

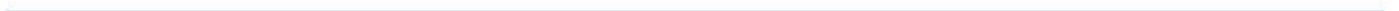


Fort Worth Housing Solutions Fort Worth, TX

Fort Worth Housing Solutions – QuadCo Management
Solutions, LLC

**Office of Audit, Region 6
Fort Worth, TX**

**Audit Report Number: 2017-FW-1002
December 21, 2016**





To: Regenia Hawkins, Director, Office of Public Housing, 6APH

From: //signed//
Theresa A. Carroll,
Acting Regional Inspector General for Audit, Fort Worth Region, 6AGA

Subject: Fort Worth Housing Solutions, Fort Worth, TX, Generally Complied With HUD Regulations In Its Transactions With Its Related Entity, QuadCo Management Solutions, LLC

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Housing Authority of Fort Worth's Public Housing program and financial transactions.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (817) 978-9309.



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Fort Worth Housing Solutions, Fort Worth, TX, Generally Complied With HUD Regulations In Its Transactions With Its Related Entity, QuadCo Management Solutions, LLC

Highlights

What We Audited and Why

Based on the results of a prior audit,¹ we reviewed Fort Worth Housing Solutions (FWHS) and transactions with its related entity QuadCo Management Solutions, LLC (QuadCo) of Fort Worth, TX. Our objectives were to determine whether FWHS (1) properly managed its U.S. Department of Housing and Urban Development (HUD) funds, specifically whether it improperly loaned \$1.6 million in HUD funds to QuadCo; (2) paid management fees within HUD's allowed range; and (3) set up and organized QuadCo in accordance with regulations and guidance.

What We Found

FWHS generally managed its HUD funds appropriately and followed requirements. Specifically, it (1) did not improperly loan \$1.6 million in HUD funds to QuadCo, (2) paid management fees within HUD limits, and (3) set up and organized QuadCo in accordance with regulations and guidance.

What We Recommend

This report contains no recommendations.

¹ Audit report 2016-FW-1002.

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Background and Objectives

Fort Worth Housing Solutions² (FWHS) of Fort Worth, TX, is a public entity created by the City of Fort Worth in 1938 in accordance with State law. A board of commissioners, composed of five members chosen by the mayor of Fort Worth, governs FWHS. The board selects a president and chief executive officer to direct the activities of FWHS. The U.S. Department of Housing and Urban Development (HUD) funds and oversees the expenditures of FWHS's HUD-funded programs. The main goal of FWHS is to provide fair, acceptable, quality, affordable, and accessible housing that mixes low- and moderate-income individuals and families with the greater community. Another goal is to create financial opportunities for these individuals and families to become self-sufficient.

FWHS had 1,122 units in its public housing inventory.³ However, it is in the process of converting its public housing portfolio as part of the Rental Assistance Demonstration program.⁴ For the units in its public housing inventory, HUD provided operating and capital funds annually. HUD allowed FWHS to use operating funds for the operation and management of its public housing program. Table 1 shows HUD capital and operating funds received by FWHS in fiscal years 2014 and 2015.

Table 1: HUD funding

Year	Capital funds	Operating funds
2014	\$1,515,697	\$4,910,043
2015	1,111,814	3,464,750
Totals	2,627,511	8,374,793

In 2006, FWHS formed and organized QuadCo Management Solutions LLC,⁵ a public facility corporation. QuadCo was set up to provide property management services, consulting, and training in both the public and private sectors. In 2008, FWHS converted it to a for-profit Texas LLC and affiliate. In 2014, FWHS procured for property management services through a request for qualification. FWHS's selection committee chose its for-profit related affiliate, QuadCo, which shared office space with FHWS. In 2016, FWHS converted QuadCo back to a public facility corporation.

² Formerly known as the Fort Worth Housing Authority.

³ As of December 31, 2014.

⁴ The Rental Assistance Demonstration program allows public housing agencies to convert properties funded under the public housing program to long-term project-based rental assistance contracts to preserve and improve these properties, through access to private debt and equity, to address immediate and long-term capital needs.

⁵ QuadCo was initially organized and formed under the name Trivest Management Services, Inc. The entity's name was later changed to QuadCo Management Solutions LLC.

Our objectives were to determine whether FWHS (1) properly managed its HUD funds, specifically whether it improperly loaned \$1.6 million in HUD funds to QuadCo; (2) paid management fees within HUD's allowed range; and (3) set up and organized QuadCo in accordance with regulations and guidance.

Results of Audit

Finding: FWHS Generally Complied With Requirements

FWHS generally managed its HUD funds appropriately and followed requirements. Specifically, it (1) did not improperly loan \$1.6 million in HUD funds to QuadCo, (2) paid management fees within HUD limits, and (3) set up and organized QuadCo in accordance with regulations and guidance.

FWHS Did Not Improperly Loan HUD Funds

FWHS did not improperly loan HUD funds. We reviewed the amounts deposited into its centralized office cost center to ensure the \$1.6 million loan balance did not include HUD funds. The cost center included income earned from management and associated fees on FWHA's and other housing agencies' projects and did not contain HUD funds.

FWHS Paid Management Fees Within HUD Limits

The management fees paid to QuadCo to manage FWHA's public housing units fell within the limits established by HUD for the review period. Public housing agencies may use the amounts from HUD's public housing management fee table to establish the management fee charged to each project.⁶ QuadCo charged FWHA's projects management fees that were less than HUD's allowable fees.

FWHS Set Up and Organized QuadCo in Accordance With Regulations and Guidance

FWHS formed and organized QuadCo as a public facility corporation in accordance with State law. While QuadCo was briefly converted to a for-profit affiliate, it recently converted back to a not-for-profit public facility corporation. FWHS did not provide an explanation of why it converted QuadCo to a for-profit affiliate. As a result of FWHS converting QuadCo back to a public facility, we did not review the conversions.

Conclusion

FWHS generally managed its HUD funds appropriately and followed requirements. Specifically, it (1) did not improperly loan \$1.6 million in HUD funds to QuadCo, (2) paid management fees within HUD limits, and (3) set up and organized QuadCo in accordance with regulations and guidance.

⁶ Office of Public and Indian Housing Notice 2007-9, Updated Changes in Financial Management and Reporting Requirements for Public Housing Agencies Under the New Operating Fund Rule.

Scope and Methodology

Our scope generally covered FWHS's transactions with its related entity, QuadCo. Specifically, we reviewed the interfund transactions and management fees from January 1, 2014, through December 31, 2015. We extended our review of the management fees through June 30, 2016. We also reviewed the organization documents for QuadCo. We performed the audit from July to October 2016 in Fort Worth, TX.

To meet the audit objectives, we performed the following:

- Reviewed and obtained an understanding of relevant laws and program regulations, FWHS's procurement policy and procedures, and prior Office of Inspector General (OIG) audit reports and audit resolution activities.
- Reviewed the amounts deposited into the FWHS's cost center.
- Reviewed and analyzed FWHS's full procurement of QuadCo.
- Interviewed applicable HUD and FWHS officials.
- Reviewed and analyzed FWHS's contract, management fees, and relationship with its related entity, QuadCo, for two management agreements.
- Performed a walk-through of FWHS's procurement department to gain an understanding of functions and processes.
- Reviewed all income received by FWHS's cost center account for appropriate source, which included 690 and 383 transactions from its "due to-from" 2014 and 2015 general ledgers, respectively.
- Conducted a data reliability assessment using U.S. Government Accountability Office (GAO) guidelines in GAO-03-273G, Assessing the Reliability of Computer-Processed Data. We determined that the data were sufficiently reliable to meet the audit objectives.

We conducted the 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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Compliance with laws and regulations – Policies and procedures in place to reasonably ensure that resource use was consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Appendix A

Auditee Comments

FWHS declined the opportunity to provide a written response.