitted to HUD monthly.

Our audit objective was to assess the complaint process for the Section 8 Rental Assistance – Project-Based Program. Specifically, we reviewed

- the customer's responsibility to resolve issues before contacting the THDA hotline;
- the process THDA follows when a complaint is received, assigned, and closed;
- the difference between life-threatening and non-life-threatening complaints; and
- the hotline's availability during non-business hours, weekends, and holidays.

We reviewed rules and regulations, conducted interviews, reviewed monthly complaint logs, and observed the complaint call center area. We also reviewed THDA correspondence sent during complaint resolution.

Call center staff send response letters to all appropriate parties to verify the resident's satisfaction with the property owner or agent's response. Certified letters are mailed after the THDA specialist has made at least two attempts to speak with the resident with no response. The certified letter gives individuals 14 days to respond to the specialist, or the complaint is closed due to no response. When the call center receives confirmation from both parties (or the best that can be accomplished), staff send a resolution letter to the resident and owner or agent. Before the resolution letter is sent, call center staff follow up with the resident to confirm the issues have been resolved.

We reviewed the monthly customer complaint logs for the time period January through September 2016. The complaint logs documented communication between THDA, the complaining resident, and the owner or agent of the specific property. THDA presented documentation of resolution letters or certified letters mailed to the appropriate parties (the resident and the owner or agent of the property). As a result of our review, we did not identify any issues.

Weatherization Assistance Program

The Weatherization Assistance Program (WAP) was established under Title IV of the Energy Conservation and Production Act and amended by the National Energy Conservation Policy Act of 1976, the Energy Security Act of 1980, the Human Services Reauthorization Act of 1984, and the State Energy Efficiency Programs Improvement Act of 1990. The program is administered and funded at the federal level by the U.S. Department of Energy. This program is designed to assist low-income households in reducing their fuel costs and to contribute to national energy conservation through increased energy efficiency and consumer education. Weatherization measures provided by this program will reduce heat loss and energy costs by improving the thermal efficiency of dwellings occupied by low-income households.

The Tennessee Housing Development Agency (THDA) acts as the grantee agency in its administration of WAP, which transferred to THDA from the Tennessee Department of Human Services in July 2012. THDA has designated 15 subgrantee agencies across the state to administer the program in the 95 counties. There is only one subgrantee agency selected for each county. Subgrantee agencies currently administering WAP are given preference for renewal, provided the agencies continue to meet performance and quality standards. All subgrantee agencies contract out the actual weatherization work rather than operating agency crews to perform the work.

THDA allocates weatherization funds to subgrantees annually based on the relative need for weatherization assistance by low-income households. Allocations are based on the percentage of the low-income population in each county and a maximum individual award of $7,105 per unit. This amount must include all materials and labor for energy conservation measures; related incidental repairs; and health and safety items. This amount is a maximum, but it does not mean that each unit is entitled to that amount of work. Before any weatherization work takes place, each unit must have a pre-energy audit conducted by an approved weatherization energy auditor, who evaluates a home's condition and outlines improvements to its energy efficiency, health, safety, and durability. Each unit is unique, and the work to be performed is determined through the energy audit.

Once an application for WAP has been approved, the case is added to a waiting list and sorted in order of priority. Cases are removed from the waiting list as they are selected for service or closed for other reasons.

Our audit objective was to evaluate THDA's administration of the Weatherization Assistance Program. We performed procedures to

- determine the status of steps taken to address the findings listed in the most recent Department of Energy Monitoring Report;
- describe the application, administration, and monitoring processes for the program by identifying and describing the roles of THDA and other involved entities;
- obtain quality assurance reports submitted to THDA to determine trends and common problems;
- determine how often problems were discovered and corrective actions were required;

- determine descriptive statistics on projects for the last two years; and
- assess the adequacy of waiting list management and determine if policies and procedures were followed.

Based on a review of policies and procedures and documentation, as well as interviews with staff, we determined that monitoring provides sufficient oversight for the program, yet projects often do not meet technical standards.

Observation

1. THDA has implemented monitoring procedures for the Weatherization Assistance Program, yet completed projects often fail to meet technical standards

THDA monitoring and oversight efforts of WAP include annual on-site program and fiscal reviews; annual post-inspections of 5% of completed projects; annual subrecipient monitoring in compliance with Central Procurement Office policy; THDA subgrantee reporting to the Department of Energy; and subgrantee requirements to provide a written corrective action plan to address all identified findings and concerns.

We reviewed all 9 of the most recent 2016 Quality Assurance Reports of completed WAP projects. These reports were conducted by a Department of Energy third-party contractor and included a random sample of 4 completed projects from each of the 9 agencies under review, for a total of 36 projects. Analysis of the results showed that only a small number of completed projects (17%) contained what inspectors considered "major" errors; 33% had health and safety concerns; but the large majority (81%) required some degree of rework or adjustments to meet inspection standards. (See below.) Examples of problems requiring rework found during the inspections include

- inadequate markings on a water heater blanket;
- substandard air duct sealing and insulation barrier;
- smoke alarm installation needed;
- ventilation fans not meeting air circulation specifications;
- a thermal expansion tank needed for a water heater;
- spillage of flue gases around a water heater;
- insulation not secured properly;
- faulty storm window sealing; and
- insufficient vapor barrier coverage in a crawlspace.

If rework is required, the contractor must complete the identified corrective action(s) before the work can be considered complete. The quality control inspector then reinspects the job and notifies THDA by submitting an invoice for reimbursement. THDA staff stated that they have taken steps to focus on the common deficiencies that appear in quality assurance reports—including additional contractor and inspector technical assistance and training.

We analyzed the 2016 programmatic reviews for all 15 subcontracting agencies. Based on our analysis, THDA inspectors consistently followed policies and procedures for monitoring and review, and we found no other major problems. We also found no evidence suggesting problems with the management of the waiting list or the prioritization of applicants. Cumulative data from 2014 to 2016 showed the completion of 436 jobs, amounting to $2,005,932. THDA has also taken steps to address the findings from the October 2015 Department of Energy on-site monitoring visit. The Department of Energy is expected to return in the spring of 2017 for another on-site review.

Weatherization Assistance Program
Yearly Project Averages from July 1, 2014, Through June 30, 2016

Completed Projects	Average Project Cost	Average Length of Project
218	$4,600	146 Days

Source: THDA Sr. Housing Program Coordinator – WAP/LIHEAP.

THDA should take measures to ensure that weatherization projects adhere to the required technical and safety specifications and that inspectors have sufficient training and knowledge to effectively review the work. THDA should also consider increasing the number of quality assurance reviews and focusing on agencies with repeated installation problems that require rework. These steps should enhance THDA's ability to effectively monitor the program and improve the quality of weatherization projects.

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM

The Tennessee Housing Development Agency (THDA) administers the Low-Income Home Energy Assistance Program (LIHEAP) funded by the U.S. Department of Health and Human Services. The program was transferred to THDA from the Tennessee Department of Human Services in 2013 and is designed to assist eligible low-income households in meeting their immediate home energy needs. The level of energy assistance and priority position are based on the applicant's energy burden, income, and size of household, as well as the presence of vulnerable household members (such as the frail elderly, individuals with disabilities, and young children).

The allocation and distribution of LIHEAP funds are based on a statewide percentage of poverty, and each county is given a certain percentage based on its poverty ranking. THDA sends these funds to local contract agencies, which provide assistance to eligible households under the program. Because LIHEAP is a block grant, the state is afforded the flexibility to plan and design the energy and weatherization assistance services to best meet the needs of

Tennessee's low-income households. Nineteen subgrantees across the state administer the program—including nine community action agencies, four local government entities, and six human resource agencies (see Table 6). The responsibilities of the subgrantees include performing outreach activities, accepting applications, determining eligibility, maintaining records, processing appeals, monitoring, and paying benefits.

Our audit objective was to evaluate LIHEAP's oversight and monitoring efforts.

The LIHEAP manual requires agencies to distribute funds for regular assistance applications within 90 calendar days; crisis assistance funds within 48 hours; and crisis assistance funds for life-threatening situations within 18 hours. THDA conducts program monitoring annually for each of the 19 subgrantee agencies. This includes on-site visits to assess compliance with eligibility requirements, administration of the application process, and benefit distribution. The program monitor administers a questionnaire and checklist on each site visit and selects a random sample of files—including 25 regular applications, 5 crisis applications, and 5 denial applications—to review policy compliance and administration performance.

Based on our analysis of annual program monitoring reports and documentation, application processing data, and interviews with program staff, we found adherence to policies and procedures; consistent and completed documentation efforts; sufficient waiting list management practices; and the issuance of corrective action plans to address identified weaknesses. However, there were some concerns with the timely issuance of benefits.

Observation

2. LIHEAP monitoring efforts are limited due to data reliability issues and under-sampling, which may impair THDA's ability to know if applicants are waiting beyond the allowable time frame for benefit distribution

Based on a review of completed fiscal year 2016 program monitoring reports, THDA did not identify benefit distribution delays for LIHEAP applicants. Yet our analysis of statewide LIHEAP data suggests that payments to recipients were not always timely and that THDA may have limited its effective monitoring of the subgrantee agencies.

When we began our analysis, THDA had completed program reviews for only 8 of the 19 agencies that administered LIHEAP for fiscal year 2016. For the 8 available agencies, we reviewed each file to determine if required monitoring steps, documents, and checklists were followed; whether any consistent problems or trends occurred with the agencies' administration of the program; and whether corrective action measures were taken to address deficiencies. We also analyzed data from the THO database—the system used by all subgrantees for managing LIHEAP applications and benefits—which included application data produced by all 19 agencies for the period October 1, 2015, through October 31, 2016.

We analyzed 111,794 applications[1] and compared application dates and check issue dates to determine if benefits were dispersed within the allowed time frame. The results showed that 4 of the 19 agencies (21%) had significant numbers of LIHEAP benefit payments distributed outside the 90-day time frame (see Table 7).

Table 7
2015-2016 LIHEAP Application Processing Data

Agency	Average Number of Processing Days	Number of Payments	Payments Over 90 Days	Percent of Payments Over 90 Days
Blount County Community Action Agency	14.63	1,796	8	0.5%
Bradley/Cleveland Community Service Agency	16.07	2,053	2	0.1%
Chattanooga Youth & Family Development	30.06	6,222	88	1.4%
Clarksville-Montgomery County Community Action Agency	37.78	2,822	20	0.7%
Delta Human Resource Agency	37.90	2,122	148	7.0%
Douglas-Cherokee Economic Authority	79.77	5,319	930	17.5%
East Tennessee Human Resource Agency	66.01	4,967	1,517	30.5%
Highland Rim Economic Corporation	34.73	1,574	34	2.2%
Knoxville-Knox County Community Action Committee	58.54	7,108	2,545	35.8%
Metropolitan Action Commission	5.72	7,952	53	0.7%
Mid-Cumberland Community Action Agency	20.36	5,394	50	0.9%
Mid-East Community Action Agency	21.37	2,085	58	2.8%
Northwest Tennessee Economic Development Council	31.52	7,566	227	3.0%
Shelby County Government Community Service Agency	32.26	18,827	694	3.7%
South Central Human Resource Agency	35.32	8,071	136	1.7%
Southeast Tennessee Human Resource Agency	16.98	4,903	186	3.8%
Southwest Human Resource Agency	44.70	5,534	401	7.3%
Upper Cumberland Human Resource Agency	41.76	7,864	385	5%
Upper East Tennessee Human Development Agency	69.52	9,615	2,245	23.4%
Total	**38.59**	**111,794**	**9,727**	**8.7%**

Source: THDA Sr. Housing Program Coordinator – WAP/LIHEAP.

[1] The data was not segregated by application type and included all instances of regular assistance, crisis assistance, and life-threatening situations between October 1, 2015, and October 31, 2016.

At the time of the review, the only completed monitoring file available to compare against data contained in the THO database was from the East Tennessee Human Resource Agency (ETHRA). THDA's summary report on ETHRA—based on a sample of 25 regular applications, 5 crisis applications, and 5 denied applications—found that all of the applications reviewed were processed and paid within the required time frame. However, our analysis of THO data for all of ETHRA's applications from October 1, 2015, to October 31, 2016, showed that benefits for 1,517 approved applications (30.54%) were not paid within 90 days. Because of the annual review's failure to properly analyze the population of applications, THDA made an incorrect conclusion about ETHRA's performance in distributing LIHEAP benefits within the required time frame.

The other three agencies we found with significant fund distribution delays—Douglas-Cherokee Economic Authority, Knoxville-Knox County Community Action Committee, and Upper East Tennessee Human Development Agency—all have annual programmatic reviews that will occur throughout the remainder of the fiscal year. Because the reviews rely on a sample to make determinations about the efficacy of the agency's performance, it is possible that the problems with fund distribution will not be realized or conveyed to the agency via the annual programmatic review alone. Without using the readily available data contained in the THO database, THDA is missing an opportunity to better monitor agency performance and may be inaccurately concluding on LIHEAP administration.

THDA staff were reluctant to rely on and draw conclusions from the THO data because they were not sure all agencies entered data properly and that some agencies may have included the time an application was on a waiting list. THDA should ensure that data collected at the agency level is uniform and accurate and allows for statewide data analysis. Then THDA should use the THO database to complement annual agency programmatic reviews. This will provide a more accurate picture of agency performance. The data can strengthen monitoring by better identifying trends and problems and enhancing accountability and responsiveness to LIHEAP beneficiaries.

MULTIFAMILY PROGRAMS

Our audit objective was to evaluate the administration of the Low-Income Housing Tax Credit Program. Specifically, we reviewed

- the administration of the tax credit and the development of the Qualified Allocation Plan;
- how the amount of annual tax credits is determined, the type of housing project that qualifies for the tax credit, and how the tax credits are allocated;
- the process for monitoring the program participants for compliance; and
- the types of reports that the Tennessee Housing Development Agency (THDA) must submit to the IRS each year.

We reviewed relevant statutes, policies and procedures, and reports related to the program. We also interviewed THDA staff who administer the program and reviewed the program's monitoring log, and IRS reports.

Based upon interviews and review of the program's monitoring log for 2016, we did not identify any issues.

Observation

3. Impact of Low-Income Housing Tax Credit on the availability of affordable housing

THDA is Tennessee's administrator for the Low-Income Housing Tax Credit Program. The program was created by the Tax Reform Act of 1986 under Section 42 of the *Internal Revenue Code of 1986*. The program encourages the construction and rehabilitation of rental housing for low-income individuals and families (households earning 60% or less of area median income) by offering investors a dollar-for-dollar reduction in their federal income tax liability over a 10-year allocation period. Each year, the Internal Revenue Service (IRS) allocates federal tax credits to states based on population. The credits are allocated and paid out by the state agency to developers/awardees based on federal and state priorities.

In 1993, the program was adopted formally as a permanent subsidized housing development program through the Omnibus Reconciliation Act. At this time, the secondary market for the sale of credits developed. As the credit became more desirable to investors, larger properties, without additional subsidy layering, became more common. The program statistics presented in Table 8 illustrate the difference in how Tennessee developers used the credit in the early years of the program versus in the later years.

Table 8
Low-Income Housing Tax Credit Program Key Property Characteristics

	Pre-permanent Authorization 1987-1992	Early Years 1993-2002	Later Years 2003-2013
Number of Projects	379	276	285
Number of Units	7,053	21,902	27,046
Average Project Size (Number of Units)	19	79	95
Total 9% Allocated*	$120,944,080	$787,431,520	$1,196,264,478
Total 4% Allocated*	$0	$85,093,390	$290,339,057
Total Allocations	$120,944,080	$872,524,910	$1,486,603,535
Construction Type			
New Construction	57.5%	80.8%	67.0%
Rehabilitation/Preservation	42.5%	18.1%	30.2%
NC/Rehab Combination	0.0%	1.1%	3.0%
Project Sponsor†			
Non Profit	N/A	10.8%	12.0%
RHS/USDA	28.7%	8.8%	56%

	Pre-permanent Authorization 1987-1992	Early Years 1993-2002	Later Years 2003-2013
Section 8	1.7%	6.4%	13.0%
Bond	N/A	12.7%	28.5%
Location ‡			
Rural	23.3%	12.0%	15.8%
Suburban	17.1%	19.5%	15.5%
Urban	59.7%	68.5%	68.7%

Source: THDA, *Tennessee's Low-Income Housing Tax Credit Program 1987-2013*, released May 2015.

*The total allocation is the 10-year award without inflationary adjustments and includes additional funds awarded to projects under American Recovery and Reinvestment Act (ARRA) Tax Credit Assistance Program and 1602 programs, even though these funds were cash, not credit, awards. The actual equity achieved from the credit was not available.
†Project sponsor statistics are not mutually exclusive. Properties may be included in more than one category of sponsor.
‡The location is based upon THDA's 2014 definitions of "urban," "rural," and "suburban."

There are two types of credits: 9% and 4%. The 9% credit is highly competitive and awarded based on criteria published annually in the federally required Qualified Allocation Plan (QAP). The QAP states mandated federal priorities and establishes state priorities for the competitive program. The 4% credit is typically coupled with the Multifamily Bond program. When coupled with bonds, the 4% is non-competitive, although certain threshold criteria apply. The coupling of 4% credits and bonds did not routinely occur in Tennessee until after 1995.[2]

HARDEST HIT FUND – BLIGHT ELIMINATION PROGRAM

The Hardest Hit Fund – Blight Elimination Program began on November 1, 2015, and assists with the removal of blighted properties in targeted areas within the State of Tennessee. The program works in partnership with approved nonprofit agencies and land banks (program participants) to strategically target single-family residential properties for demolition, site improvement, and acceptable reuse.

The program's purpose is to reduce foreclosures; promote neighborhood stabilization; and maintain property values by demolishing vacant, abandoned, blighted residential structures, and improving the remaining parcels within the targeted counties. This includes Shelby, Madison, Montgomery, Rutherford, Hamilton, Anderson, and Knox counties. Program loans are available until September 30, 2020, or until funds are exhausted—whichever occurs first.

<u>Blight Elimination Program Eligibility Standards</u>

In order to be scheduled for demolition through the program, a property must

- be an existing single-family home;

[2] THDA, *Tennessee's Low-Income Housing Tax Credit Program 1987-2013*, released May 2015.

- be located in the State of Tennessee;
- be located in a targeted county;
- be a nuisance due to abandonment and/or other adverse conditions;
- not exceed $25,000 to acquire (if necessary), demolish, green, and maintain for up to three years;
- pass a Uniform Physical Condition Standard test;
- meet the State of Tennessee's definition of "blight" according to Title 13, *Tennessee Code Annotated*, public planning and housing; and
- qualify for lawful demolition.

The audit objectives were to determine the purpose of the program and whether the Tennessee Housing Development Agency (THDA) has developed written procedures for administering the program.

Observation

4. THDA has successfully implemented policies and procedures designed to effectively administer the Blight Elimination Program

Based on interviews with staff and a review of documentation, THDA has developed policies and procedures that govern the application, funding, and monitoring of the Blight Elimination Program. With a $10,000,000 budget allocation from the U.S. Department of the Treasury Hardest Hit Fund - Foreclosure Prevention Program, the program has approved 6 loans and 14 projects—12 in Shelby County, 1 in Chattanooga, and 1 in Anderson County. THDA has drawn down $2 million from the U.S. Department of the Treasury as of April 1, 2017. The total amount of funds dispersed through January 2017 amounts to $98,956.83.

The U.S. Department of the Treasury conducted an on-site review in August 2016 and had one observation pertaining to the program. Based on its review, five properties approved for funds had not provided evidence that the properties were not listed on the historical registry. Staff said this problem had been corrected and new application documentation requirements were included in the January 2017 revised program guide.

APPENDIX

Tennessee Housing Development Agency
Actual, Estimated, and Recommended Revenue and Expenses

	Actual 2015-2016	Estimated 2016-2017	Base 2017-2018	Recommended 2017-2018
		Funding Sources		
State	$ 0	$ 0	$ 0	$ 0
Federal	$260,376,600	$283,110,700	$276,106,600	$276,106,600
Other	$ 14,820,800	$ 30,978,300	$ 22,074,700	$ 22,074,700
Total	$275,197,400	$314,089,000	$298,181,300	$298,181,300
		Expenses		
Payroll	$16,736,000	$22,259,500	$22,259,500	$22,259,500
Operational	$258,461,400	$291,829,500	$275,921,800	$275,921,800
Total	$275,197,400	$314,089,000	$298,181,300	$298,181,300

Source: State of Tennessee, *The Budget, Fiscal Year 2017-2018.*