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HUD's Office of Public and Indian Housing Needs To Improve Its Oversight of Non-FHA-Insured PBV Projects Converted Under RAD

Audit Report Number: 2025-CH-0002

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Office of Audit | Office of Inspector General
U.S. Department of Housing and Urban Development

Highlights

HUD Needs To Improve Its Oversight of Non-FHA-Insured PBV Projects Converted Under RAD | 2025-CH-0002

What We Audited and Why

The U.S. Department of Housing and Urban Development (HUD) estimated that before the creation of the Rental Assistance Demonstration Program (RAD), 8,000 to 15,000 public and federally assisted housing units were lost each year to demolition or disposition, due to deferred maintenance and the backlog of funding needed to address capital improvements. RAD was created to give public housing agencies (PHA) a tool to preserve and improve public housing properties. RAD seeks to convert public housing and other HUD-assisted properties to project-based Section 8 rental assistance and allow owners access to public and private funding to address the physical capital needs of the converted properties. Our audit objective was to determine whether HUD had adequate oversight of the physical condition of the public housing units that converted to non-Federal Housing Administration (FHA)-insured project-based vouchers (PBV) under RAD.

What We Found

HUD needs to improve its oversight of the physical condition of converted projects. Before the implementation of its PBV monitoring pilot program, HUD performed limited monitoring of RAD PBV projects. HUD also did not have a standardized process for monitoring the projects for compliance with its requirements. Additionally, for converted units that were PHA owned, HUD did not consistently receive required housing quality standards (HQS) inspection reports.

These conditions occurred because HUD did not specifically target converted projects for review. It also did not have a system to collect and maintain information about the physical and financial condition of RAD PBV projects. Instead, HUD relied on the contract administrators (PHAs) to oversee the converted projects. Additionally, HUD did not have a protocol or procedures for its field offices to ensure that HQS inspection reports for PHA-owned projects had been received and reviewed, as applicable, before HUD eliminated the requirement in June 2024.

As a result of HUD's limited monitoring and lack of a system to collect and maintain data, HUD did not have information to assess whether the contract administrators effectively performed their oversight responsibilities of ensuring that (1) families resided in units that were decent, safe, and sanitary; (2) the converted projects' reserve for replacement accounts were sufficiently funded to address extraordinary maintenance, repair, and replacement of capital items; and (3) project owners' withdrawals from reserve accounts were appropriate. When we inspected a sample of RAD PBV units from 28 converted projects associated with three PHAs, we found that more than 74 percent of the units failed to meet HQS. Further, based on our calculations, the reserve for replacement accounts for 12 of the 28 projects were underfunded. Therefore, unless HUD specifically selects projects for review, it is unable to adequately monitor the long-term sustainability of these projects.

What We Recommend

Our report contains recommendations to the General Deputy Assistant Secretary for Public and Indian Housing to improve PIH's oversight of the physical condition of converted projects. Specifically, we made recommendations related to (1) targeting projects for review and developing policies and procedures for monitoring, (2) reviewing reserve for replacement accounts to ensure sufficient account balances and compliance with applicable HUD requirements, (3) implementing a process to ensure reserve for replacement requirements in HUD's business documents are consistent for converted projects, and (4) collecting data on projects' reserve for replacement accounts to support the Office of Field Operations' monitoring activities. We also made a recommendation for HUD to provide inspection reports showing that units meet HUD's current physical condition standards.

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Background and Objective

With the aging of the public housing stock, HUD estimated that before the creation of the Rental Assistance Demonstration Program (RAD), 8,000 to 15,000 public and federally assisted housing units were lost each year to demolition or disposition, due to deferred maintenance and the backlog of funding needed to address capital improvements. RAD[1] provides the opportunity to convert public housing and other HUD-assisted projects to long-term, project-based Section 8 rental assistance to achieve certain goals, including the preservation and improvement of these projects through enabling access by public housing agencies (PHA) and owners to private and public debt and equity to address immediate and long-term capital needs. By addressing capital needs, RAD allows project owners to shift more resources toward preventive maintenance.

RAD has two components. The first component allows projects funded under the public housing program to convert their assistance to long-term, project-based Section 8 rental assistance contracts. The second component allows owners of (1) projects funded under the Rent Supplement, Rental Assistance Payment, and Moderate Rehabilitation programs and (2) project rental assistance contracts under Section 202 Supportive Housing for the Elderly program to convert to project-based rental assistance (PBRA) or project-based voucher (PBV) contracts.

This audit focused on the conversion of public housing to PBV without Federal Housing Administration (FHA)-insured loans[2] under the first component of RAD. Congress has not authorized incremental funding for this component; therefore, assistance is converted at the current public housing subsidy levels.[3]

Under the first component of RAD, PHAs may choose between two forms of long-term Section 8 housing assistance payments (HAP) contracts – PBV and PBRA – with initial contract terms of generally 15 to 20 years. These contracts are tied to a specific property and number of units.

> PBV: The PHA executes and administers the HAP contract with the property owner. In the case of FHA-insured PBV, HUD and the lender also have contract oversight responsibilities.
>
> PBRA: HUD executes the HAP contract with the property owner. Traditionally, PBRA units are administered by HUD's Office of Housing, with HAP oversight functions contracted to performance-based contract administrators (PBCA). Under RAD, HUD administers and enforces the RAD PBRA HAP contracts, rather than contracting with PBCAs.

The conversion of public housing properties to long-term Section 8 contracts under RAD involves a series of actions from the application to the completion of construction or repair of the properties. Chart 1 below provides a brief description of the conversion process.

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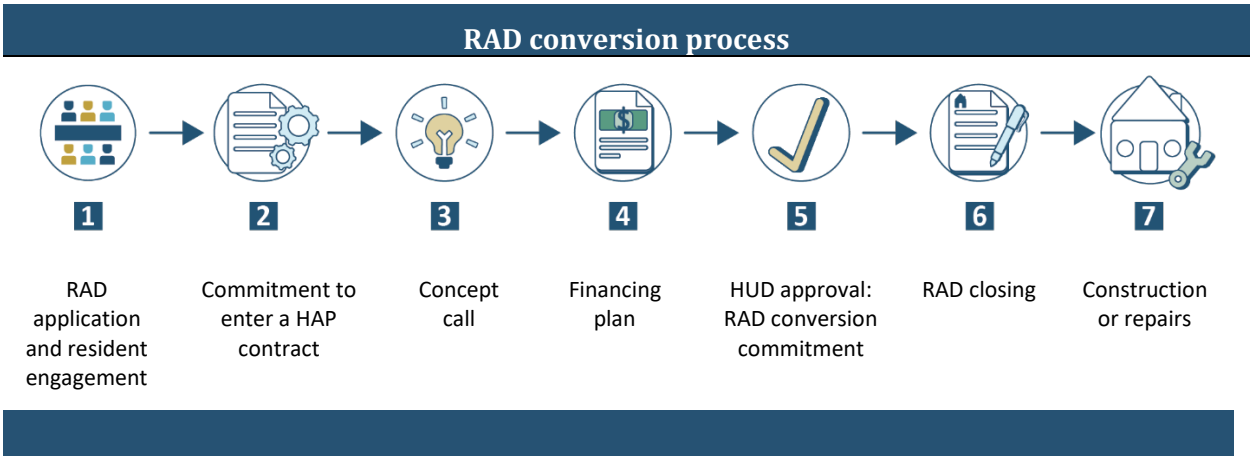
[1] Public Law 112-55, approved November 18, 2011, as amended

[2] As part of HUD, FHA provides mortgage insurance on loans made by approved lenders for multifamily properties. FHA mortgage insurance protects lenders against losses. If a property owner defaults on his or her insured mortgage, FHA pays a claim to the lender for the unpaid principal balance.

[3] RAD is a cost neutral program; therefore, the subsidy for converted units is established using the property's current funding levels received through public housing operating and capital funding and rental receipts from the assisted households.

Chart 1: Steps in the RAD conversion process



As part of the conversion, PHAs are required to have capital needs assessments (CNA), and RAD is intended to address those capital needs. Due to the timing of when our sample of properties converted under RAD, between March 2016 and April 2020, and when the CNAs were performed, which was during the conversion process, we were unable to determine whether the RAD conversion improved the condition of the properties, which would have required an updated physical needs assessment to estimate short-term and long-term capital needs after conversion. Therefore, this audit focused on the current physical condition of properties based on our inspections performed in 2023.

PBVs are a component of a PHA's Housing Choice Voucher Program. PHAs use their tenant-based voucher funding to allocate project-based units to a project. Under RAD, from the effective date of the RAD PBV HAP contract through the balance of the calendar year of conversion, RAD PBV projects will continue to be funded through the public housing program accounts.[4] Assistance for the units will not flow through the voucher annual contributions contract (ACC) until the beginning (January 1) of the calendar year following the first year of conversion. Before the beginning of the calendar year, HUD will add an increment of new funding to the administering PHA's ACC.

Unlike the owner of a traditional PBV project, HUD requires the owner of a RAD PBV project to establish and maintain a replacement reserve in an interest-bearing account to aid in funding extraordinary maintenance and repair and replacement of capital items in accordance with applicable regulations.[5] Funding withdrawn from the replacement reserves must be used subject to HUD guidelines. An owner that wishes to withdraw funds from the reserve for replacement account to address extraordinary maintenance and repair or replacement of capital items need not obtain the contract administrator's approval if the need for such maintenance, repair, or replacement is anticipated and identified in the project's CNA. A withdrawal for any other purpose requires prior approval by the contract administrator.

In addition to project owners' maintaining a reserve for replacement account, HUD requires that RAD PBV units meet housing quality standards (HQS) (1) before executing a RAD PBV HAP contract for projects with no required rehabilitation or construction work or (2) upon the completion of work and before payment

[4] PHAs' public housing programs include operating and capital fund accounts.
[5] HUD Notice H-2019-09 PIH-2019-23

of any HAP on behalf of the family for projects that undergo rehabilitation or construction. Further, the contract administrator or independent entity must conduct HQS inspections at unit turnover and periodic inspections of a random sample of at least 20 percent of all assisted units under a RAD PBV HAP contract no less frequently than biennially.

Based on data from HUD's RAD Resource Desk,[6] as of June 3, 2024, 326 PHAs had converted public housing units to RAD PBV units. Of the 326 PHAs with RAD PBV projects, 246 PHAs contained non-FHA-insured projects. These 246 PHAs contained 647 non-FHA-insured projects with 61,434 units. See table 1 below for a summary of projects converted from June 2022[7] through June 2024.

Table 1: RAD PBV program data comparison

	June 2022		June 2024	
	All RAD PBV	Non-FHA-insured RAD PBV	All RAD PBV	Non-FHA-insured RAD PBV
PHAs	292	180	326	246
RAD projects	942	453	1,082	647
RAD units	91,068	43,676	100,890	61,434

Table 1 shows that the number of RAD PBV units increased from 2022 to 2024.

In 2022, HUD's Office of Public and Indian Housing's (PIH) Office of Field Operations (OFO), through its PBV working group, developed a nationwide pilot program to test different forms of checklists that field offices would use to monitor PHAs' compliance with PBV requirements,[8] including RAD PBVs. Under the pilot, OFO had several goals that it wanted to accomplish, including identifying common compliance issues, by looking at PBV projects across the country and establishing procedures for a more comprehensive PBV monitoring strategy. OFO selected 18 PHAs to be part of the pilot.

The pilot had four phases, three of which included testing different checklists, and the final phase produced the operating protocols for compliance monitoring implementation across all field offices. The different checklists tested included questions that were specific to the following three types of PBV projects: (1) non-PHA-owned PBV projects that were not converted under RAD (phase I), (2) PHA-owned[9] PBV projects that were not converted under RAD (phase II), and (3) PBV projects converted under RAD (phase III).

[6] HUD's RAD Resource Desk serves as (1) a comprehensive information archive, enabling searches of all published guidance on RAD, and (2) the main portal for RAD participants; for example, to search for information, guidance, training, data, and forms.

[7] Although RAD was authorized in 2012, the first RAD conversion closed in September 2013.

[8] 24 CFR (Code of Federal Regulations) part 983

[9] The primary difference between a PHA-owned and non-PHA-owned project is the requirement that an approved independent entity perform certain functions for the project.

Our objective was to determine whether HUD had adequate oversight of the physical condition of the public housing units that converted to non-FHA-insured PBV under RAD. Specifically, we wanted to determine whether HUD monitored non-FHA-insured RAD PBV projects to ensure that (1) units converted under RAD were maintained in decent, safe, and sanitary condition[10] and (2) reserve for replacement accounts were appropriately funded and maintained in accordance with HUD's requirements.

To assess HUD's oversight of the physical condition of non-FHA-insured RAD PBV projects, we focused on the following three areas:

1. HUD monitoring.
2. Physical condition of projects converted under RAD.
3. Reserve for replacement.

[10] During our audit period, HUD's regulations at 24 CFR 5.703 required HUD housing to be decent, safe, sanitary, and in good repair. However, effective July 1, 2023, HUD amended 24 CFR part 5, and section 5.703(a) now states that HUD housing must be functionally adequate, operable, and free of health and safety hazards and that the standards under this section apply to all HUD housing. The language has changed, but because they are substantially the same, we continue to use the phrasing "decent, safe, sanitary, and in good repair."

Results of Audit

Overall Assessment of HUD's Oversight of the Physical Condition of Non-FHA-Insured RAD PBV Projects

We assessed HUD's oversight of the physical condition of non-FHA-insured RAD PBV projects in three review areas and identified exceptions in all areas as noted in the table below.

Review areas	Exception identified?	Details of assessment
HUD monitoring	Yes	Based on responses from 38 of 42 surveyed field offices, only 9 field offices had monitored a RAD PBV project within the past 5 years.
Physical condition of selected RAD PBV projects (units and associated buildings)	Yes	More than 74 percent of the 190 sampled units failed to meet HQS, of which more than 60 percent failed due to life-threatening deficiencies.
Project owners' reserves for replacement	Yes	Reserve accounts for 12 of the 28 sampled projects were underfunded, and funds withdrawn from 8 accounts were not properly supported.

The following sections include additional details of the exceptions identified in each of the review areas.

HUD Did Not Adequately Monitor RAD PBV Projects

HUD performed limited monitoring of RAD PBV projects. HUD also did not have a standardized process for monitoring the projects for compliance with its requirements. Additionally, for converted units that were PHA owned, HUD did not consistently receive required HQS inspection reports from independent entities.

These conditions occurred because HUD did not specifically target converted projects for review. It also did not have a system to collect and maintain information about the physical and financial condition of RAD PBV projects. Instead, HUD relied on the contract administrators (PHAs)[11] to oversee the converted projects. Additionally, HUD did not have a protocol or procedures for its field offices to ensure that HQS inspection reports for PHA-owned projects had been received and reviewed, as applicable, before HUD eliminated the requirement in June 2024.

As a result of HUD's limited monitoring and lack of a system to collect and maintain data, HUD did not have information to assess whether the contract administrators effectively performed their oversight responsibilities of ensuring that (1) families resided in units that were decent, safe, and sanitary; (2) the converted projects' reserve for replacement accounts were sufficiently funded to address extraordinary maintenance, repair, and replacement of capital items; and (3) project owners' withdrawals from reserve

[11] See appendix B

accounts were appropriate. When we inspected a sample of RAD PBV units from 28 converted projects associated with 3 PHAs, we found that more than 74 percent of the units failed to meet HQS. Further, based on our calculations, the reserve for replacement accounts for 12 of the 28 projects were underfunded. Therefore, unless HUD specifically selects projects for review, it is unable to adequately monitor the long-term sustainability of these projects.

HUD Performed Limited Monitoring of RAD PBV Projects

Using information from HUD's RAD Resource Desk, we determined that 42 of HUD's 45 public housing field offices had PHAs with non-FHA-insured RAD PBV units in their jurisdictions.[12] We surveyed management from the 42 field offices, asked whether the offices had monitored a RAD PBV project between 2018 and 2023, and requested documentation to support the reviews. We received responses from 38 field offices and determined that only 9 had monitored a converted RAD PBV project. However, the monitoring conducted by six of the nine field offices was associated with HUD's 2022 PBV monitoring pilot program.[13] Outside the pilot program, only 4 field offices had monitored a RAD PBV project within the last 5 years.[14] These 4 field offices monitored 4 nonpilot PHAs with a total of 26 RAD PBV projects. However, the documentation provided showed that an evaluation of the physical condition of the units and reserve for replacement accounts was conducted for only 3 of the 26 projects.

For the limited number of RAD PBV projects reviewed outside the pilot program, HUD did not have a standardized process for monitoring these projects for compliance with its requirements. According to HUD, under the pilot program, the field office staff reviewed six RAD PBV projects using a standardized checklist that included several questions related to a project owner's compliance with HUD's reserve for replacement requirements as well as questions related to HQS inspections. HUD also used the standardized pilot checklist for its 2023 compliance monitoring reviews of PHAs' RAD PBV projects. However, for its 2024 compliance monitoring reviews, HUD used a condensed version of the pilot checklist, which did not include any of the questions related to inspections and had only one question related to reserve for replacement. For its 2025 compliance monitoring reviews of RAD PBV projects, HUD reinstated the questions from the standardized pilot checklist related to reserves for replacement and inspections.

HUD also did not (1) consistently obtain inspection reports from independent entities for converted projects that were PHA owned in accordance with 24 CFR (Code of Federal Regulations) 983.103(f)(2)[15] or (2) have procedures for reviewing the inspection reports when received. Further, in June 2024, HUD changed the requirement to no longer require independent entities to provide inspection reports to HUD.[16] As a result, HUD placed increased reliance on the PHAs to maintain and review inspection reports.

[12] As of June 2023, there were 217 PHAs with more than 54,000 non-FHA-insured RAD PBV units across 559 projects in the jurisdiction of the 42 field offices.

[13] We considered the monitoring conducted by the field offices to be associated with HUD's 2022 PBV monitoring pilot program if the field office (1) monitored a PHA that was selected as part of phase III of the pilot or (2) used the RAD PBV monitoring pilot checklist as part of its monitoring. See the Background and Objective section of this report for additional information on the pilot program.

[14] One field office conducted monitoring associated with the pilot and outside the pilot.

[15] See appendix B

[16] Since HUD changed its requirement, this report does not contain a recommendation to address this issue.

HUD Lacked Information on the Physical and Financial Condition of RAD PBV Projects To Effectively Monitor for Compliance With Its Requirements

HUD did not have a system that collected and maintained information about the physical and financial conditions of RAD PBV projects. Therefore, unless projects were targeted for monitoring, HUD did not collect information about (1) the timing and results of unit and building inspections and (2) projects' reserve for replacement accounts, such as the total amount of replacement reserve deposits and withdrawals, ending balances, and other items. This lack of information restricted HUD's ability to effectively monitor the performance of RAD PBV projects unless it specifically requested documentation as part of a remote or onsite monitoring review.

HUD's process for selecting PHAs for compliance monitoring reviews did not ensure that PHAs with RAD PBV projects were targeted for review. According to HUD, each fiscal year, PIH senior management would determine the minimum number of PHAs each network[17] would review and any additional decision criteria before the previous fiscal year ended. Regional and public housing directors would identify the PHAs subject to monitoring reviews based on key risk indicators[18] and data analyses. In 2024, each network was expected to review at least 5 percent of the PHAs in its portfolio. However, since HUD did not have a system to collect and maintain information on RAD PBV projects, these projects may not have been adequately represented when HUD assessed the risk indicators used to select PHAs for review. Further, HUD did not require field offices to specifically review PHAs that administered RAD PBV projects.

As a result, HUD did not have information to assess whether the contract administrators effectively performed their oversight responsibilities of ensuring that (1) families resided in units that were decent, safe, and sanitary; (2) the converted projects' reserve for replacement accounts were sufficiently funded to address extraordinary maintenance, repair, and replacement of capital items; and (3) property owners' withdrawals from those accounts were appropriate. Further, with the number of non-FHA-insured RAD PBV units increasing by more than 40 percent from June 2022 to June 2024, HUD needs to improve its oversight of these projects by obtaining necessary information on their physical and financial condition to assess the long-term sustainability of these projects and consider the information as part of its monitoring strategy of PHAs.

We selected three PHAs located in Wisconsin, Georgia, and California and reviewed the physical condition of a sample of units and associated buildings as well as the reserve for replacement accounts for 28 projects overseen by their contract administrators.

RAD Non-FHA-Insured PBV Projects Were Not Maintained in Decent, Safe, and Sanitary Condition

We inspected 190[19] of the 2,618 RAD-converted units at the 3 selected PHAs. We performed our inspections from January 10 through March 2, 2023. See table 2 below.

[17] HUD's Office of Public and Indian Housing is composed of 6 networks.
[18] The key risk indicators, in part, are based on information maintained in HUD's systems.
[19] See the Scope and Methodology section for additional selection details.

Table 2: The number of non-FHA-insured RAD PBV projects and units at the three selected PHAs and number of units inspected

	Projects	Units	Units inspected (sample)
PHA 1	10	669	62
PHA 2	10	1,002	64
PHA 3	8	947	64
Totals	**28**	**2,618**	**190**

Of the 190 units inspected, more than 74 percent failed to meet HQS. Further, of the units that failed, more than 60 percent failed due to the presence of at least one life-threatening deficiency that impacted the unit.[20] See table 3 below for additional details regarding our inspections.

Table 3: The number of units inspected that failed to meet HQS and the number and type of deficiencies identified at the three selected PHAs

	Units inspected that failed to meet HQS	Units that failed due to a life-threatening deficiency	Unit deficiencies		Nonunit deficiencies[21]		Total deficiencies
			Life-threatening (24-hour)	Other (30-day)[22]	Life-threatening (24-hour)	Other (30-day)	
PHA 1	53	44	16	41	6	18	**81**
PHA 2	34	7	8	36	1	21	**66**
PHA 3	54	34	58	155	1	0	**214**
Totals	**141**	**85**	**82**	**232**	**8**	**39**	**361**

The following photographs illustrate examples of the unit and nonunit deficiencies identified during our HQS inspections at the three PHAs.

PHA 1

[20] Life-threatening deficiencies must be corrected within 24 hours of inspection. Examples include missing or inoperable smoke detectors, blocked egress, and fire doors that do not close and seal.

[21] Nonunit deficiencies include deficiencies identified in common areas, building exteriors, building systems, and sites associated with the selected units. Nonunit deficiencies, such as fire doors that fail to close and seal, impact all units in a building.

[22] Other (non-life-threatening) deficiencies must be corrected within 30 days of inspection unless the PHA approved an extension of time for correction.

Figure 1. Electricity
Description (unit deficiency): broken outlet cover - exposed wires

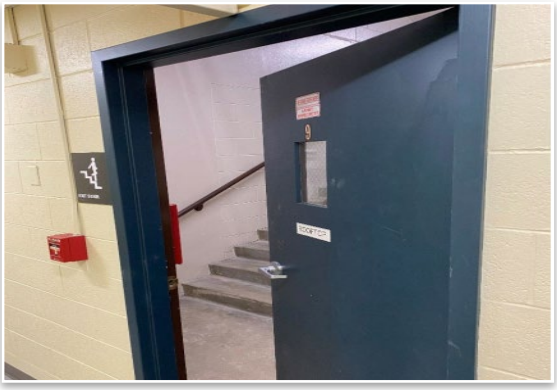


Figure 2. Fire exit
Description (nonunit deficiency): fire doors fail to close and seal - 2nd, 3rd, 4th, and 9th floors

PHA 2

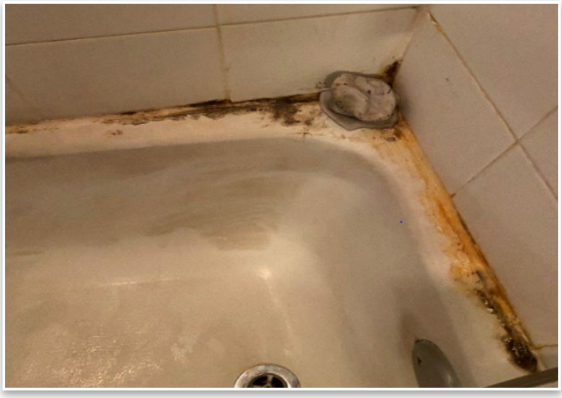


Figure 3. Tub or shower
Description (unit deficiency): mildew around tub

Figure 4. Site and neighborhood conditions
Description (nonunit deficiency): broken glass outside building - cutting hazard

PHA 3

Figure 5. Interior air quality
Description (unit deficiency): dryer not vented to the outside

Figure 6. Fire exit
Description (unit deficiency): burglar screen secured with screws and metal strap - blocking egress

As a result of our inspections, we determined that families resided in units that were not always maintained in decent, safe, and sanitary condition. Based on the results of our inspections, of the 190 selected units, we estimate[23] that at least 1,760 (67 percent) of the 2,618 units, collectively, if inspected, would not meet HQS at the time of our inspections. Further, of the 1,760 units, we estimate that at least 911 units would have at least one life-threatening deficiency.

We provided the results of our HQS inspections, which included life-threatening deficiencies that must be corrected within 24 hours of notification, to the three selected PHAs' management. During the audit, we received documentation, such as work orders, invoices, or photographs, to demonstrate that all of the life-threatening deficiencies identified by the audit team had been corrected. However, since HUD did not require owners to provide evidence that non-life-threatening deficiencies had been corrected, we are uncertain whether all identified deficiencies had been resolved.

Project Owners' Reserve for Replacement Account Balances Were Not Properly Supported

The 3 selected PHAs included 28 RAD PBV projects that were subject to HUD's reserve for replacement requirements.[24] HUD requires RAD PBV project owners to establish and maintain replacement reserve accounts at a level determined by HUD to be sufficient to meet projected requirements. Funds may be withdrawn from the reserve accounts and used for extraordinary maintenance and repair and replacement of capital items subject to HUD guidelines. However, based on the documentation provided by the PHAs, we determined that the reserve account balances for 12 of the 28 reserve accounts were not supported.

The PHAs provided documentation, such as bank statements, loan billing statements, and audited financial statements, to support the balances in the 28 project owners' reserve for replacement accounts as of a specific date.[25] Using the date of the PHA-provided balance, we calculated the expected balance for all 28 reserve accounts.[26] Based on our calculations and the PHA-provided balances, 12 of the 28 reserve accounts were underfunded from nearly $4,900 to more than $1 million.[27] See table 4 below for our calculated reserve for replacement account balance in comparison to the balance reported in the PHA-provided documentation for each of the 12 accounts.

Table 4: A comparison of the reserve account balances for the 12 projects

[23] Assuming a one-sided confidence interval of 95 percent

[24] Section 1.6.D.9 of HUD Notice H-2019-09 - PIH 2019-23 and sections 2.4.2 and 7.2 of HUD's RAD Reference Guide for public housing projects converting to PBV assistance

[25] The PHA-provided reserve account balances were generally as of November or December 2022 (26 of the 28 projects). Balances for the remaining two projects were as of September 2022 and March 2023.

[26] To calculate the expected reserve balance for each account, we obtained the date and amount of the initial deposit as determined by HUD, added the required annual deposits from initial deposit through the date of the PHA-provided balance (generally November or December 2022), and deducted any withdrawals during this period. To remain conservative in our approach, our OIG-calculated balance did not include interest earned on the account or adjustments to the annual deposits for inflation.

[27] We considered the 12 accounts to be underfunded since the PHA-provided balance was less than our OIG-calculated balance. We considered the remaining 16 (28 - 12) accounts to be adequately funded since the balance exceeded our calculated balance or was within 1 required monthly deposit amount.

Count	OIG-assigned ID	Balance date	OIG-calculated balance (a)	PHA-provided balance (b)	Variance * (b-a)
1	2969	12/31/22	$1,084,464	$0.00[28]	($1,084,464)
2	2479	12/30/22	599,890	121,105	(478,785)
3	3195	03/31/23	321,874	30,684	(291,190)
4	6555	12/31/22	263,767	75,013	(188,754)
5	6679	11/30/22	736,783	571,291	(165,492)
6	5327	12/30/22	844,984	744,017	(100,967)
7	9266	12/31/22	274,532	186,809	(87,723)
8	4544	12/30/22	140,844	54,428	(86,416)
9	7807	12/20/22	379,000	342,235	(36,765)
10	2571	12/30/22	103,452	71,152	(32,300)
11	1035	12/31/22	342,085	336,005	(6,080)
12	7117	12/30/22	43,545	38,692	(4,853)
				Total underfunded	(2,563,789)

** Our OIG-calculated balance does not include interest earned on the account or adjustments to the annual deposits for inflation; therefore, the variances would be higher.*

During our review, we identified several reasons why the amounts we calculated did not match the amounts included in the PHA-provided documentation for the reserve accounts. See table 5 below.

Table 5. Possible reasons for variances between PHA-provided and OIG-calculated reserve account balances

Reasons for variances[29]	Description
Lack of documentation	For seven accounts, the documentation provided was not sufficient to determine whether the required initial deposit or all required monthly deposits were made.

[28] The PHA provided an escrow history statement, dated December 31, 2022, that showed a balance of $991,143 on November 30, 2022; an escrow close withdrawal of $993,614 on December 22, 2022; and a balance of $0 on December 31, 2022.

[29] Due to a lack of or conflicting documentation, we were unable to determine the exact reason(s) why the amounts we calculated did not match the amounts included in the PHA-provided documentation for the reserve accounts. Therefore, one or more of the possible reasons for variances listed in table 5 could apply to each account that was underfunded.

Conflicting requirements	For five accounts, documentation, such as the RAD conversion commitment (RCC), HAP contract, and operating agreement, did not always contain consistent information regarding the date and amount of the required initial deposit or when required monthly deposits should begin.
Insufficient monthly deposits	For two accounts, monthly deposits were less than the required amount.

For the two reserve accounts (OIG-assigned ID numbers 7807 and 1035 in table 4 above) in which the monthly deposits were less than the required amount, the contract administrator provided documentation to support that additional deposits were made after we told it about the underfunded accounts.

Further, property owners did not always make annual adjustments to their reserve account deposits to account for inflation. HUD requires that the annual replacement reserve deposits be sufficient to fund all capital needs, as identified in a CNA. The PHA should use reasonable estimates for inflation.[30] However, the reserve accounts for 14 of the 28 projects did not include annual increases for inflation as identified by the CNAs.

Additionally, the PHAs provided evidence that nearly $1.1 million had been withdrawn from 9 of the 28 reserve for replacement accounts as of September 2022. According to HUD's RAD Reference Guide, an owner must maintain records detailing the purpose and amount of each withdrawal from the reserve account for the prior 5-year period. We requested documentation from the applicable PHAs to support that the project owners complied with HUD's requirements when drawing funds from their reserve accounts. However, the PHAs did not provide sufficient documentation to support that more than $1 million in withdrawals from eight of the nine reserve accounts complied with HUD requirements. Specifically, the documentation provided did not clearly show that the draws were (1) anticipated and identified in the project's CNA or (2) approved by the contract administrator as required.[31]

HUD Planned To Collect Information on RAD PBV Reserves for Replacement

In May 2023, HUD published a Federal Register notice[32] soliciting comments on its plan to seek approval from the Office of Management and Budget (OMB) for the collection of information related to the PBV portfolio, including RAD PBVs. According to the notice, HUD had limited information about RAD PBV projects after conversion and was unable to adequately monitor their long-term viability. As a result, and

[30] HUD Notice H-2019-09 - PIH-2019-23, attachment 1A, section I.5.h
[31] Section 7.2 of HUD's RAD Reference Guide for Public Housing Projects Converting to PBV Assistance
[32] Federal Register - Volume 88, Number 86, dated May 4, 2023

due to the expected growth of the PBV portfolio, HUD was attempting to address the gap in its information collection.

In April 2024, OMB approved new fields of collection for RAD PBV projects, including information on reserve for replacement accounts. However, as of June 2025, HUD had not been able to incorporate these fields into a permanent HUD system.[33] According to HUD, in the meantime it planned to collect data related to projects' reserves for replacement using a DocuSign survey.

Conclusion

HUD performed limited monitoring of RAD PBV projects because it did not have a system to collect and maintain information about the physical and financial condition of RAD PBV projects or a process that targeted these projects for review. Instead, HUD relied on the contract administrators to oversee the converted projects with minimal oversight.

As a result of HUD's limited monitoring and lack of a system to collect and maintain data, HUD did not have information to assess whether the contract administrators effectively performed their oversight responsibilities of ensuring that (1) families resided in units that were decent, safe, and sanitary; (2) the converted projects' reserve for replacement accounts were sufficiently funded to address extraordinary maintenance, repair, and replacement of capital items; and (3) project owners' withdrawals from reserve accounts were appropriate. When we inspected a sample of RAD PBV units from 28 converted projects associated with three PHAs, we found that more than 74 percent of the units inspected failed to meet HQS and determined that the reserve account balances for 12 of the 28 reserve accounts were not supported. Therefore, unless HUD specifically selects projects for review, it is unable to adequately monitor the long-term sustainability of these projects.

[33] HUD's Housing Information Portal (HIP) will contain a data collection module. However, HIP is not yet available to all PHAs. HUD plans to add the replacement reserve fields as part of a future enhancement.

Recommendations

We recommend that the General Deputy Assistant Secretary for Public and Indian Housing require the Office of Field Operations to

1A. Implement procedures and controls for targeting non-FHA-insured RAD PBV projects to monitor the physical conditions and reserve for replacement accounts.

1B. Implement procedures for monitoring property owners' reserve for replacement accounts for compliance with HUD's requirements, using reserve for replacement account data collected on projects from PHAs.

1C. Provide inspection reports for the units identified in this report that failed to meet HQS showing that the units and associated buildings meet HUD's current physical condition standards.

1D. Implement a policy to ensure that monitoring of RAD PBV projects includes, at a minimum, a review of the accuracy of the reserve for replacement account balances and compliance with HUD's physical condition and inspection requirements.

1E. Review the reserve for replacement accounts for the 12 underfunded projects to ensure that the account balances are maintained in accordance with the applicable HUD requirements and executed HUD business documents and require owners to fully fund any underfunded reserves, as applicable.

1F. Review the reserve for replacement accounts for the 14 project owners that did not make annual adjustments for inflation, as identified in the capital needs assessment, to determine whether the account balances are sufficient to meet anticipated capital needs. If the account balances are not sufficient, HUD should require the owners to appropriately fund the accounts.

1G. Implement a plan to review the reserve for replacement accounts for all RAD PBV projects to ensure that reserve for replacement accounts are appropriately funded.

1H. Obtain documentation from the PHAs to support that more than $1 million in withdrawals from the eight reserve accounts complied with HUD's requirements or require the project owners to reimburse the reserve accounts for the unsupported withdrawals.

1I. Implement a process, in conjunction with the Office of Recapitalization, to ensure that the reserve for replacement requirements in HUD's business documents, such as the RAD conversion commitment, HAP contract, and operating agreement, are consistent for converted projects.

We recommend that the General Deputy Assistant Secretary for Public and Indian Housing require the Office of Public Housing and Voucher Programs to

1J. Collect data on projects' reserve for replacement accounts to support the Office of Field Operations' monitoring activities.

Management Response

On May 21, 2025, we provided HUD with a draft audit report for review and comment. On June 10, 2025, officials representing the Offices of Field Operations and Public Housing and Voucher Programs, as well as the Office of Multifamily Housing Programs' Office of Recapitalization, informed us that HUD had no formal written comments to the draft report.

Scope and Methodology

We conducted our audit work from October 2022 through November 2024. HQS inspections were performed in the jurisdictions of three selected PHAs in California, Georgia, and Wisconsin. All remaining fieldwork was conducted offsite for this audit. The audit covered the period September 1, 2013, through August 31, 2022, and we expanded our scope as necessary.[34]

To accomplish our objective, we

- Reviewed applicable laws, the Federal Register, the CFR, Office of Housing and PIH notices, HUD handbooks, and guidebooks.[35]
- Interviewed HUD management officials and select HUD field office staff to gain an understanding of HUD's responsibilities for monitoring the physical condition of non-FHA-insured PBV units converted under RAD.
- Surveyed HUD's PIH field offices regarding their monitoring of RAD PBV projects within the past 5 years.
- Performed HQS inspections of a sample of 190 non-FHA-insured RAD PBV units, across 28 projects, in the jurisdictions of 3 selected PHAs in California, Georgia, and Wisconsin.
- Obtained and reviewed the HQS inspection history for our sample of non-FHA-insured RAD PBV units after conversion.
- Obtained and reviewed reserve for replacement account balance and withdrawal request documentation provided by the 3 selected PHAs for the 28 non-FHA-insured RAD PBV projects.
- Obtained and reviewed RAD program data from HUD's RAD Resource Desk.

Methodology for selecting PHAs

On June 14, 2022, we obtained a listing of 453 projects from HUD's RAD Resource Desk, which contained a total of 43,676 units across 180 PHAs that were converted from public housing to non-FHA-insured PBV under RAD from October 16, 2013, through March 21, 2022. To ensure that our selection included PHAs with a sufficient number of converted units for sampling, we removed from the list all PHAs with fewer than 3 projects or 500 units. Doing so reduced our population to 191 projects, which contained a total of 19,744 converted units across 19 PHAs. We assessed the remaining 19 PHAs based on several selection criteria, including PHA ownership, cost per RAD unit, conversion costs, and inspection scores.[36] Five PHAs met all of our selection criteria. We removed one of the five PHAs from consideration since it was the focus of another HUD Office of Inspector General (OIG) assignment. Of the remaining four PHAs, we selected for review the three that had the most projects with converted units. The 3 PHAs selected for review included 28 projects with 2,618 non-FHA-insured PBV units converted under RAD.

[34] We expanded our audit scope until March 31, 2023, based on documentation provided by the PHAs to support the balances in the 28 project owners' reserve for replacement accounts.

[35] See appendix B for specific criteria.

[36] PHAs that met our four selection criteria had (1) at least one property that was PHA owned, (2) both high (greater than $5,000) and low (less than $5,000) RAD unit costs, (3) at least three categories of conversion costs (such as new construction, rehabilitation, and no-cost conversions), and (4) an inspection score variance of 25 or more between the PHAs' highest and lowest scoring property.

Methodology for Sampling and Projection of Results

Sampling for the Inspections at PHAs

We worked with HUD OIG's Integrated Data Analytics Division to select a stratified random sample of units from each of the three PHAs to perform HQS inspections. Each housing unit had a unique ID assigned. The number of units in each property varied. Allocation of the total sample size[37] among the strata was proportional to the size of each stratum. The random sampling resulted in a different number of chosen units in each stratum, combined into one overall sample. Stratified random sampling is known to reduce variability in the data and improve accuracy of the results.

Tables 6, 7, and 8 below show the stratum boundaries and other key data related to the sample design for each of the three PHAs.

Table 6. Stratum boundaries for our sample design of 62 of 669 units selected for PHA #1

Sample design table for PHA #1				
Stratum label	Total count in stratum	Sample count per stratum	Probability of selection	Sampling weight
Stratum 1	120	11	0.17937	10.90909
Stratum 2	46	4	0.06876	11.50000
Stratum 3	70	6	0.10463	11.66667
Stratum 4	24	2	0.03587	12.00000
Stratum 5	12	2	0.01794	6.00000
Stratum 6	18	2	0.02691	9.00000
Stratum 7	44	4	0.06577	11.00000
Stratum 8	84	8	0.12556	10.50000
Stratum 9	131	12	0.19581	10.91667
Stratum 10	120	11	0.17937	10.90909
Totals	**669**	**62**		

Table 7. Stratum boundaries for our sample design of 64 of 1,002 units selected for PHA #2

Sample design table for PHA #2				
Stratum label	Total count in stratum	Sample count per stratum	Probability of selection	Sampling weight
Stratum 1	149	10	0.06711	14.90000
Stratum 2	196	13	0.06633	15.07692

[37] We calculated the sample size using the classic formula from Daniel and Terrell (Wayne W. Daniel, James C. Terrell. Business Statistics. Houghton Mifflin, Company, 1995) for estimating proportions under conditions in which the distribution is normal.

Sample design table for PHA #2				
Stratum label	Total count in stratum	Sample count per stratum	Probability of selection	Sampling weight
Stratum 3	207	13	0.06280	15.92308
Stratum 4	129	8	0.06202	16.12500
Stratum 5	50	3	0.06000	16.66667
Stratum 6	48	3	0.06250	16.00000
Stratum 7	62	4	0.06452	15.50000
Stratum 8	64	4	0.06250	16.00000
Stratum 9	52	3	0.05769	17.33333
Stratum 10	45	3	0.06667	15.00000
Totals	**1,002**	**64**		

Table 8. Stratum boundaries for our sample design of 64 of 947 units selected for PHA #3

Sample design table for PHA #3				
Stratum label	Total count in stratum	Sample count per stratum	Probability of selection	Sampling weight
Stratum 1	97	7	0.07216	13.85714
Stratum 2	116	8	0.06897	14.50000
Stratum 3	330	22	0.06667	15.00000
Stratum 4	75	5	0.06667	15.00000
Stratum 5	50	3	0.06000	16.66667
Stratum 6	136	9	0.06618	15.11111
Stratum 7	55	4	0.07273	13.75000
Stratum 8	88	6	0.06818	14.66667
Totals	**947**	**64**		

Methodology for Projection of Inspection Results

The results of our inspections of the selected non-FHA-insured RAD PBV units for the three PHAs were projected to the populations.

The basic estimation calculations are as follows:

$Percent_{LCL}$ = pct - $t_{\alpha/2}\ SE_{\%}$

$Universe\ Count_{\ LCL}$ = N * $Percent_{LCL}$

$Percent_{LCL}$ = Percentage of sampling units after deducting a margin of error

$Universe\ Count_{LCL}$ = Total number of sampling units in the universe after deducting a margin of error

N = Total number of sampling units in the sampling frame

pct	= Weighted percentage of sampling units with the error in the sampling frame
$SE_{\%}$	= Standard error per unit, as applies to projecting proportions
$t_{\alpha/2}$	= Student's - t for projecting a one-sided confidence interval for a sample of this size

PHA #1

Methodology for Projections:
We employed a stratified random sample of 62 for reviewing among the universe of 669 non-FHA-insured RAD PBV units for PHA #1. We used the property each unit was associated with to design the 10 strata. We detail the sample counts per stratum and sampling weights in the sample design table above. The review team used one spare from the same stratum as the original sample. Therefore, the sampling weights did not change. The audit team used the spare when the tenant informed the audit team that he or she had Covid or Covid symptoms.

We computed the percentage and number of counts of non-FHA-insured RAD PBV units for PHA #1 inspected with deficiencies based on the sampling results, and we extended this result to the population using the surveyfreq[38] procedure provided by SAS®.[39] We estimated the lower confidence interval using a Gaussian[40] sampling distribution, which is appropriate for error rates in this range. We extended these percentages to the 669 records in the universe to get the total universe count of non-FHA-insured RAD PBV units with a deficiency.

Based on a stratified systematic sample designed to minimize error, we can say the following:

Percentage-Count Projection Results: Units Not Maintained in Decent, Safe, and Sanitary Condition
At PHA #1, we found that 53 of 62 non-FHA-insured RAD PBV units inspected were not maintained in decent, safe, and sanitary condition. This amounts to a weighted average of 84.7 percent. Including a statistical margin of error, we can say, with a one-sided confidence interval of 95 percent, that there was a deficiency in least 80.2 percent of the units tested. Extending this percentage to the universe of 669 records, at least 536 units of the PHA had a deficiency for the attribute tested; however, this count could be higher.

Percentage calculation:	$84.7\% - (1.678 \times 2.7\%) \approx 80.2\%_{LCL}$
Total records projection:	$669 \times (84.7\% - (1.678 \times 2.7\%)) \approx 536_{LCL}$

Percentage-Count Projection Results: Units With 24-Hour Deficiencies
At PHA #1, we found that 44 of 62 non-FHA-insured RAD PBV units inspected had 24-hour deficiencies. The proportion amounts to a weighted average of 69.5 percent. Including a statistical margin of error, we can say, with a one-sided confidence interval of 95 percent, that there was a deficiency in at least 64.9

[38] The surveyfreq procedure produces one-way to n-way frequency and crosstabulation tables from sample survey data. These tables include estimates of population totals, population proportions, and their standard errors. Confidence limits, coefficients of variation, and design effects are also available. The procedure provides a variety of options to customize the table display.

[39] SAS (previously "Statistical Analysis System") is a statistical software suite developed by SAS Institute for data management, advanced analytics, multivariate analysis, business intelligence, criminal investigation, and predictive analytics.

[40] In statistics, a normal distribution, or "Gaussian" distribution, is a type of continuous probability distribution for a real-valued random variable.

percent of the units tested. Extending this percentage to the universe of 669 records, at least 434 units of the PHA had a deficiency for the attribute we tested; however, this count could be higher.

Percentage calculation: $69.5\% - (1.673 \times 2.8\%) \approx 64.9\%_{LCL}$
Total records projection: $669 \times (69.5\% - (1.673 \times 2.8\%)) \approx 434_{LCL}$

PHA #2

Methodology for Projections:
We employed a stratified random sample of 64 for reviewing among the universe of 1,002 non-FHA-insured RAD PBV units for PHA #2. We used the property each unit was associated with to design the 10 strata. We detail the sample counts per stratum and sampling weights in the sample design table above. The review team used six spares from the same stratum as the original sample. Therefore, the sampling weights did not change. The audit team used spares when the tenant informed the audit team that he or she had a biological hazard, the unit was in the process of modernization, or there was no adult present in a unit.

We computed the percentage and number of counts of non-FHA-insured RAD PBV units for PHA #2 inspected with deficiencies based on the sampling results, and we extended this result to the population using the surveyfreq procedure provided by SAS®. We estimated the lower confidence interval using a Gaussian sampling distribution, which is appropriate for error rates in this range. We extended these percentages to the 1,002 records in the universe to get the total universe count of non-FHA-insured RAD PBV units with a deficiency.

Based on a stratified systematic sample designed to minimize error, we can say the following:

Percentage-Count Projection Results: Units Not Maintained in Decent, Safe, and Sanitary Conditions
At PHA #2, we found that 34 of 64 non-FHA-insured RAD PBV units inspected were not maintained in decent, safe, and sanitary condition. This amounts to a weighted average of 53.1 percent. Including a statistical margin of error, we can say, with a one-sided confidence interval of 95 percent, that there was a deficiency in least 47.3 percent of the units tested. Extending this percentage to the universe of 1,002 records, at least 474 units of the PHA had a deficiency for the attribute tested; however, this count could be higher.

Percentage calculation: $53.1\% - (1.675 \times 3.4\%) \approx 47.3\%_{LCL}$
Total records projection: $1{,}002 \times (53.1\% - (1.675 \times 3.4\%)) \approx 474_{LCL}$

Percentage-Count Projection Results: Units With 24-Hour Deficiencies
At PHA #2, we found that 7 of 64 non-FHA-insured RAD PBV units inspected had 24-hour deficiencies. The proportion amounts to a weighted average of 11.0 percent. Including a statistical margin of error, we can say, with a one-sided confidence interval of 95 percent, that there was a deficiency in at least 5.9 percent of the units tested. Extending this percentage to the universe of 1,002 records, at least 59 units of the PHA had a deficiency for the attribute tested; however, this count could be higher.

Percentage calculation: $11.0\% - (1.675 \times 3.0\%) \approx 5.9\%_{LCL}$
Total records projection: $1{,}002 \times (11.0\% - (1.675 \times 3.0\%)) \approx 59_{LCL}$

PHA #3

Methodology for Projections:

We employed a stratified random sample of 64 for reviewing among the universe of 947 non-FHA-insured RAD PBV units for PHA #3. We used the property each unit was associated with to design the eight strata. We detail the sample counts per stratum and sampling weights in the sample design table above. The review team used six spares from the same stratum as the original sample. Therefore, the sampling weights did not change. The audit team used spares when the tenant informed the audit team that he or she had Covid or Covid symptoms or when there was no adult present in a unit.

We computed the percentage and number of counts of non-FHA-insured RAD PBV units for PHA #3 inspected with deficiencies based on the sampling results, and we extended this result to the population using the surveyfreq procedure provided by SAS®. We estimated the lower confidence interval using a Gaussian sampling distribution, which is appropriate for error rates in this range. We extended these percentages to the 947 records in the universe to get the total universe count of non-FHA-insured RAD PBV units with a deficiency.

Based on a stratified systematic sample designed to minimize error, we can say the following:

Percentage-Count Projection Results: Units Not Maintained in Decent, Safe, and Sanitary Condition

At PHA #3, we found that 54 of 64 non-FHA-insured RAD PBV units inspected were not maintained in decent, safe, and sanitary condition. This amounts to a weighted average of 84.3 percent. Including a statistical margin of error, we can say, with a one-sided confidence interval of 95 percent, that there was a deficiency in least 79.2 percent of the units tested. Extending this percentage to the universe of 947 records, at least 750 units of the PHA had a deficiency for the attribute tested; however, this count could be higher.

Percentage calculation:	$84.3\% - (1.674 \times 3.0\%) \approx 79.2\%_{LCL}$
Total records projection:	$947 \times (84.3\% - (1.674 \times 3.0\%)) \approx 750_{LCL}$

Percentage-Count Projection Results: Units With 24-Hour Deficiencies

At PHA #3, we found that 34 of 64 non-FHA-insured RAD PBV units inspected had 24-hour deficiencies. The proportion amounts to a weighted average of 52.8 percent. Including a statistical margin of error, we can say, with a one-sided confidence interval of 95 percent, that there was a deficiency in at least 44.1 percent of the units tested. Extending this percentage to the universe of 947 records, at least 418 units of the PHA had a deficiency for the attribute tested; however, this count could be higher.

Percentage calculation:	$52.8\% - (1.672 \times 5.2\%) \approx 44.1\%_{LCL}$
Total records projection:	$947 \times (52.8\% - (1.672 \times 5.2\%)) \approx 418_{LCL}$

To achieve our audit objective, we relied in part on computer-processed data contained in HUD's systems. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The tests for reliability included but were not limited to comparing data found within HUD's RAD Resource Desk to data from PHAs.

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

Appendixes

Appendix A – Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1H	$1,005,913

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B – Applicable Laws, Regulations, and Other Requirements

General Requirements

HUD's RAD Reference Guide for Public Housing Projects Converting to PBV Assistance, dated February 2022, section 3.1, states that as in the traditional PBV program, the RAD PBV HAP contract is signed by the project owner and the contract administrator. The contract administrator is the voucher agency that executes the RAD PBV HAP contract with the project owner and administers the contract. The contract administrator may be the same PHA as the PHA that is converting its public housing funding to RAD PBV assistance or a voucher agency other than the PHA that is converting its funding.

HUD's RAD Reference Guide for Public Housing Projects Converting to PBV Assistance, dated February 2022, section 5, states that all PBV program requirements at 24 CFR part 983, not specifically waived by HUD Notice H-2019-09 - PIH-2019-23, apply to RAD PBV units. The contract administrator is responsible for assuring compliance with such requirements, directly or through an independent entity, as applicable. Further, section 5.8 states that as in the traditional PBV program, the contract administrator must enforce the RAD PBV HAP contract. If the contract administrator determines that an owner has failed to comply with the RAD PBV HAP contract, the contract administrator must notify the owner in writing and require the owner to take corrective action.

Housing Quality Standards

HUD's regulations at 24 CFR 5.703 stated that HUD housing must be decent, safe, sanitary, and in good repair.[41]

Section 219(a) of Public Law 117-103, the Department of Housing and Urban Development Appropriations Act, 2022, as included in the consolidated appropriations act, 2022, states that any entity receiving HAP must maintain decent, safe, and sanitary conditions, as determined by the Secretary of Housing and Urban Development and comply with any standards under applicable State or local laws, rules, ordinances, or regulations relating to the physical condition of any property covered under a HAP contract.

HUD's RAD Reference Guide for Public Housing Projects Converting to PBV Assistance, dated February 2022, section 3.7, states that under RAD, the RAD PBV HAP contract is typically signed once all conversion requirements have been satisfied. If there is no required rehabilitation or construction work identified in the RCC, the contract administrator (or independent entity, as applicable) must inspect the units, and the units must meet HQS before execution of the RAD PBV HAP contract. Alternatively, if the project will undergo rehabilitation or construction, the contract administrator and owner will execute the RAD PBV HAP contract at the closing on construction financing. The contract administrator is responsible for monitoring the progress of the work identified in the approved RCC and must, upon completion of the

[41] During our audit period, HUD's regulations at 24 CFR 5.703 required HUD housing to be decent, safe, sanitary, and in good repair. However, effective July 1, 2023, HUD amended 24 CFR part 5, and section 5.703(a) now states that HUD housing must be functionally adequate, operable, and free of health and safety hazards and that the standards under this section apply to all HUD housing.

work, inspect each contract unit in the covered project to ensure compliance with HQS before payment of any HAP on behalf of a family.

HUD's RAD Reference Guide for Public Housing Projects Converting to PBV Assistance, dated February 2022, section 5.5, states that in addition to conducting initial HQS inspections as described in subsection 3.7, the contract administrator (or independent entity, as applicable) must conduct inspections at unit turnover and periodic inspections of a random sample of at least 20 percent of all assisted units under a RAD PBV HAP contract no less frequently than biennially. This requirement is the same for traditional PBV and RAD PBV HAP contracts.

The HAP contracts for the selected RAD PBV projects state the following: housing quality standards are the HUD minimum quality standards for dwelling units occupied by families receiving PBV program assistance; the owner is responsible for maintaining and operating the contract units and premises to provide decent, safe, and sanitary housing in accordance with HQS; the contract administrator shall not make any housing assistance for a dwelling unit that fails to meet HQS, unless the owner corrects the defect within the specified period; if a defect is life-threatening, the owner must correct the defect within no more than 24 hours; for other defects, the owner must correct the defect within no more than 30 days.

HUD regulations at 24 CFR 983.103(f) stated that (1) in the case of PHA-owned units, the inspections required under this section must be performed by an independent entity designated in accordance with section 983.59, rather than by the PHA; (2) the independent entity must furnish a copy of each inspection report to the PHA and to the HUD field office where the project is located; and (3) the PHA must take all necessary actions in response to the inspection reports from the independent entity, including exercise of contractual remedies for violation of the HAP contract by the PHA owner.[42]

Reserves for Replacement

HUD Notice H-2019-09 - PIH-2019-23, section 1.6.D.9, states that the project owner must establish and maintain a replacement reserve in an interest-bearing account to aid in funding extraordinary maintenance and repair and replacement of capital items in accordance with applicable regulations. The reserve must be built up to and maintained at a level determined by HUD to be sufficient to meet projected requirements. For FHA transactions, replacement reserves must be maintained in accordance with the FHA regulatory agreement. For all other transactions, replacement reserves must be maintained in a bank account or similar instrument, as approved by HUD, where funds will be held by the project owner or lender and may be drawn from the reserve account and used subject to HUD guidelines. Section 1.6.D.2 of the Notice states that the PHA's board must confirm that the project owner is making deposits into the reserve for replacement account in accordance with the RCC as well as assess the financial health of the covered project.

HUD Notice H-2019-09 - PIH-2019-23, attachment 1A, section I.5.h, states that the annual replacement reserve deposit should be equal to that amount, which if deposited annually, will be sufficient to fund all capital needs, as identified in the CNA, arising during the first 20 years and otherwise not addressed

[42] Effective June 6, 2024, HUD's regulations at 24 CFR 983.103(f) were moved to 983.103(g), and HUD eliminated the requirement that the independent entity furnish a copy of each inspection report to the HUD field office where the project is located.

upfront in either the rehabilitation or an initial deposit to the replacement reserve account. The PHA should use reasonable estimates for inflation, but in doing so, the rate for escalating the increase in repair costs should not exceed the rate of interest on reserve deposits by more than 1 percent. HUD may consider alternative arrangements with respect to the initial deposit to the replacement reserve if risks to the covered project can be adequately mitigated.

HUD's RAD Reference Guide for Public Housing Projects Converting to PBV Assistance, dated February 2022, section 7.2, states that unlike the owner of a traditional PBV project, the owner of a RAD PBV project must maintain a reserve for replacement account. An owner that wishes to withdraw funds from the reserve for replacement account to address extraordinary maintenance and repair or replacement of capital items need not obtain the contract administrator's approval if the need for such maintenance, repair, or replacement is anticipated and identified in the project's CNA. A withdrawal for any other purpose requires prior approval by the contract administrator. An owner must maintain records detailing the purpose and amount of each withdrawal from the reserve for replacement account for the prior 5-year period.