

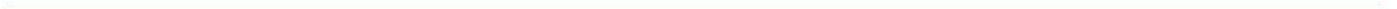


# Housing Authority of the City of Macon-Bibb County, Macon, GA

## Vineville Christian Towers' Rental Assistance Demonstration Program

**Office of Audit, Region 4  
Atlanta, GA**

**Audit Report Number: 2020-AT-1003  
August 31, 2020**





**OFFICE OF INSPECTOR GENERAL**  
U.S. Department of Housing and Urban Development

**To:** Robert L. Kenner, Director, Public and Indian Housing, 4APH

**From:** //Signed//  
Nikita N. Irons,  
Regional Inspector General for Audit, 4AGA

**Subject:** The Housing Authority of the City of Macon-Bibb County, GA, Improperly Executed the HAP Contract for Vineville Christian Towers' RAD Conversion

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 Macon-Bibb County Housing Authority's administration of Vineville Christian Towers' Rental Assistance Demonstration Program conversion.

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, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.

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**Audit Report Number: 2020-AT-1003**

**Date: August 31, 2020**

**The Housing Authority of the City of Macon-Bibb County, GA, Improperly Executed the HAP Contract for Vineville Christian Towers' RAD Conversion**

## Highlights

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### What We Audited and Why

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We audited Vineville Christian Towers' (project) Rental Assistance Demonstration Program (RAD) conversion in accordance with our annual audit plan. Our audit objective was to determine whether the project's RAD conversion to the Section 8 Project-Based Voucher Program was completed in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements; specifically, whether the Macon-Bibb County Housing Authority properly executed the housing assistance payments contract for the project's RAD conversion.

### What We Found

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The Authority improperly executed a Section 8 Project-Based Voucher Program housing assistance payments (HAP) contract for 90 units. Specifically, the Authority did not ensure that (1) the tenant protection assistance was in place for all 90 tenants, and (2) only the units occupied at the time of contract execution were included on the contract. In addition, the Authority did not obtain information from HUD for properly issuing tenant protection assistance. This condition occurred because the Authority (1) lacked an understanding of retroactive RAD conversion type and was not familiar with the requirements for tenant protection assistance and (2) did not establish written procedures related to the RAD conversion and tenant protection assistance. As a result, the Authority improperly received more than \$138,000 in administrative fees. Unless the Authority cancels the contract, we estimate that it will improperly provide nearly \$257,000 over the next year for units improperly converted under RAD.

### What We Recommend

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We recommend that the Acting Director of HUD's Atlanta, GA, Office of Public and Indian Housing require the Authority to (1) cancel the contract resulting from the RAD conversion, thereby putting nearly \$257,000 to better use; (2) reimburse its Section 8 program more than \$138,000 in associated administrative fees from non-Federal funds; (3) develop and implement procedures; and (4) provide training to its staff to help ensure compliance with program requirements.

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# Background and Objective

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The Housing Authority of the City of Macon-Bibb County was chartered under the laws of the State of Georgia in 1938. The Authority is governed by a board of commissioners consisting of six members, including one public housing resident, who serve a 5-year term. The commissioners are nominated by the County's mayor and confirmed by the Macon-Bibb County Council. The Authority's mission is to add value to the community and the lives of those it serves through quality housing, support services, and community development. The Authority administers the U.S. Department of Housing and Urban Development's (HUD) public housing and Section 8 Housing Choice Voucher and Project-Based Voucher Programs.

Vineville Christian Towers (project), is a 196-unit, 15-story, affordable housing development specifically for low-income, elderly, and handicapped persons located in Macon, GA. The multifamily project is owned and managed by Christian Church Homes of North California in Oakland, CA. The owner acquired the project in December 2012. The project used the second component of the Rental Assistance Demonstration Program (RAD) conversion and completed a conversion called retroactive conversion under section III of Office of Public and Indian Housing (PIH) Notice 2012-32, REV-1. The project had a pre-1974 rent supplement contract,<sup>1</sup> which expired or was terminated in 2011. The project was financed by a pre-1974 202 Direct Loan from HUD under the provisions of Section 202 of the National Housing Act. Such projects are subject to compliance with the requirements and regulations of HUD regarding rent charges, operating methods, accounting procedures, and other matters until the mortgage matures. The project's 202 loan will mature in May 2022. The project also receives Section 8 housing assistance payments from HUD through two separate project-based housing assistance payments contracts for 24 and 90 units. The Authority administers and provides housing assistance payments under both of these contracts.

RAD was authorized by Congress in fiscal year 2012 to preserve and improve public housing properties and other HUD-assisted properties. Specifically, RAD's purpose is to provide an opportunity to test the conversion of public housing and other HUD-assisted properties to long-term, project-based Section 8 rental assistance properties to achieve certain goals, including preserving and improving these properties by enabling public housing agencies to use private debt and equity to address immediate and long-term capital needs. RAD has two components. The first component allows the conversion of public housing and moderate rehabilitation properties to properties with long-term project-based Section 8 rental assistance contracts, and the second component allows rent supplement, rental assistance payments, and moderate rehabilitation properties to convert tenant protection assistance<sup>2</sup> to project-based assistance at the end of the contract.

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<sup>1</sup> Rent supplement contracts, issued under the Rent Supplement Program enacted in 1965, are rental assistance agreements between private multifamily project owners and HUD.

<sup>2</sup> Tenant protection assistance ensure that there is no displacement of low-income residents as a result of actions such as owner opt-out of project-based Section 8 contracts, expiration or termination of rent supplement

The second component allows owners of projects funded under the rent supplement, rental assistance payment, and moderate Rehabilitation programs to convert tenant protection assistance to assistance under the Section 8 Project-Based Voucher Program, upon contract expiration, or for owners of rent supplement and rental assistance payment projects, termination, occurring after October 1, 2006, and no later than December 31, 2014. Further, regarding the rent supplement and rental assistance payment projects, section III of Notice PIH 2012-32, REV-1, HUD considers two types of RAD conversions: prospective conversions and retroactive conversions. In a prospective conversion, the project receives project-based voucher assistance in lieu of the tenant protection assistance that otherwise would have been provided to project tenants. Conversely, Retroactive conversions are conversions of tenant protection assistance that have already been issued to project tenants as a result of a rent supplement or rental assistance payments contract expiration or termination or a termination or expiration of a rent supplement or rental assistance payments contract due to prepayment of a mortgage.

Tenant protection assistance is governed by regulations under the Section 8 Housing Choice Voucher Program at 24 CFR (Code of Federal Regulations) Part 982. The tenant protection assistance is meant to ensure that there is no displacement of low-income residents as a result of various actions resulting in a loss of subsidy assistance. The tenant protection assistance also provides stability to the property. Since at least 2001, HUD has had the authority, subject to appropriations, to provide regular vouchers to eligible families when a rent supplement or rental assistance payments contract terminates due to expiration, prepayment of the underlying mortgage, or enforcement action. Therefore, the rent supplement or rental assistance payments contract units at the property are no longer available as assisted housing. HUD provides tenant protection assistance to the administering public housing agency for all units on the original rent supplement or rental assistance payments contract that were occupied within 24 months of the contract termination. The issuance of tenant protection assistance is triggered by a housing conversion action. The following actions constitute housing conversion actions: preservation prepayments, project-based opt-outs (including expiring rent supplement contracts), HUD enforcement actions, and HUD property dispositions.

The tenants affected by the project's rent supplement contract's expiration or termination in April 2011 were entitled to receive tenant protection assistance, and further qualified for the retroactive RAD conversion described above. Following the contract's expiration or termination, in July 2011, HUD's Financial Management Center, a branch of HUD's Financial Management Division,<sup>3</sup> awarded funding in July 2011 to the Authority to issue tenant protection assistance to tenants affected by the housing conversion action.

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contracts, and prepayments of HUD-subsidized Section 236 or 221(d)(3) mortgages, resulting in a loss of subsidy.

<sup>3</sup> The Financial Management Division, which falls under HUD PIH's Office of Housing Choice Vouchers, coordinates and manages funding and financial management activities across all housing voucher programs, including tenant protection assistance.

The project was accepted into the Section 8 Project-Based Voucher Program as a result of the RAD retroactive conversion. The regulatory and statutory requirements of the Project-Based Voucher program under HUD's Public and Indian Housing programs apply where the owner converts assistance to Section 8 project-based vouchers. Therefore, HUD's Office of Public and Indian Housing Programs is responsible for the oversight of the units after the RAD conversion. However, the Authority played an integral role in the project's RAD conversion as it was responsible for administering the tenant protection assistance before and the project-based vouchers after the RAD conversion. The RAD conversion was completed when the Authority and the owner executed the project-based voucher housing assistance payments contract on March 23, 2015, for 90 of the project's units.<sup>4</sup>

Our audit objective was to determine whether the project's RAD conversion to the Section 8 Project-Based Voucher Program was completed in accordance with HUD's requirements; specifically, whether the Authority properly executed the housing assistance payments contract for the project's RAD conversion.

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<sup>4</sup> Only units that meet certain requirements could convert under the retroactive conversion.

# Results of Audit

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## **Finding: The Authority Improperly Executed the HAP Contract for Vineville Christian Towers' RAD Conversion**

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The Authority improperly executed the Section 8 Project-Based Voucher Program housing assistance payments contract for the project's RAD conversion. Specifically, the Authority did not ensure that (1) the tenant protection assistance was in place for all 90 units, and (2) only the units occupied at the time of contract execution were included on the contract. In addition, the Authority did not obtain information from HUD for properly issuing tenant protection assistance. This condition occurred because the Authority (1) lacked an understanding of retroactive RAD conversion type and was not familiar with the requirements for tenant protection assistance and (2) did not establish written procedures regarding the RAD conversion and tenant protection assistance. As a result, the Authority improperly received more than \$138,000 in administrative fees. Further, unless the Authority cancels the contract,<sup>5</sup> we estimate that nearly \$257,000 in housing assistance payments will be provided over the next year for units improperly converted under RAD.

### **The Tenant Protection Assistance Was Not in Place for All 90 Units**

The Authority did not ensure that the tenant protection assistance was in place for all 90 units before the RAD conversion application was submitted.<sup>6</sup> For a retroactive type of RAD conversion, timing of when tenant protection assistance began was essential, because only the units where tenants received the tenant protection assistance before the submission of the RAD conversion were eligible for the RAD conversion.<sup>7</sup> Further, only the units occupied at the time of contract execution by eligible tenants could be assisted under the contract via RAD conversion.<sup>8</sup>

We reviewed<sup>9</sup> 100 percent of the 90 converted units to determine whether the tenants received tenant protection assistance before the RAD application submission on July 14, 2014, and determined that not all of the 90 units received tenant protection assistance before the RAD application submission. Specifically, the Authority provided tenant protection assistance for 49 (54 percent) of the units between August 1 and December 1, 2014, which ranged from 18 to 140 days after the application submission. Therefore, the Authority improperly executed the contract

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<sup>5</sup> To avoid displacements of any tenants, the Authority has the option to provide assistance through the Section 8 Housing Choice Voucher Program and provide tenant-based assistance to the affected tenants by working with the owner and HUD to protect the tenancy of the affected tenants.

<sup>6</sup> The Authority was the responsible entity for administering the tenant protection assistance for the project.

<sup>7</sup> Notice, Public and Indian Housing (PIH) 2012-32, REV-1, paragraph 3.4(C)(1)

<sup>8</sup> Notice PIH 2012-32, REV-1, paragraph 3.7

<sup>9</sup> The contract included only the unit number; therefore, we obtained the associated tenants' information from the Authority. Specifically, we reviewed the forms HUD-50058 with the action type of 1, admission, to determine the beginning date of assistance for the individual tenants.

for 90 units, which included these 49 units that did not qualify for the RAD conversion. The Authority had no written procedures to ensure that tenant protection assistance began before application submission. In addition, the Authority’s chief executive officer explained that he was not aware that the tenant protection assistance had to be issued before the submission of the RAD application. The table below identifies the range of days when tenants began receiving tenant protection assistance in comparison to the submission date of the RAD application.

**Table 1**

Number of days after the RAD application submission tenant protection assistance began	Number of RAD-converted project-based voucher units	Totals
0*	<u>41</u>	
		41
1 – 25	26	
26 – 50	19	
51 – 75	1	
76 – 100	2	
101 – 125	0	
126 – 150	<u>1</u>	
		49
N/A	N/A	<b>90</b>

\*Tenant protection assistance began on July 9, 2014, and ranged 4 to 5 days before the RAD application was submitted for 41 units.

In addition, the Authority did not ensure that vacated units were not included on the contract. Specifically, Notice PIH 2012-32, REV-1, section 3.7, provides that if a tenant with existing tenant protection assistance moved from the property before the execution of the contract, the unit that was occupied by that tenant would not receive assistance under the contract. However, based on our review of the project’s rent rolls and the Authority’s housing assistance payments register, 8 of the 90 units included in the contract were associated with tenants who had moved from the property before the execution of the contract. Specifically, the Authority executed the contract on March 23, 2015. However, the eight<sup>10</sup> tenants moved out of the property between September 14, 2014, and February 28, 2015, while the Authority needed to ensure that only the units occupied by eligible tenants were assisted under the contract. The Authority explained that it did not pay housing assistance on vacant units. We found no evidence to show that the Authority paid housing assistance on vacant units. However, the number of units in the contract, which has a term of 15 years, continues to inaccurately include the eight units discussed above with a potential for housing assistance payments when leased. Further, tenants for 4 of the 8 units received tenant protection assistance before they moved out, but after the RAD application submission on July 14, 2014. Therefore, the 4 units are also included in the count of 49 units in

<sup>10</sup> Four of the eight tenants’ units were part of the 49 units that received tenant protection assistance after the RAD application was submitted.

the discussion and Table 1 above. We determined that the Authority did not have any written procedures for executing a contract related to RAD conversions. The table below shows how many days the eight tenants had been moved out before the contract execution date.

**Table 2**

Date tenant moved out of property	Number of days tenant moved out before contract execution on 03/23/2015
09/14/2014	190
09/15/2014	189
10/02/2014	172
11/08/2014	135
12/01/2014	112
12/31/2014	82
01/05/2015	77
02/28/2015	23

The Authority received more than \$138,000 in administrative fees relating to the 90 units. Specifically, \$119,788 related to the administration of project-based vouchers, which were not converted accurately from April 2015 through April 2019, after the RAD conversion.<sup>11</sup>

**The RAD Conversion Was Not Supported With Appropriate Tenant Protection Assistance**

In addition to not ensuring the accuracy of the project’s RAD conversion, the Authority did not obtain information from HUD for properly issuing tenant protection assistance. In a RAD retroactive conversion, the tenant protection assistance is converted to the Section 8 Project-Based Voucher Program via execution of the contract. Therefore, we reviewed the accuracy of the associated converted tenant protection assistance in 2014 at the project. We determined that there was not a valid housing conversion action<sup>12</sup> at the project to require tenant protection assistance. Specifically, the owner intended to prepay the project’s mortgage in 2014; however, that transaction did not take place. Therefore, the issuance of tenant protection assistance for all 90 units between July 9, and December 1, 2014, was not supported. But, when tenant protection assistance was triggered due to the prior housing conversion action, the associated tenants no longer resided at the project, which resulted in no vouchers that could be converted under RAD.<sup>13</sup> Specifically, HUD had previously issued tenant protection assistance funding in 2011 related to the rent supplement contract expiration.<sup>14</sup> Consequently, the RAD conversion was not supported. Only the tenants that received tenant protection assistance in 2011 due to contract termination or expiration would have been eligible for the RAD conversion during 2014. Those tenants would

<sup>11</sup> Although four units were part of the 49 and 8 units in question, there was no duplication of units in our calculation because we calculated the administrative fees based on the number of occupied units on a monthly basis, which fluctuated based on tenant move-ins and move-outs.

<sup>12</sup> See the Background and Objective section of this report for details regarding housing conversion actions.

<sup>13</sup> Notice PIH 2012-32, REV-1, section 3.7, defines the RAD conversion type of retroactive conversion as a conversion of tenant protection assistance that has already been issued to project tenants as a result of the termination of a rent supplement or rental assistance payments contract due to prepayment of a mortgage.

<sup>14</sup> See the Background and Objective section of this report for brief discussion of the funding issued in 2011.

have been eligible if (1) they continued to reside at the property from 2011 through the date the housing assistance payments contract was executed, and (2) they consented to the RAD conversion. However, based on a review of the housing assistance payments register and the rent rolls, we determined that none of those tenants resided at the property when the RAD application was submitted and the housing assistance payments contract was executed.

Although the Authority did not know of the inadequacy of the project's housing conversion action during 2014, it improperly relied on information provided by the owner instead of obtaining the required information from HUD as required by the Notice PIH 2001-41, Part I, section D, step 3 to provide tenant protection assistance. The Notice stated that HUD's field office of public housing will provide either copies of form HUD-50059<sup>15</sup> or tenant profiles to the Authority to ensure that it has timely access to information needed for issuing tenant protection assistance. However, as stated above, there was not a valid housing conversion action in 2014; therefore, the reliance on the owner-provided forms was not valid, and the 90 units converted were not supported. This occurred because the Authority was not familiar with the requirements on conversions. In addition, the Authority did not have any written procedures for obtaining documentation from the appropriate source. As a result, the conversion of 90 units was not supported, which further resulted in more than \$138,000 in administrative fees improperly received relating to the 90 units.<sup>16</sup> Specifically, \$19,137 related to the administration of tenant protection assistance, which was not supported from July 2014 through March 2015, before the RAD conversion. At the time of our review, 45 of the 90 units were not occupied. Using this vacancy rate, the amount of average monthly housing assistance payments, and annualizing, we estimate that nearly \$257,000 will be provided over the next year for units improperly converted via RAD, unless the Authority cancels the contract and takes steps to protect the tenancy of the affected tenants at the time of contract cancellation.<sup>17</sup>

## Conclusion

The Authority did not have an understanding of and a familiarity with HUD's requirements for retroactive RAD conversion and tenant protection assistance. In addition, the Authority did not establish written procedures related to the RAD conversion and tenant protection assistance. As a result of the Authority's improper execution of the contract, it improperly received \$138,925 in administrative fees associated with all 90 units.<sup>18</sup> Unless the Authority cancels the contract, we estimate that \$256,824 in housing assistance payments will be provided by the Authority over the next year for units improperly converted under RAD.<sup>19</sup>

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<sup>15</sup> For the instances discussed in this report, forms HUD-50059 were generated by the owner and not the Authority. Further, the form is the owner's certification of compliance with HUD's tenant eligibility and rent procedures. Based on Notice PIH 2001-41, the form HUD-50059 is used to assist HUD in identifying which project tenants will be affected by housing conversion actions.

<sup>16</sup> See footnote 8.

<sup>17</sup> See the Scope and Methodology section of this report for details on our estimation of funds to be put to better use.

<sup>18</sup> None of the 90 units qualified for the retroactive type of RAD conversion because there was no housing conversion action in 2014 nor any qualified tenants from 2011.

<sup>19</sup> See footnote 17.

## **Recommendations**

We recommend that the Acting Director of HUD's Atlanta, GA, Office of Public and Indian Housing require the Authority to

- 1A. Put \$256,824 to better use by cancelling the project-based voucher housing assistance payments contract resulting from the RAD conversion. The Authority should work with HUD and the owner to protect the tenancy of the affected tenants at the time of contract cancellation.
- 1B. Reimburse its Section 8 program \$138,925 in associated administrative fees from non-Federal funds for the improper issuance of tenant protection assistance and an improper conversion to the project-based voucher program.
- 1C. Develop and implement procedures to ensure that forms HUD-50059 and or tenant profiles is received from HUD before providing tenant protection assistance resulting from a completed housing conversion action.
- 1D. Provide adequate training to staff associated with administering tenant protection and project-based vouchers to help address its lack of familiarity with requirements and ensure compliance with program requirements.
- 1E. Develop and implement procedures for executing Section 8 Project-Based Voucher Program housing assistance payments contracts related to RAD conversions.

# Scope and Methodology

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We performed our onsite audit work between October 2018 and April 2019 at the Authority's office located at 2015 Felton Avenue, Macon, GA; Vineville Christian Towers located at 2394 Vineville Avenue, Macon, GA; and our office in Atlanta, GA. The audit period was July 1, 2014, through April 30, 2019.

To accomplish our audit objective, we interviewed HUD program staff, the Authority's employees, a project owner consultant, and project owner employees. In addition, we obtained and reviewed the following:

- Applicable laws; HUD's regulations at 24 CFR Parts 982 and 983; Notice PIH 2001-41; Housing Notice H 2012-3, and Notice PIH 2012-32, REV-1.
- The Authority's policies and procedures, the RAD application, the housing assistance payments contract, housing assistance payments registers from July 2014 through April 2019, lease agreements, rent rolls, tenant files, HUD correspondence, and HUD's integrated Real Estate Management System reports.

We reviewed 100 percent of the 90 converted units listed on the housing assistance payments contract to determine whether the project's RAD conversion to the Section 8 Project-Based Voucher Program was completed in accordance with HUD's requirements; specifically, whether the Authority properly executed the housing assistance payments contract for the project's RAD conversion. We relied on tenant information provided by the Authority because the information provided by the owner was (1) not complete, (2) did not match the units included in the contract, and (3) did not match the information identified by the Authority.

The Authority received \$138,925 in administrative fees for the period July 2014 through April 2019, relating to the administration of 90 units. We calculated the administrative fees based on the number of occupied units on a monthly basis, which fluctuated based on tenant move-ins and move-outs. The review considered whether the Authority (1) identified the dates of the converting tenant protection assistance to determine whether they were issued before the RAD application submission date; (2) confirmed that the units included in the contract were still occupied by tenants with tenant protection assistance at the time of execution of the contract; and (3) took the appropriate steps, including obtaining information from HUD as opposed to the owner, to provide tenant protection assistance for a housing conversion action.

We used the 2014 annual contributions contract amendment funding for tenant protection assistance amount to estimate the funds to be put to better use. Specifically, \$79,425 was funded on a monthly basis for 167 units, yielding \$475.60 in average monthly amount per unit. We multiplied this average amount by the number of vacant units, which was 45 at the time of our review as of April 2019. We limited our projections to only the 45 vacant units of the 90 project-based voucher units to be conservative in our questioning of the estimated cost because in

recommendation 1A, we recommend that the Authority work with HUD and the owner to protect the tenancy of the affected tenants residing at the project at the time of contract cancellation. In other words, in our estimation, we expect that housing assistance payments will be provided for tenants receiving assistance under the contract, pending the tenants' continued eligibility and determination between the Authority, HUD, and the owner. Therefore, only the vacant units were considered in our estimation. After annualizing, we estimate that unless the Authority cancels the contract, it will improperly provide \$256,824 ( $\$475.60$  per unit per month X 45 vacant units X 12 months per year) in housing assistance payments over the next year due to the improper RAD conversion.

Computer-processed data generated by the Authority were not used to materially support our audit findings, conclusions, and recommendations. However, we did conduct a test to assess the reliability of the computer-processed data in the housing assistance payments register. Specifically, we used Microsoft Excel's duplication validation test to identify and remove any duplicate data in the registers. The test yielded no data errors. Our conclusions were further supported by documentation obtained during the audit, including but not limited to tenant files, the RAD application, the contract, HUD forms, lease agreements, rents rolls, and a property site visit.

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 objective.

# Internal Controls

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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 objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Validity and reliability of information – Policies and procedures that management has implemented to reasonably ensure that valid and reliable information is obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is in accordance 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.

## Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority lacked an understanding of and familiarity with HUD's requirements and did not establish written procedures for RAD conversion and housing conversion action (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs and Funds To Be Put to Better Use**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Funds to be put to better use 2/</b>
1A		\$256,824
1B	\$138,925	
<b>Totals</b>	<b>138,925</b>	<b>256,824</b>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. If Authority officials implement our recommendation to cancel the project-based voucher housing assistance payments contract, they will ensure that housing assistance payments are not issued improperly.

# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 1

Comment 2

Comment 3



**Macon Housing Authority**  
MAKING HOUSING AFFORDABLE  
815 Felton Avenue | Macon, GA 31201  
P.O. Box 4926 | Macon, GA 31208

**Macon Housing Authority's (MHA) Response to the HUD OIG Review of the RAD Component II PBV Conversion at Vineville Christian Towers**

The purpose of this response is to address the above-mentioned review from Macon Housing Authority's perspective.

**General Comments:**

First, MHA would like to commend the OIG employees who worked very diligently and professionally with MHA's staff over the course of this 14-month review. RAD Component II conversions are not very common, and this conversion occurred over 4 years ago and was likely one of the very early conversions of this type in the U.S. at the time. Additionally, as with any new and untested program, complexities and technicalities can make reviews difficult and time-consuming. With this as a backdrop, MHA is grateful that the OIG staff auditors were very patient and easy to work with.

I would also like to congratulate MHA's employees who did a spectacular job in supplying and researching hundreds of documents and large quantities of data for this review. Additionally, MHA's staff diligently and correctly qualified individuals to receive housing assistance through this process. Without their professionalism, care and hard work, many people would have been placed in housing jeopardy considering the shortage of affordable housing in Macon-Bibb and throughout the U.S.

Also, MHA has a very long and strong working relationship with both the Washington, D.C. based PIH and RECAP HUD staff as well as the Atlanta Field Office staff. Both groups continue to exhibit first-rate customer service, professionalism and integrity. We consider HUD a very strong and supportive partner and look forward to continuing to work with HUD to house Macon-Bibb's most vulnerable seniors and families.

Lastly, we believe that the RAD demonstration program continues to be a fantastic tool that should be pursued by any housing agency wishing to preserve and improve very scarce affordable housing throughout the U.S.

**Specific Responses to the OIG Report:**

The OIG notes that MHA improperly executed the RAD PBV contract for the conversion stating that MHA did not ensure that all 90 units were covered by Tenant Protection Assistance at the time of the owner's submission of the conversion application to HUD.

MHA's staff met with over 90 residents at the request of the owner and as required by a Component II conversion. All 90 residents consented to have their assistance converted from Tenant Protection Vouchers to RAD PBV. However, only 49 qualified for housing assistance and Vineville Christian

EQUAL OPPORTUNITY IN HOUSING, EMPLOYMENT, PROCUREMENT AND SERVICES

**Ref to OIG  
Evaluation**

**Auditee Comments**

Comment 3

Towers (VCT) informed MHA that it expected an additional number of qualified residents would be identified to fill the remaining units up to 90 units as noted in VCT's letter to MHA dated June 20, 2014. As such, by July 29<sup>th</sup>, 2014, 87 seniors had received much needed TPV assistance (the remaining 3 people were not available for the scheduled voucher briefing and issuance session, but within 2 months, the remaining 3 people were identified and deemed income and program eligible for TPV as evidenced by the 90 50058s MHA has on file).

Comment 4

MHA agrees with the data as contained in the OIG table (Table 1). However, it should be noted that absent a RAD Component II PBV conversion, it would have been appropriate to continue paying HAP dollars on the HUD approved TPVs (for qualified Section 8 seniors). Converting some of the TPVs to RAD PBVs did not require any more HAP dollars than what was being funded and distributed by HUD based on their TPV approval prior to VCT's RAD Component II application.

The OIG also notes that MHA did not ensure that only units occupied at the time of the contract execution were included in the contract. Though there were 90 units initially identified, the OIG correctly concludes that MHA did not pay HAP dollars for empty units or on behalf of seniors who were not Section 8 eligible. RAD and standard PBV contracts fluctuate as a matter of attrition (move-outs, deaths, increases in income, etc.). As such, HAP dollars are only paid and were only paid on units that have or had a qualified Section 8 resident in place. We appreciate the OIG pointing out this important fact.

Comment 5

Additionally, the OIG notes that MHA did not obtain information from HUD for properly issuing TPV assistance. MHA concedes that HUD did not send MHA the 50059 forms. However, HUD did send MHA a letter dated March 31, 2014 notifying MHA that funds were obligated (and later distributed to MHA) to provide voucher assistance to families who were affected by the expiration of the Rent Supplement Contract between VCT and HUD. The letter does not make the receipt of the TPV HAP dollars contingent upon receiving 50059 forms from HUD. In fact, the letter does not speak to 500059s, but informed MHA that the funds and corresponding admin fees would be forthcoming based on an expiration of the Rent Supplement contract between VCT and HUD.

Comment 6

MHA obtained computer generated the 50059's from the property which would have been the same information as contained in TRACS (HUD presumably would have generated the 50059s to send to MHA from data in TRACS). Regardless, it should be noted that the 50059s were only used to identify the seniors by name and unit number and no other information could be used since MHA had to meet with each person and qualify them to generate a new Section 8 based 50058 as required by any Section 8 move-in, interim, change in circumstances, etc.

Comment 6

Again, though MHA agrees with the 19-year old Notice cited by the OIG regarding 50059 data (Notice PIH 2001-41), it is clear that information contained on 50059's is used to aid both HUD and the Authority to identify individuals who *may* be eligible for Section 8 based TPV assistance. Final eligibility is determined only after the Authority meets with each resident and determines qualifications. HUD regulation requires housing authorities to generate new 50058s (in the case of Section 8 HAP and TPV) when qualifying residents for subsidy assistance. MHA did so in each case as evidenced by the 50058s on file at MHA.

Comment 7

Finally, the OIG states that MHA did not have written procedures concerning TPVs and/or RAD Component II conversions. MHA concedes that it did not have written procedures in place for TPV or

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Comment 7

RAD Component II conversions. However, it should be noted that MHA's Administrative Plan has never contained procedures relating to TPVs since the issuance of TPVs is a very rare occurrence. In fact, from 1938 to 2014, MHA had only received and successfully processed TPVs on just two (2) occasions.

Comment 7

However, MHA will adopt written procedures for the receipt of TPVs moving forward. Regarding RAD Component II, it should be noted that to the best of MHA's knowledge, there were no RAD Component II procedural templates in publication either produced by 3<sup>rd</sup> party trade organizations or HUD's RAD team during the infancy stage of this program. It is highly unlikely that MHA will participate in another RAD Component II conversion, but if the occasion arises in the future, MHA will adopt procedures at that time.

**Response to OIG's Recommendations and Conclusion:**

MHA received two very important letters from HUD regarding TPVs and the subject RAD Component II conversion. As noted earlier, HUD's approval of TPV subsidy was received by MHA on March 31, 2014 with an executed copy to amend the Consolidated Annual Contributions contract. This was obviously MHA's green light to begin processing TPVs. MHA, VCT and the senior residents are very grateful that HUD distributed TPV funds which ensured that many of Macon-Bibb's most vulnerable seniors living at VCT could continue to afford to pay rent.

Comment 8

Further, regarding the HUD TPV approval, the OIG discovered that a triggering event (opt out, contract cancellation, etc.) did not actually occur in 2014. Since MHA was not a party to the Rent Supplement Contract between the VCT and HUD, it would not have known the terms of the contract or validity of any such triggering event. However, since a triggering event did not occur, any finding or reimbursement of dollars relating to the subsequent RAD Component II conversion seems very debatable by logical extension.

Comment 8

The fact remains that the HAP dollars were received by HUD and paid on behalf of seniors who were in need and qualified for Section 8 assistance at VCT. Further, Administrative fees were earned in the process and MHA paid its employees with the fees to interview and process each resident. Additionally, MHA paid to have each unit inspected for HQS. As such, MHA is not inclined to refund any administrative fees. Further, it should be noted here that PHAs are being funded to administer the Section 8 program at the current rate of 79 cents on the dollar, which places PHAs as well as MHA in very challenging financial positions. This, coupled with the fact that MHA performed this important service for the seniors at VCT, renders the likelihood of MHA being able to re-pay any funds very unlikely.

Comment 9

The second letter dated March 3, 2015, was HUD's approval of the owner's application for a RAD Component II conversion. The letter stated that HUD had completed its review of the project and found it to be in compliance with the instructions outlined in Notice PIH 2012-32.

Comment 9

MHA and VCT interpreted this letter as HUD's approval of VCT's RAD request and subsequently entered into a PBV contract for up to 90 units. It should be noted that MHA did not apply for or approve the RAD Component II application since it was not MHA's application to approve. However, MHA did agree to enter into a RAD PBV contract with VCT after HUD had reviewed and approved the application.

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Comment 10

The OIG recommends that MHA work with VCT and HUD to cancel the current RAD PBV contract and to protect the tenancy of the affected tenants. MHA agrees with this recommendation and has already been in contact with HUD and VCT to begin exploring this possibility.

Comment 11

However, the OIG mentions that if the contract is not cancelled, an estimated \$257,000 will be provided in housing assistance for seniors over the next 12 months. Using the current per unit HAP amount per senior resident under the current contract at VCT, MHA calculates that approximately \$102,673 will be paid on behalf of seniors at VCT over the next year (MHA has submitted this calculation and documentation to the OIG with this report). If MHA and VCT cancel the RAD Component II contract and enter into a regular PBV contract, roughly \$102,673 will still be expended over the next year since RAD Component II PBV dollars are the same as regular PBV HAP dollars. However, MHA agrees that changing the contract may be technically appropriate.

Comment 12

MHA believes that VCT and HUD will act in good faith during this process since it has been made very clear that all parties have the interests of the seniors at VCT as priority. MHA's mission is to add value to the community and the lives of those it serves through quality housing... MHA will not deviate from its mission while working with VCT and HUD to move forward.

Comment 12

Michael. T. Austin  
Chief Executive Officer

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## OIG Evaluation of Auditee Comments

- Comment 1 We appreciate the Authority's cooperation during our review.
- Comment 2 The Authority stated that its staff correctly determined individuals' qualifications to receive housing assistance by working diligently, and that without this effort, many people's housing would have been jeopardized considering the shortage of affordable housing in Macon-Bibb County and throughout the U.S.
- We agree that ensuring affordability of housing requires effort and diligent work. However, we did not review the individual tenants' income eligibility because it did not relate to our audit scope. Therefore, we cannot comment on the accuracy of the individuals qualified by the Authority's staff to receive housing assistance.
- Comment 3 The Authority explained that it met with individual tenants to determine their income and program qualifications for tenant protection voucher assistance and maintained a form HUD-50058 for each tenant. Further, the Authority stated that it had qualified 49 tenants; however, it qualified additional tenants to total 90 tenants based on tenants identified by the owner. Specifically, the Authority referenced a letter dated June 20, 2014, and stated that the owner informed it of its intentions of qualifying additional and up to 90 tenants. More specifically, the Authority stated that 87 tenants were deemed qualified by July 29, 2014.
- The Authority did not provide the owner's letter with its comments. However, as noted in our finding, the Authority was responsible for administering all of the units included in the housing assistance payments contract through the RAD conversion; therefore, when it executed the housing assistance payments contract, it did so improperly, because not all 90 units were associated with tenants whose tenant protection assistance did not begin before or at the time of the RAD application submission.
- Comment 4 The Authority agreed with our finding illustrated in Table 1 of this report that tenants for some of the RAD-converted project-based voucher units did not begin receiving tenant protection assistance before or at the time of the RAD application submission. However, the Authority stated that the issuance of tenant protection assistance to qualified tenants would have been appropriate if the RAD conversion had not taken place. Specifically, the Authority stated that converting some of the tenant protection assistance to the project-based voucher assistance through the RAD conversion did not require additional funding than what HUD had funded and distributed in tenant protection assistance. The Authority pointed out that HUD's funding approval of the tenant protection assistance had taken place before the RAD application was submitted.
- The Authority is correct that irrespective of a RAD conversion, tenant protection voucher assistance can be provided to qualified tenants because the tenant

protection voucher assistance is triggered by a housing conversion action<sup>20</sup> and not a RAD conversion or for the purpose of a RAD conversion. The RAD conversion of tenant protection voucher assistance to the project-based voucher assistance may not have required additional funding for the Authority. However, this is potentially due to HUD's waiving of certain program requirements specifically for RAD conversions.<sup>21</sup> We did not assess the efficiency of any waivers; therefore, we cannot comment on cost indifference, if any, for project-based tenant protection voucher assistance. For the project, however, the awarding of funding for tenant protection assistance was not based on a valid housing conversion action, resulting in improper issuance of tenant protection assistance. Therefore, the timing of the project's tenant protection assistance funding is not relevant.

Comment 5 The Authority argued that although it did not obtain the information from HUD for properly issuing the tenant protection voucher assistance, HUD's funding letter, which it received for issuing tenant protection vouchers did not address obtaining the information or form HUD-50059. Specifically, the Authority stated that the funding award letter did not make the receipt of funding contingent upon obtaining forms HUD-50059s from HUD.

We agree that HUD's funding award letter issued to the Authority did not detail the process for administering the tenant protection voucher assistance. However, as stated in this report, Notice PIH 2001-41 which the Authority was required to comply with, stated that HUD would provide either copies of form HUD-50059 or tenant profiles to the Authority to ensure that it has timely access to information needed for issuing tenant protection assistance.

Comment 6 The Authority stated that it obtained forms HUD-50059 from the owner, which would have been the same had it received the forms from HUD. Further, the Authority explained that the forms were used only to identify names and unit numbers of tenants that potentially qualified to receive tenant protection assistance. However, the tenants' final eligibility is determined only after the Authority meets with each tenant and determines qualifications, and generates form HUD-50058 as required to begin the tenants' tenant protection voucher assistance under the Section 8 program.

We agree that the tenants' eligibility is determined only after the Authority meets with each tenant, determines qualifications, and prepares a form HUD-50058.

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<sup>20</sup> See the Background and Objective section of this report for details regarding housing conversion actions.

<sup>21</sup> Section I of Notice PIH 2012-32, REV-1, subsection 1.6(A)(1) waived the maximum amount of project-based voucher assistance under section 8(o)(13)(B) of the Housing Act as well as 24 CFR 983.6, which states that a housing authority can select owner proposals to project-based assistance for up to 20 percent of the amount of budget authority allocated to the housing authority by HUD in the housing authority's voucher program. In other words, when this requirement is waived, a housing authority can use more than 20 percent of its entire voucher program funding in administering project-based voucher assistance.

However, as stated in this report, the process of determining tenant eligibility begins with the identification of the tenants for the Authority to meet with via forms HUD-50059 or tenant profiles. Therefore, the Authority was required to obtain the forms HUD-50059 from HUD and not the owner, which is explicitly stated in the Notice PIH 2001-41.

Comment 7 The Authority agreed that it did not have written procedures regarding the tenant protection voucher assistance and RAD conversions and explained the reasons that issuing tenant protection vouchers is a very rare occurrence and that there were no published procedural templates in the initial states of RAD conversions. However, the Authority stated that it will adopt written procedures regarding the tenant protection voucher assistance and RAD conversions at the time of participation if it participates in another RAD conversion in the future.

We commend the Authority's willingness to ensure that HUD's requirements are met in administering the tenant protection voucher assistance and future RAD conversions, if any. The Authority should work with HUD during the audit resolution process to fully implement recommendations 1C and 1E.

Comment 8 The Authority pointed out that since it was not a party to the Rent Supplement contract that was between the owner and HUD, it would not have had knowledge of any housing conversion actions triggering the issuance of the tenant protection voucher assistance or the validity of such triggering events. Therefore, the Authority questioned whether any funds related to the RAD conversion would need to be reimbursed. Specifically, the Authority stated that it was not inclined to refund any administrative fees questioned. Further, the Authority stated that the administrative fees earned by the Authority were used for employee salaries. In addition, the Authority stated that public housing authorities are currently paid only 79 cents on the dollar.

We acknowledge that (1) the Authority was not a party to the Rent Supplement contract, (2) the Authority would not have had knowledge of or the validity or any housing conversion actions triggering the issuance of the tenant protection voucher assistance, and (3) the administrative fees may pose financial challenges to housing authorities. Although the Authority did not know of the inadequacy of the project's housing conversion action during 2014, it improperly relied on information provided by the owner instead of obtaining the required information from HUD as required by the Notice PIH 2001-41 to provide tenant protection assistance. The Authority should work with HUD during the audit resolution process to reimburse its Section 8 program per recommendation 1B for the improper issuance of tenant protection assistance and an improper RAD conversion.

Comment 9 The Authority stated that it did not apply for nor approve the project's RAD conversion; however, it entered into a RAD project-based voucher contract with

the owner after HUD had reviewed and approved the RAD conversion application. Specifically, the Authority stated that HUD's approval letter stated that HUD had completed its review of the project and found it to be in compliance with the instructions outlined in Notice PIH 2012-32.

We agree that the Authority did not apply nor approve the RAD conversion. However, the Authority was responsible for administering the tenant protection voucher assistance and execute a housing assistance payments contract under the project-based voucher program after the RAD conversion. As noted in this report, the Authority did not (1) obtain the information from the proper source for issuing the tenant protection vouchers, and (2) ensure that only units occupied by eligible tenants were included on the housing assistance payments contract.

- Comment 10 The Authority stated that it has begun communication with HUD and the owner, and started exploring the possibilities for implementing recommendation 1A for cancelling the project-based voucher housing assistance payments contract from the RAD conversion, and protecting the tenancy of the affected tenants.

We commend the Authority's willingness to implement the recommendation. The Authority should work with HUD and the owner during the audit resolution process to fully implement recommendation 1A.

- Comment 11 The Authority disagreed with our calculation of nearly \$257,000 as the estimated housing assistance payments that will be paid over the next 12 months. Instead, the Authority believed that the correct amount of housing assistance payments over the next 12 months would be \$102,673 based on the current per unit per tenant under the contract amount. Further, the Authority stated that it provided its calculations and documentation to us.

We did not include the Microsoft Excel spreadsheet the Authority provided in appendix B as it was not necessary. However, we provided it to HUD. The spreadsheet included only 42 entries of housing assistance payment for the month of December 2019 and 1 entry of housing assistance payment for the month of November 2019. The listing did not include tenant names nor unit numbers. As explained in the Scope and Methodology section of this report, we used the per-unit-per-month amount based on the funding amount that was awarded to the Authority for issuing tenant protection vouchers at the project. We used the funding amount as opposed to the actual payment amount because using the amount of actual payments of any one month for estimating the savings would significantly over or under represent the amount of housing assistance payments across the units because the amount of housing assistance fluctuates month to month by unit and by tenant due to several factors such as change in tenant, change in tenant's income situation, and etc. In addition, we limited our calculation of the estimated savings to the number of vacant units because we expect the occupied units to continue to receive assistance, per recommendation

1A. Therefore, we did not revise the amount of estimated housing assistance payments that will be put to better use by cancelling the project-based voucher housing assistance payments contract.

Comment 12 The Authority agreed that changing the contract will be technically correct. Further, the Authority showed commitment to work with HUD and the owner and move forward with the process in good faith while remaining true to its mission of adding value to the community and the lives of those that it serves through quality housing.

We commend the Authority's commitment and encourage it to work with HUD and the owner during the audit resolution process to fully implement recommendation 1A.