



OFFICE OF MANAGEMENT & BUDGET

Office of Internal Audit

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March 16, 2023

Ms. Carol Ventura, Executive Director
Rhode Island Housing
44 Washington Street
Providence, RI 02903

Dear Director Ventura:

The Office of Internal Audit (OIA) has completed its audit of the Rhode Island Housing and Mortgage Finance Corporation (RIHousing). The OIA reviewed RIHousing's compliance with Quasi-Public Corporations Accountability and the Transparency Act. An audit of the rent relief programs was also completed. The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with Rhode Island General Laws (RIGL) § 35-7.1-2(a) – Establishment of office of internal audit. The recommendations included herein have been discussed with members of management, and their comments were considered in the preparation of this report.

RIGL § 35-7.1-10(d), entitled Annual and Interim reports, states that, "Within twenty (20) calendar days following the date of the issuance of the management-response copy of the draft audit report, the head of the department, agency, public body, or private entity audited shall respond, in writing, to each recommendation made in the audit report." Accordingly, management submitted its response to the audit findings and recommendations on March 10, 2023, and such response is included in this report. Pursuant to this statute, the OIA may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the RIHousing staff for their cooperation and courtesy extended to the members of our team during this audit.

Respectfully yours,

Michael Sprague, CIA
Chief

CC' Internal Audit Advisory Group
Representative Marvin Abney, Chairman, House Committee on Finance
Senator Louis DiPalma, Chairman, Senate Committee on Finance
Steven Whitney, Senate Fiscal Advisor
Sharon Reynolds Ferland, House Fiscal Advisor

Audit Executive Summary

Why the Office of Internal Audit Did This Review

The Office of Internal Audit (OIA) conducted a compliance and performance audit of Rhode Island Housing (RIHousing). The purpose of this engagement is to evaluate compliance with the Quasi-Public Accountability and Transparency Act, to determine if rent relief programs are administered efficiently and effectively in accordance with applicable laws, rules, and regulations and if adequate controls are in place to ensure safeguarding of assets and accurate financial reporting.

Background Information

RIHousing strives to ensure that all people who live in Rhode Island can afford a healthy, attractive home that meets their needs. RIHousing uses its resources to provide low-interest loans, grants, education, and assistance to help Rhode Islanders find, rent, buy, build, and keep a good home. The pandemic has exacerbated the housing crisis in Rhode Island. As a result, the federal government provided funding to create affordable housing programs to help Rhode Islanders stay in their homes.

To Strengthen Controls, the Office of Internal Audit recommends:

- Obtain proof of payment to landlord for identified applications.
- Utilize additional data sources to perform analytical procedures to identify inaccuracies in applications.

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Introduction

In 1973 the Rhode Island General Assembly established Rhode Island Housing (RIHousing) to address Rhode Island's widespread and critical housing issues. RIHousing strives to ensure Rhode Islanders can afford homes that meet their needs. Resources are used to provide low-interest loans, grants, education, and assistance to help Rhode Islanders find, rent, buy, build, and keep a good home. The pandemic has worsened the affordable housing crisis that predated the pandemic.

Millions of Americans face rental debt, evictions, and loss of housing security because of the economic fallout caused by COVID-19. To meet this need, the federal government disbursed Emergency Rental Assistance (ERA) and Coronavirus Relief Funds (CRF) to the State of Rhode Island. The State contracted with Rhode Island Housing to administer the programs and disburse funds to Rhode Island residents who are in need to provide relief.

The OIA reviewed the following three programs which were designed and implemented to address the risk of homelessness and housing instability for vulnerable RI residents:

- Home Safe Program (HSP) – RIHousing private funding to provide up to \$2,000 grants for rent and utilities.
- Housing Help RI (HHRI) – CARES Act funded program which provided emergency financial assistance to families directly impacted by COVID
- Rent Relief RI (RRRI) – ERA Funded program which provided up to 18 months of rent and utility assistance to low-income households

Objective and Scope

The Office of Internal Audit (OIA) conducted a compliance and performance audit of RIHousing. The purpose of this engagement was to evaluate compliance with the Quasi-Public Accountability and Transparency Act, to determine if rent relief programs are administered efficiently and effectively in accordance with applicable laws, rules, and regulations and if adequate controls are in place to ensure safeguarding of assets and accurate financial reporting. The scope of this audit includes:

- October 2019 - May 2022 for the Quasi-Corporation Accountability and Transparency Act
- HSP Program awards disbursed March 25, 2020 – December 31, 2021.
- HHRI Program awards disbursed March 1, 2020 – March 31, 2021.
- RRRI Program awards disbursed May 1, 2021 - March 1, 2022.

Methodology

As part of our audit, the OIA gained an understanding of RIHousing operations and process for multiple rental assistance programs. To address our audit objective, we performed the following:

- Interviewed staff.
- Searched website for information and disclosures required by the Quasi-Public Transparency Act.
- Requested additional information required under the Quasi-Public Act from RIHousing management.
- Reviewed policies, procedures, board meeting minutes and communications.
- Developed flowcharts of processes for rental assistance programs.
- Developed analysis comparing federal guidance to RIHousing program guidance for RRRRI program.
- Summarized RIHousing Program Administrative Plan changes throughout the duration of the program¹.
- Tested a sample of RRRRI and HHRI applications for compliance with program guidelines.
- Tested a sample of HSP applications to verify proper review and approval.
- Tested a sample of HSP participating agencies monthly monitoring submissions.
- Performed data analytics on the total population of applications for all rental assistance programs under audit to identify potentially duplicative applications.
- Analyzed the application processing time of RRRRI applications.
- Analyzed RRRRI disbursements to verify accuracy of awards.

Quasi-Public Corporations Accountability and Transparency Act

The Quasi-Public Corporations Accountability and Transparency Act was passed in 2014 to provide assurance that quasi-governmental agencies operate effectively, efficiently, and with appropriate transparency. RIGL §42-155-2(5) states in pertinent part: Recommendations and Management's Responses

It is essential that quasi-public corporations provide more, not less, transparency by making their decisions and budgets especially transparent and open to public scrutiny, and by demonstrating a commitment to protecting the interests of Rhode Island taxpayers by achieving the highest standards of transparent, effective, and ethical operation.

¹ RIHousing created the RRRRI Program Administrative Plan which was continually updated throughout the duration of the program to comply with the changes made to U.S. Treasury Guidance.

Improve Compliance with Requirements of the Quasi-Public Corporations Accountability and Transparency Act

The act requires the quasi-governmental agencies to implement specific policies and publicize certain reports. RIHousing demonstrated substantial compliance with the act during our review. However, we noted that a self-evaluation based on established performance measurements was created in 2015 but has not been updated triennially as required by law.² Failure to establish and track performance measures limits the ability of management to continually assess and improve operations.

Recommendations:

1. Complete a self-evaluation based on established performance measures once every three years.

Management's Response:

During the review staff took the opportunity to discuss this requirement with OIA and publish performance metrics for 2021, the most recently closed calendar year as of the time of the review. Performance metrics include agency goals in each of five primary business divisions: Homeownership, Development, Leased Housing and Rental Services, Loan Servicing, and Finance. The information is presented in tabular format comparing target and actual figures with a field for explanations of any variances. RIHousing will update this table on an annual basis following the close of the calendar year, which will exceed the requirement set forth in R.I. Gen. Laws § 42-155-4(a)(4).

Responsible Party: Chief Strategy and Innovation Officer; General Counsel.

Anticipated Completion Date: Completed.

Rent Relief RI Program

The Federal Emergency Rental Assistance (ERA 1 and ERA 2) Program³, referred to as Rent Relief RI (RRRI), is a U.S. Department of Treasury-funded rental assistance program administered by RIHousing. The RRRI program intended to provide housing assistance on an emergency basis for low-income residents who have been hurt by the pandemic.

² RIGL § 42-155-4(a)(4)

³ U.S. Department of Treasury Emergency Rental Assistance was established by two programs to assist states, U.S. territories, local governments, and Indian tribes:

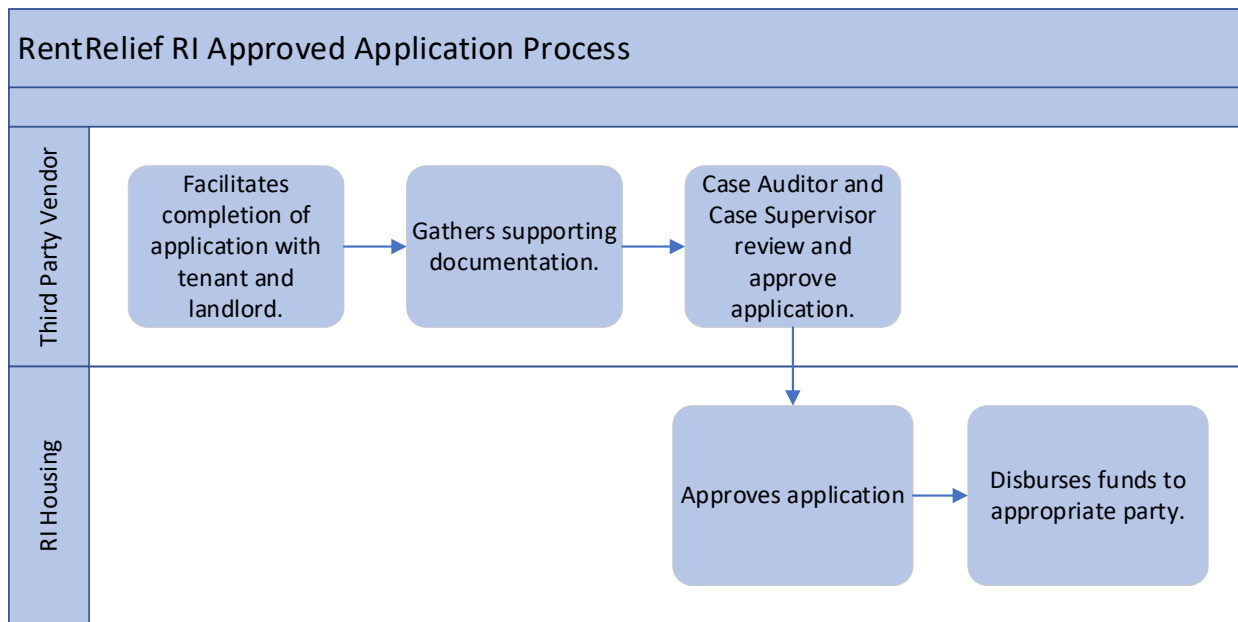
1. ERA 1 provides up to \$25 billion under the Consolidated Appropriations Act of 2021, which enacted on December 27, 2020; and
2. ERA 2 provides up to \$21.55 billion under the American Rescue Plan Act of 2021, which enacted on March 11, 2021.

The State of Rhode Island was the eligible grantee of the federal funds. Grantees are allowed to make subawards to other entities to administer ERA programs on their behalf. RIHousing was named the subrecipient to assist RI residents in need of temporary help paying rent and utility in arrears, prospective rent, and other housing expenses.

RIHousing implemented a centralized case management software system for tenants and landlords to apply for assistance and upload required information. RIHousing outsourced application processing services to third-party vendors who:

- Assisted families to complete program applications
- Assisted with gathering supporting documentation to support eligibility
- Determine eligibility and calculate awards

Completed applications were approved by RIHousing prior to the disbursement of funds⁴.



Program Compliance

The OIA tested 40 RRRI tenant applications with a total amount awarded of \$392,477 for program compliance. The sample included 16 recertifications associated with the selected tenants for a total of 56 applications.

For the 56 applications reviewed, the OIA found the following exceptions:

⁴ The process for applications in eviction court were expedited, and RIHousing approval was not required prior to the disbursement of funds.

- Two months of overpaid utilities.⁵
- Two applications were found to have recalculation errors totaling \$123.

Of the \$392,477 of awarded funds reviewed, the OIA found an error rate of only (.031%) indicating substantial compliance with program rule and regulations.

Proof of Payment to Landlord not Received

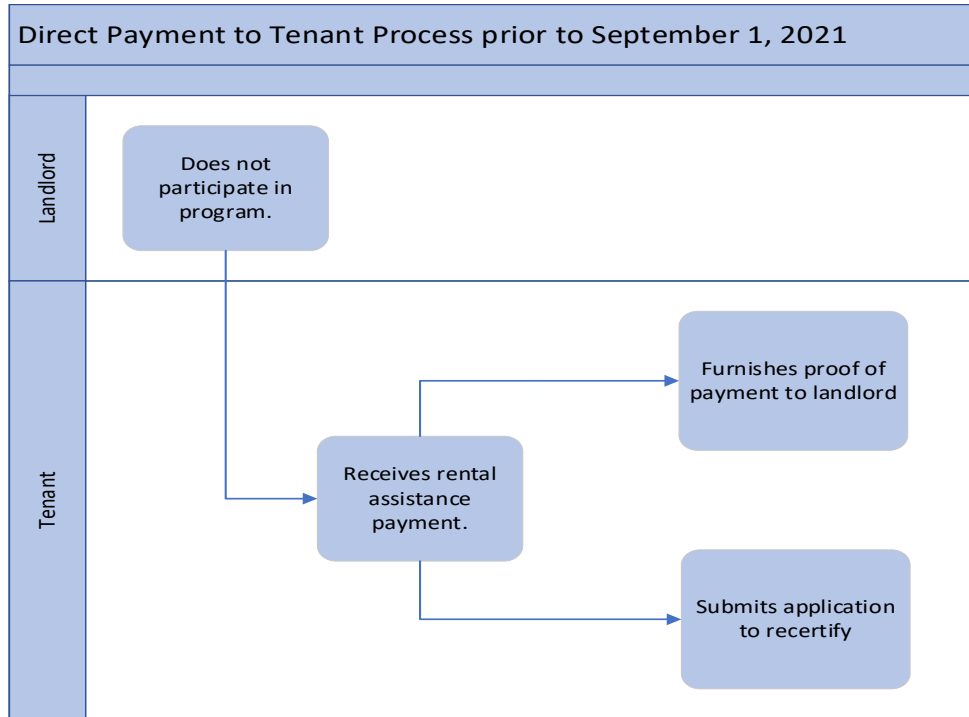
The standard application process disburses rental assistance awards to landlords. However, tenants may receive award payments directly if landlords do not participate in the application process. Disbursement of funds directly to tenants creates a risk that the funds may be diverted away from housing expenses and used for ineligible purposes.

While not mandated by federal guidance⁶, RIHousing implemented procedures to reduce the risk of improper payments. These procedures were changed slightly throughout the program to reflect the evolution of Treasury policy. The Program Administrative Plans⁷ in place prior to September 1, 2021, require proof of payment to landlord for all direct-pay applicants. Of the total amount of RRRRI funds awarded, \$334,627 was paid to the landlord or third-party vendor and \$57,850 was paid directly to the tenant. A map of this process is included below.

⁵The amount of utility assistance corresponding to the two months overpaid was not provided. As a result, the OIA was unable to determine total dollar amount of ineligible cost.

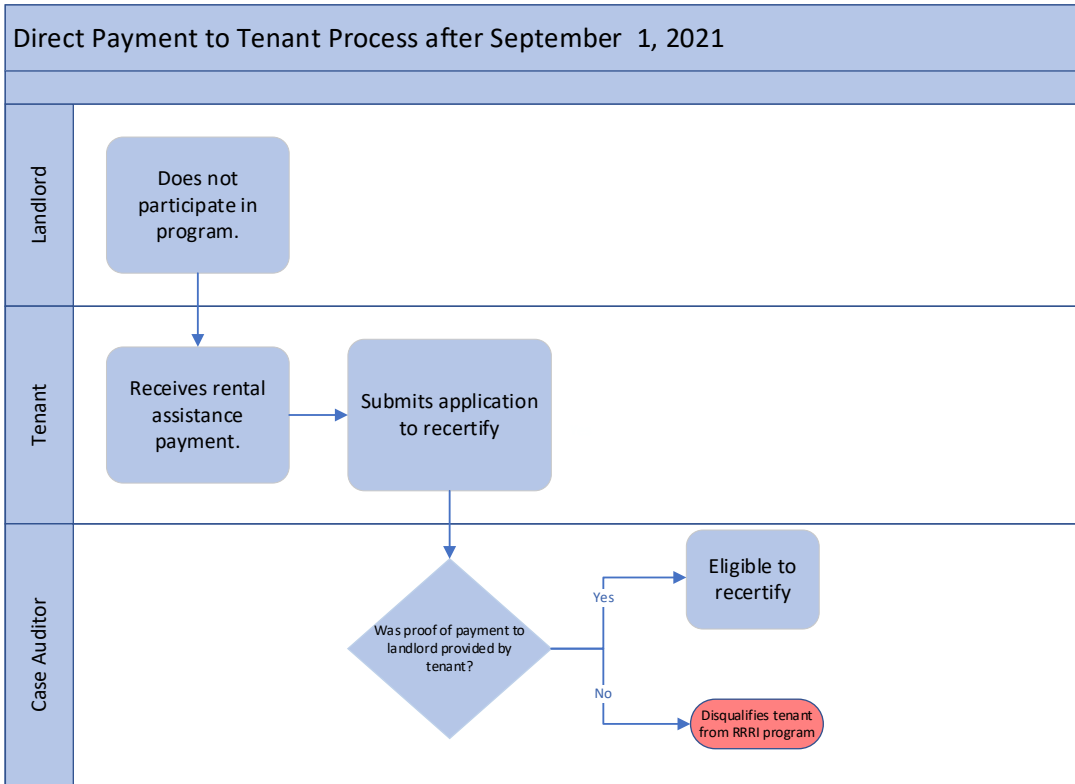
⁶ May 7, 2021, US Department of Treasury Emergency Rental Assistance FAQ #31 Grantees are not required to obtain documentation evidencing the use of ERA program funds by tenants and landlords. Grantees are expected to apply reasonable fraud- prevention procedures and to investigate and address potential instances of fraud or the misuse of funds that they become aware of.

⁷ Section XIII



The Program Administrative Plan updated September 1, 2021, states tenants are no longer required proof of payment unless they wish to be considered for additional funding.⁸

⁸ August 27, 2021 update to the Program Administrative Plan Section IV.



Rental assistance funds were disbursed directly to the tenant for eight of 56 sample applications. The following exception was noted.

- One applicant did not provide proof of payment to landlord for original application totaling \$3,075. This applicant was granted a subsequent award of \$3,075 despite failure to provide proof of payment.

The OIA reviewed the remaining 33 sample applications prior to September 1, 2021, containing rental assistance paid directly to tenants. The following five (3) exceptions were identified:

- Three applicants were incorrectly paid forward-facing rent of \$10,830 despite landlord participation.
 - None of these applicants provided proof of payment to landlord.

Recommendation:

2. Identify direct payments to tenants for which proof of payment to landlord had been required as a condition of direct payment but was not received. Request repayment if receipt of funds to landlord is not provided.

Management's Response:

RIHousing staff has identified approved Rent Relief RI cases where 1) the tenant received direct payment and 2) where proof of payment to the landlord was required. Staff will review each of these

cases and in instances where evidence that the funds were paid to the landlord is not present, RIHousing staff will take the following actions:

- Outreach to the tenant requesting evidence of payment to the landlord will be conducted via email, phone call, or US mail, depending on the method of contact used in the Rent Relief case.
- The tenant will be given 10 business days to supply evidence to RIHousing.
- If evidence is received, it will be uploaded into the case file in the Yardi system.
- If, after 10 business days, evidence has not been supplied by the tenant, RIHousing will notify the tenant in writing that they are non-compliant with the program and request that funds be returned to RIHousing.

Responsible Party: Chief Strategy and Innovation Officer

Anticipated Completion Date: July 3, 2023

Enhance Compensating Controls for Unverified Application Information

At the outset of the RRRRI program, the Program Administrative Plan required applicants to provide supporting documentation in addition to self-attestations to evidence the three elements of eligibility:

1. Income⁹
2. Financial hardship¹⁰
3. Risk homelessness or housing instability

This supporting documentation included pay stubs, bank statements, mortgage statements, rent receipts, medical bills, and any other evidential documents to demonstrate eligibility with program terms. This review, which generally aligned with RIHousing’s self-described approach to processing other forms of tenant-based rental assistance, required significant time and effort for collection, communication, and processing.

On August 25, 2021, the U.S. Department of Treasury issued revised guidance which encouraged grantees to simplify applications and rely on self-attestation of applicants to determine eligibility. The guidance was intended to reduce application processing time and promptly distribute assistance to families most in need. Treasury impressed upon grantees the urgency of the eviction crisis stemming from the public health emergency, pledged to “use every lever at its disposal to urge states to distribute assistance to renters and landlords swiftly,” and urged grantees “to avoid or reduce unduly

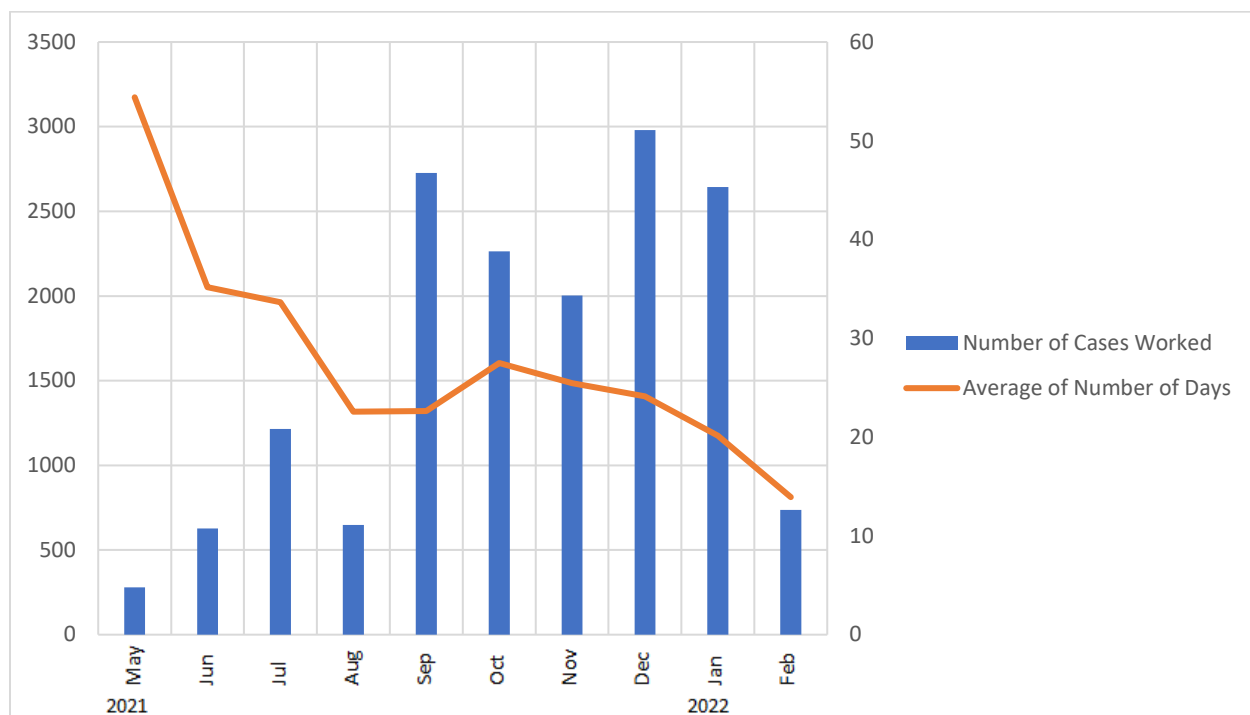
⁹ Defined as RI renter households with incomes at or below 80% of the Area Median Income (AMI)

¹⁰ Federal guidance of financial hardship eligibility criteria evolved overtime. ERA 1 defines financial hardship due, directly or indirectly, to COVID. ERA 2 defines financial hardship as due to or during COVID.

burdensome documentation requirements for verifying income” and to “provide assistance directly to tenants when landlords are not cooperative,” among other directives.¹¹

Internal controls are intended to provide assurance to management related to compliance with policies, procedures, terms, and conditions. However, the cost of controls must always be considered when determining when and how to implement them. In situations where processing delays cause imminent health and safety risks, controls must be critically evaluated to determine if they create a larger risk than they are attempting to avoid. Moreover, the revised guidance was announced with the caution that Treasury would be prepared to reallocate funds where grantees were not willing or able to deliver assistance on an accelerated basis. The revised guidance considers this tradeoff between conserving government resources and preventing homelessness.

RIHousing followed the federal guidance and placed increased reliance upon self-attestations. During this time, RIHousing saw a dramatic increase in the number of applications received while decreasing the overall processing time and disbursing funds to applicants.



Although this policy change reduces the upfront documentation requirements for applications, the guidance requires grantees to have controls in place to ensure compliance with their policies and procedures to prevent fraud. The Institute of Internal Auditors (IIA) states a compensating control is an activity that, if key controls do not fully operate effectively, may help reduce the related risk. Federal guidance suggests compensating controls such as background verification of eligibility

¹¹ See U.S. Dept. of Treasury, Treasury Announces Seven Additional Policies to Encourage State and Local Governments to Expedite Emergency Rental Assistance, available at <https://home.treasury.gov/news/press-releases/jy0333> (last visited Feb. 15, 2023).

elements utilizing a fact-specific proxy such as HUD's Qualified Census Tract¹². Treasury guidelines advised "a grantee could reasonably develop a proxy that uses the fact that an applicant lives in a HUD Qualified Census Tract to determine that applicants from a qualified tract likely qualify for the program and thus can self-attest to their income without further income documentation."¹³

RIHousing utilized several background verification procedures including:

- Proof of home ownership via municipal tax assessor's databases.
- The IRS database to verify SSN/EIN.
- HUD Qualified Census Tract (QCT)

To mitigate the risk of relying on self-attestations without further documentation, RIHousing used HUD's Qualified Census Tract (QCT) Database as a reasonable fact-specific proxy for household income. By incorporating this database into the application processing software, RIHousing was able to rely on HUD data regarding average incomes in the household's geographic area. An applicant falls within QCT if their household is in a geographic area in which 50% of households have incomes below 60% of AMI. While using QCT provides assurance that the household is in a low-income area sufficient to satisfy program requirements it does not reduce the risk that the specific household income as stated on the self-attestation is complete and within the income limit.

Grantees must specify in their policies and procedures under what circumstances they will accept written attestations from the applicant without further documentation to determine any aspect of eligibility or the amount of assistance, and in such cases, grantees must have in place a reasonable validation or fraud prevention procedures to prevent abuse

Out of 56 sample applications, 18 (32%) relied upon self-attestation for proof of income eligibility:

- There were 17 applications in which RIHousing utilized QCT to support a tenant's income stated on self-attestations without further documentation.
- Only one self-attestation was relied on without further documentation.

Recommendation:

3. Cooperate with any relevant efforts by the State to cross-analyze eligibility elements using third-party sources such as state benefits database, income verification database, other private or public information sources.

Management's Response:

While Rent Relief RI eligibility determinations met the requirements of U.S. Department of Treasury guidance, RIHousing will cooperate with any efforts by the State to cross-analyze eligibility elements.

¹² Qualified Census Tracts are those in which 50% or more of the households are income eligible and the population of all census tracts that satisfy this criterion does not exceed 20% of the total population of the respective area.

¹³ See U.S. Dept. of Treasury, Guidelines for Fact-Specific Proxies, available at [https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/emergency-rental-assistance-program/service-design/fact-specific-proxies\(last](https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/emergency-rental-assistance-program/service-design/fact-specific-proxies(last) visited Feb.15, 2023).

Responsible Party: Chief Strategy and Innovation Officer

Anticipated Completion Date: This completion date depends on when the state begins the above-referenced efforts.

HousingHelp RI Program

Using Federal CARES Act funding, The State of Rhode Island Office of Housing and Community Development (OHCD) entered a contract with RIHousing to administer \$3.5M of rental assistance to families through the HousingHelp RI Program (HHRI). The initiative provides emergency rental assistance for individuals and families in the State of Rhode Island who have experienced COVID-19 related hardship. HHRI comprised two types of programs: a rental assistance program and a program for affordable rental developments.

The rental assistance program allowed families to submit applications and supporting documentation through an online portal. On December 7, 2020, an extension program was created for affordable rental developments. Under this program property managers and landlords of affordable rental housing developments were also permitted apply on behalf of their low-income tenants who had fallen behind on their rent during COVID-19.

The contract agreement between the OHCD and RIHousing requires families to meet the following eligibility elements:

1. Income less than 80% of Area Median Income (AMI)
2. Experiencing housing hardship during COVID-19
3. At risk of losing housing opportunity during COVID-19.

The OIA selected a sample of 40 HHRI applicants including 19 rental assistance program applicants and 21 affordable rental development tenants. The amount of assistance provided to the 40 applicants in the sample totaled \$64,582.70.

Enhance Compensating Controls for Unverified Rental Assistance Program Application Information

Initial versions of the contract between the OHCD and RIHousing required families to upload documentation to support income eligibility. Later versions of the contract, following Treasury guidance, supported self-attestation of income in lieu of supporting documentation. RIHousing policy was to use self-attestation without further documentation to support housing hardship eligibility and proof of past due rent or self-attestation to substantiate risk of homelessness.

RIHousing relied upon self-attestation forms without further income verification for 5 out of the sample of 19 rental assistance applications.

Contrary to the RRRRI Program, in which qualified census tract data was utilized to support an applicant's income self-attestation, no such controls were built into this program. Relying on self-attestation without further documentation to determine eligibility elements could lead to the disbursement of funds to ineligible applicants. Compensating controls such as verification of eligibility elements via other sources help mitigate the increased risk of relying on self-attestations alone.

Recommendations:

4. Review approved applications that relied on self-attestations without further documentation and verify eligibility elements using third party sources such as state benefits database, income verification database, other private or public databases such as Department of Human Services.

Management's Response:

Although U.S. Department of Treasury guidance specified that no further documentation was required to support self-attestations, RIHousing will review the applications that were approved using self-attestations using Qualified Census Tract data as a third-party verification source. RIHousing does not have access to State benefit databases, such as HealthSourceRI; however, as was stated above, we will cooperate fully with any relevant efforts by the State to cross-analyze eligibility elements.

Responsible Party: Assistant Director, Leased Housing and Rental Services

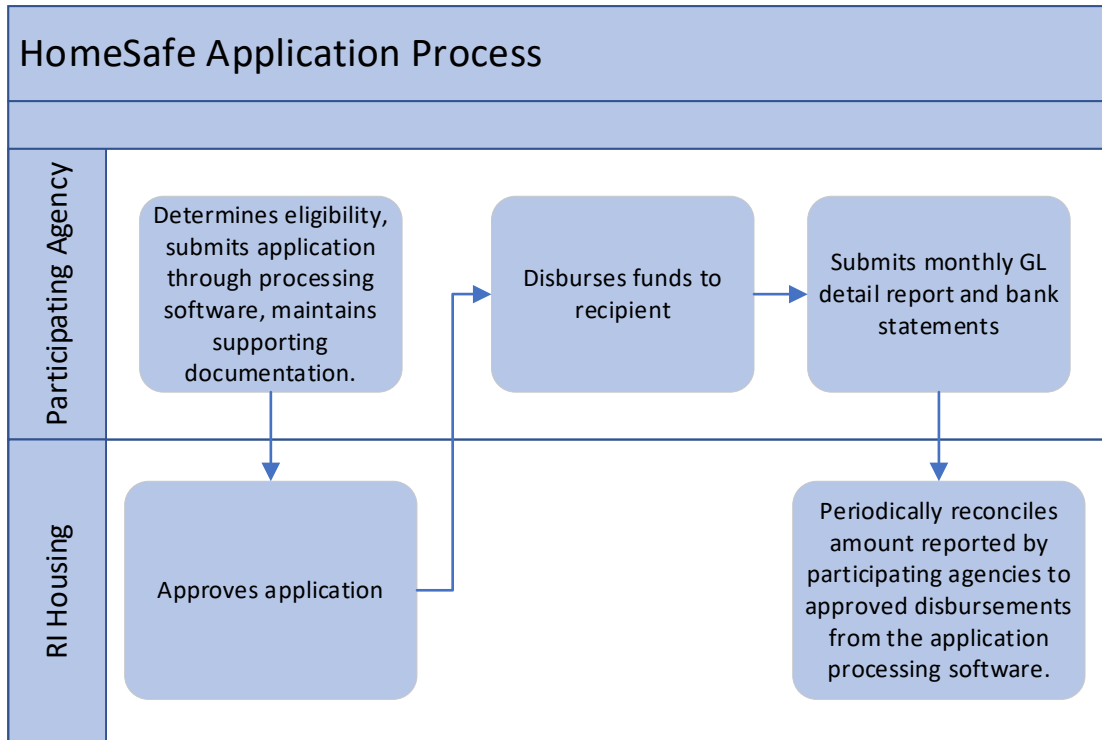
Anticipated Completion Date: July 3, 2023

Home Safe Program

The Home Safe Program (HSP) is a RIHousing Trust Fund initiative designed to provide temporary financial assistance to eligible Rhode Island residents for short-term emergency housing needs. RIHousing disbursed total program funds of \$730,000 to nine different nonprofit agencies who were tasked with using the program funds to provide financial assistance to eligible households in need of emergency housing assistance.

The participating agencies were required to review and approve applications for assistance to verify compliance with eligibility criteria program guidelines. Each participating agency was required to submit an application on behalf of the applicant to RIHousing and maintain documentation to support

eligibility from all applicants. RIHousing performed final approval, reviewed application for duplication of benefits, and ensured the maximum benefit limit is not exceeded.



Program Disbursements not Reconciled for Each Participating Agency

Reconciliation is the process of comparing two separate sets of data to ensure consistency in reported information. It is a critical control point in accounting for funds because it provides assurance that information is captured accurately and that any errors are identified and corrected.

As noted above, RIHousing established a process to collect information regarding the expenditure of awarded funds from each participating agency. As of March 15, 2022, participating agencies reported disbursing \$544,513 while the records maintained by RIHousing reported \$541,896 in awards.

Upon detailed review of disbursement records, the OIA noted variances for eight of the nine participating agencies when compared to total award amounts.

RIHousing did not have a formalized process in place to perform periodic reconciliation of program disbursements for each participating agency. As of March 15, 2022, participating agencies reported unexpended funds of \$185,487.

Without comprehensive program reconciliation, management lacks assurance about the total population of payments. Similarly due to the lack of reconciliation, the OIA was unable to confirm the review included all applications.

Recommendations:

4. Implement a formal policy to reconciling monthly general ledger reports provided by participating agencies to Rhode Island Housing records.
5. At the conclusion of the program collect any unexpended program funds from providers.

Management's Response:

RIHousing HomeSafe program staff and the RIHousing finance team have already implemented a formal recordkeeping procedure to reconcile the monthly general ledger reports from the participating HomeSafe agencies with the records kept by RIHousing. RIHousing will attempt to recapture HomeSafe funds that have not been encumbered by March 31st.

Responsible Party: Assistant Director, Leased Housing and Rental Services

Anticipated Completion Date: July 3, 2023