

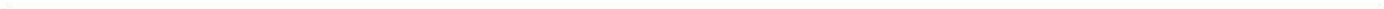


Greensboro Housing Authority, Greensboro, NC

Rental Assistance Demonstration Program

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

**Audit Report Number: 2018-AT-1004
May 10, 2018**





To: Thomas R. Davis, Director, Office of Recapitalization, HTR

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

Subject: The Greensboro Housing Authority, Greensboro, NC, Generally Administered Its Rental Assistance Demonstration Conversion in Accordance With HUD Requirements

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 Greensboro Housing Authority's 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, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

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



Audit Report Number: 2018-AT-1004

Date: May 10, 2018

The Greensboro Housing Authority, Greensboro NC, Generally Administered Its Rental Assistance Demonstration Conversion in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the Greensboro Housing Authority's Rental Assistance Demonstration Program (RAD) conversion. We selected the Authority for review in keeping with the goals of our annual audit plan. Our objective was to determine whether the Authority administered its RAD conversion in accordance with U.S. Department of Housing and Urban Development (HUD) requirements. Specifically, we wanted to determine whether the Authority (1) executed appropriate written agreements, (2) ensured that project financing sources were secured, (3) maintained separate books and records for the RAD conversion, (4) spent HUD funds for eligible and reasonable purposes, (5) followed occupancy requirements, (6) calculated proper contract rents, and (7) obtained a physical conditions assessment.

What We Found

The Authority generally administered its RAD conversion in accordance with HUD's requirements. It executed proper written agreements, secured project financing sources, and maintained separate books and records. In addition, it spent HUD funds for eligible and reasonable purposes, followed occupancy requirements, properly calculated contract rents, and renovated its properties consistent with the physical conditions assessments it obtained.

What We Recommend

This report contains no recommendations.

Table of Contents

Background and Objectives	3
Results of Audit	4
Finding 1: The Authority Generally Administered Its RAD Conversion in Accordance With HUD Requirements.....	4
Scope and Methodology.....	9
Internal Controls.....	11
Appendixes.....	12
A. Schedule of RAD Properties	12
B. Auditee Comments.....	13

Background and Objectives

The Greensboro Housing Authority was established in July 1941 in accordance with State of North Carolina and Federal law. The Authority provides affordable housing to more than 10,000 individuals through its public housing program and its project-based Housing Choice Voucher and Rental Assistance Demonstration Programs (RAD). The Authority is classified as a quasi-governmental entity governed by a seven-member board of commissioners appointed by the mayor of Greensboro.

RAD was authorized in fiscal year 2012 to preserve and improve public housing properties and address a \$26 billion nationwide backlog of deferred maintenance. RAD's purpose is to provide an opportunity to test the conversion of public housing and other U.S. Department of Housing and Urban Development (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. The second component allows rent supplement, rehabilitation assistance, and moderate rehabilitation properties to convert tenant protection vouchers to project-based assistance at the end of the contract.

The Authority received its RAD award and commitments to enter into housing assistance payments contracts from December 2013 to July 2015 and began converting more than 1,800 public housing units, located at 19 community properties scattered throughout Greensboro, NC, to project-based voucher RAD units. As of July 31, 2017, the Authority had converted more than 1,100 public housing units to RAD units and executed housing assistance payments contracts with HUD at 9 of the 19 community properties. HUD authorized the Authority more than \$9.2 million in annual gross rents each year. Renovations were completed or close to completion at seven of those nine properties.

The Authority became the new owner as a limited liability corporation when it converted its public housing properties to RAD properties. The Authority established the Greensboro Housing Management Corporation in June 2012. Its purpose was to engage or assist in the development or operation of public housing and non-public housing in North Carolina and to administer the project-based Section 8 housing assistance payments contracts assigned by HUD under the terms of its annual contributions contract in North Carolina.

Our audit objective was to determine whether the Authority administered its RAD conversion in accordance with HUD requirements. Specifically, we wanted to determine whether the Authority (1) executed appropriate written agreements, (2) ensured that project financing sources were secured, (3) maintained separate books and records for the RAD conversion, (4) spent HUD funds for eligible and reasonable purposes, (5) followed occupancy requirements, (6) calculated proper contract rents, and (7) obtained physical conditions assessments.

Results of Audit

Finding 1: The Authority Generally Administered Its RAD Conversion in Accordance With HUD Requirements

The Authority generally administered its RAD conversion in accordance with HUD's requirements. Specifically, the Authority ensured that it (1) executed proper written agreements, (2) secured project financing sources, (3) maintained separate books and records, (4) spent HUD funds for eligible and reasonable purposes, (5) followed occupancy requirements, (6) calculated proper contract rents, and (7) renovated properties consistent with physical conditions assessments.

The Authority was authorized to convert more than 1,800 public housing units, located at 19 community properties, to project-based voucher RAD units. As of July 31, 2017, the Authority had converted 9 of the 19 properties (see appendix A) to RAD project-based voucher assistance properties. We reviewed the nine properties that had been converted to RAD properties.

Written Agreements Were Properly Executed

We reviewed the RAD use agreements outlining the terms of the conversions, the ground lease agreements, and the housing assistance payments contracts for the nine RAD converted properties.

- Office of Public and Indian Housing (PIH) Notice PIH-2012-32, REV-2, part 1.6(B)(4), provides that the RAD use agreement is to ensure that the managing entity has a superior position in all liens on the property, that all tenants have incomes below 80 percent of the area median income, and compliance with all applicable fair housing and civil requirements.
- Notice PIH-201-32, REV-2, part 1.4(A)(11), provides that HUD requires that ownership and control of the covered project be maintained. Ownership control requirements may be satisfied if the public housing agency has the direct or indirect legal authority (via contract, partnership share or agreement of an equity partnership, voting rights, or otherwise) to direct the financial and legal interests of the project owner, which the Authority did when it executed ground lease agreements.
- Notice PIH-2012-32, REV-2, part 1.6(B)(1), requires that the housing assistance payments contract be for a term of at least 15 years and that the number of assisted units not decrease without HUD approval.

These written agreements were completed within the established timeline and in the proper order and contained the appropriate information as required by HUD. The Authority executed RAD use agreements for the properties. Ground leases were established to ensure ownership and control of the covered project was maintained. The Authority executed housing assistance payment contracts with required terms for the properties.

Financing Sources Were Secured

The Authority secured sources of funding for the nine RAD converted properties as required by Notice PIH-2012-32, REV-1.¹ The Authority funded the nine RAD property conversions using one of three types of funding sources. Of the nine properties, four properties were funded with Federal Housing Administration loans, one property was funded with low-income tax credits, and the Authority's internal funding was used for the others. We reviewed the Authority's financing letters, source of funds, and plans for the uses of funds and determined that the financing sources were properly secured.

Separate Books and Records Were Maintained

The Authority maintained its books and records separate from those of the RAD owner as required in the Public and Indian Housing Real Estate Assessment Center Accounting Brief 22.² We reviewed the books of record of the Authority and the new owners and determined that the Authority properly established and maintained separate general ledgers and bank accounts for each of the nine properties.

HUD Funds Were Used for Eligible and Reasonable Purposes

The Authority spent funds for eligible and reasonable purposes for the nine properties converted to RAD properties as required in Notice PIH-2012-32, REV-1.³ We reviewed the Authority's movement of funds into the separate general ledgers and determined that the funds were properly transferred. We further determined that the funds were placed into separate accounts and used for eligible and reasonable purposes.

¹ Notice PIH-2012-32, part 1.9.A, states that the public housing agency must sufficiently consider the long-term preservation needs of the property and the means by which those will be financed.

² Public and Indian Housing Real Estate Assessment Center Accounting Brief 22 states that the owner of the project, after issuance of a housing assistance payments contract, may not be the public housing agency. Instead, the owner of the project may be a separate legal entity, which can be referred to by different titles, such as wholly owned affiliate, single-asset entity, nonprofit, etc. How or whether the project will continue to be reported on the financial data schedule after the issuance of the housing assistance payments contract depends on what entity legally owns the project (the Authority or another separate legal entity) and how much control or dependence the Authority retains if the project is owned by a separate legal entity. The Brief also states if the units are discretely presented, the financial information of the units is reported in conjunction with the Authority; however, it is not included in the actual data totals of the Authority.

³ Notice PIH-2012-32, part 1.5(A), states that public housing agencies are permitted to use available public housing funds as an additional source of capital in the development budget to support conversion, whether for rehabilitation or new construction. Eligible conversion-related uses for these funds include predevelopment, development, or rehabilitation costs and the establishment of a capital replacement reserve or operating reserve.

HUD Occupancy Requirements Were Followed

The Authority followed the occupancy requirements for conducting resident meetings with tenants to discuss the RAD conversion, transition of the tenant waiting lists, and tenant replacement after the RAD conversion.

- The Authority held the required resident meetings discussing the RAD conversion. Notice PIH-2012-32, REV-2, requires the Authority to notify residents and conduct at least two meetings with residents of projects proposed for RAD conversion.⁴ The Authority notified residents of its intent to convert to RAD and conducted 12 resident meetings. We observed documentation from each meeting, which included tenant sign-in sheets, resident questions, comments, and the Authority's responses supporting that the Authority conducted the 12 resident meetings between September 9 and September 20, 2013.
- The Authority properly revised its administrative plan to include procedures for waiting list administration. The Authority's administrative plan included a description of how the Authority would establish project-based voucher contract waiting lists, how applicants on the public housing waiting list would be transitioned to the project-based voucher waiting list, and how applicants would be selected for admission.
- Tenants were not rescreened or involuntarily displaced as a result of the conversion. Notice PIH-2012-32, REV-2, provides that households will not be rescreened⁵ and that permanent involuntary displacement of residents, as a result of the RAD conversion, may not occur.⁶ Our analyses of the rent rolls before and after the RAD conversion and the move-out reports determined that 88 tenants moved out after the RAD conversion. The review of the move out reports the 88 tenants determined that none of the tenants moved out because of the RAD conversion. As further verification, we randomly selected a sample of 11 tenant files from the 88 tenants that moved out. The review of the tenant files determined that none of these 11 tenants were involuntarily moved because of the RAD conversion.

⁴ Notice PIH-2012-32, REV-2, part 2.8.3(A), states that an owner is required to notify residents in writing of its intent to participate in the demonstration and to hold two meetings with residents. The owner must conduct two resident meetings with all affected residents and provide the residents with an opportunity to comment on the conversion.

⁵ Notice PIH-2012-32, REV-2, part 1.6(C)(1), states that under the RAD statute, at conversion, current households are not subject to rescreening, income eligibility, or income targeting. Therefore, current households will be grandfathered for conditions that occurred before conversion but will be subject to any ongoing eligibility requirements for actions that occur after conversion.

⁶ Notice PIH-2012-32, REV-2, part 1.4(A)(5)(ii), states that any resident who may need to temporarily be relocated to facilitate rehabilitation or construction has a right to return to an assisted unit at the covered project once rehabilitation or construction is completed. Permanent involuntary displacement of residents may not occur as a result of a project's conversion of assistance.

Rents Were Calculated Properly

The Authority's tenant rent calculations, tenant monthly rents, rehabilitation assistance payments, and reasonable rents generally complied with HUD requirements.

- The Authority followed HUD requirements by not increasing monthly tenant rents as a result of the RAD conversion. Notice PIH-2012-32, REV 2, part 1.6(C)(4), provides that tenant monthly rents cannot increase by the greater of 10 percent or \$25 as a result of the RAD conversion. We reviewed the housing assistance payment registers before and after the RAD conversion of the converted nine properties. From the housing assistance payment registers, we randomly selected a sample of 25 tenant files from a universe of 957 tenants. The review of the 25 files determined that tenant monthly rents did not increase as a result of the RAD conversion.
- Notice PIH-2012-32, REV-2, provides for rehabilitation assistance payments beginning when properties convert to RAD and must end when construction is complete.⁷ We reviewed the Authority's housing assistance payment registers for the nine converted properties and 100 percent of the tenants to determine when rehabilitation assistance payments were paid. We identified one exception when rehabilitation assistance payments improperly continued for 18 days after construction was complete on one unit. As a result, the RAD owner was overpaid \$296. No other rehabilitation assistance payment discrepancies were noted. We discussed the \$296 overcharge with the Authority during the audit. The Authority responded during the audit and corrected the overcharge. No further action is warranted because of this isolated overpayment, which was corrected during the audit.
- The Authority is required to use the services of a third party to determine the reasonable rents for its units.⁸ We reviewed documentation showing that the Authority used a third-party independent vendor approved by HUD to perform a rent reasonableness determination study. As further verification, we reviewed the selected sample of 25 tenant files. The review of tenant files verified that the Authority had properly determined rents by using the lesser of the reasonable rent determinations or HUD's locality-based rents for the units at each of the nine properties.

Physical Conditions Assessments Were Obtained, and Properties Were Renovated

The Authority renovated its properties consistent with the physical conditions assessments. Notice PIH-2012-32, REV-1, part 1.4(A)(1), requires public housing agencies to obtain a physical conditions assessment before RAD conversion to determine both short-term rehabilitation and long-term capital needs. The Authority properly obtained the assessments for all 19 properties it was converting to RAD. Construction was complete or nearly complete at 7 of the 19 properties (see appendix A), allowing us to observe the work. We selected 116 of 135

⁷ Notice PIH-2012-32, REV-2, part 1.6(B)(8), states that following the earlier of the end of the construction period identified in the HUD-approved financing plan or actual construction, the Authority will no longer be eligible to receive RAD rehabilitation assistance payments.

⁸ Regulations at 24 CFR (Code of Federal Regulations) 983.303(F)(1) states that for public housing agency-owned units, the amount of the reasonable rent must be determined by an independent agency approved by HUD.

renovations line items (for example, playgrounds, landscaping, exterior lighting, sidewalks, and fencing) at the 7 properties to observe. From the 7 properties, we selected 26 units for site visits to verify renovations. Site visits at the seven properties determined that the renovations were completed consistently with the physical conditions assessments.

Conclusion

The Authority generally ensured that its RAD conversion complied with applicable HUD requirements. For the nine RAD properties reviewed, the Authority executed proper written agreements, secured project financing sources, and maintained separate books and records. In addition, it spent HUD funds for eligible and reasonable purposes, followed occupancy requirements, properly calculated contract rents, and renovated its properties consistent with the physical conditions assessments it obtained.

Recommendations

The report contains no recommendations.

Scope and Methodology

We performed our onsite audit work between August 2017 and March 2018 at the Authority's office located at 450 North Church Street and at our offices in Greensboro, NC, and Atlanta, GA. Our review covered the period January 1, 2013, through July 31, 2017.

To accomplish our objective, we

- Interviewed HUD officials and Authority staff to obtain an understanding of the controls significant to the audit objective and assist in our review.
- Reviewed relevant background information.
- Reviewed applicable laws, regulations, and relevant HUD program requirements for RAD conversions that included public law, Federal Register notices, and PIH notices.
- Reviewed organizational charts for the Authority, board minutes, administrative plans, housing assistance payments registers, housing assistance payment invoices, move-out reports, rent rolls, and tenant files.
- Performed site visits to seven RAD converted properties to observe renovations.
- Reviewed the projects' general ledgers, invoices, and bank statements to verify that all paid expenses were for eligible activities.
- Reviewed housing assistance payments contracts, RAD use agreements, ground lease agreements, and physical conditions assessments.
- Reviewed the RAD applications, financing plans, financing letters, and loan closing documents.
- Reviewed HUD's and the Authority's financial records and files and interviewed individuals responsible for RAD compliance.

Our audit focused on the execution of proper agreements to protect HUD's interest, financial sources and transactions, the separation of records, the eligible use of funds, occupancy compliance with a RAD project-based voucher transition, the proper calculation of tenant rents, and renovations to the units.

- The nine properties that had converted to RAD were the focus of our reviews of written agreements, financing sources, the separation of books and records, eligible uses of funds, occupancy requirements, and rent calculations. We reviewed housing assistance payment registers, invoices, rent rolls, bank statements, general ledgers, loan closing documents, and tenant files to determine whether the Authority had properly administered its RAD conversion in accordance with HUD requirements. We also used a random number generator to select a nonstatistical random sample of 25 residents, from a universe of 957, from the 9 converted properties to use in our tests of the

occupancy requirements and rent calculations. Further, we used a random number generator to select a nonstatistical random sample of 11 residents from a universe of 88, from the 9 converted properties, to use in our test for tenants displaced as a result of the RAD conversion. We designed the selection methodologies for these samples to yield a proportionally representative and stratified selection of tenant files from all of the nine properties. Therefore, results from these samples cannot be projected. Also, we reviewed 100 percent of the tenants to verify the rehabilitation assistance payments.

- We focused on the seven properties that had completed or nearly complete renovations to evaluate the physical conditions assessments and renovations to properties and units. We selected nearly all of the renovation line items (116 of 135 renovations) at these 7 properties to verify the renovations. We omitted 19 renovations that were beyond our expertise or ability to observe. We also selected a nonrandom sample of 26 units to verify renovations inside the units. We did not use statistical sampling. Instead, we selected units to ensure that all renovation types were covered at each property. Therefore, results from this sample cannot be projected.

To achieve our audit objective, we relied in part on computer-processed data. We used the data to assess changes to tenant rents, identify tenants that had moved, and select units to observe for completed renovations. 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.

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

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

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations - Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

We assessed the relevant controls identified above.

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

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

Appendixes

Appendix A

Schedule of RAD Properties

Project number	Properties converting to RAD	Converted to RAD as of July 2017	Construction complete or nearly complete
1	Hampton Homes	Yes	Yes
2	Claremont Court	Yes	Yes
3	Hall Towers	Yes	Yes
4	Gateway Plaza	Yes	Yes
5	Lakespring	Yes	Yes
6	Abby Courts	Yes	Yes
7	North Pointe	Yes	Yes
8	Hickory Trails	Yes	No
9	Woodland Village	Yes	No
10	Ray Warren Homes	No	No
11	Woodberry, Baylor	No	No
12	Stoneridge	No	No
13	Applewood	No	No
14	Pear Leaf	No	No
15	Silver Briar	No	No
16	Laurel Oaks	No	No
17	River Birch	No	No
18	Foxworth	No	No
19	Smith Homes	No	No
Totals	19	9	7

Appendix B

Auditee Comments

Auditee Comments



Greensboro Housing Authority
450 North Church Street
Greensboro, North Carolina 27401
Telephone 336-275-8501

Office
Chief Executive Officer

April 12, 2018

Nikita N. Irons
Regional Inspector General for Audit
Housing and Urban Development (Region IV)
75 Ted Turner Drive, Room 330
Atlanta, GA 30303

Dear Ms. Irons,

In response to your letter dated April 3, 2018, regarding the discussion draft audit report of the review of the Greensboro Housing Authority (GHA) Rental Assistance Demonstration Program (RAD). GHA pursued the RAD Program because it was an opportunity for us to seek creative financing to renovate all of our portfolio (2,206 units), except the mixed finance properties. Had we not received the RAD award it would have likely taken us another 15 years to complete the needed renovations for our properties, with ever decreasing Capital Funding.

In implementing this new program we have worked with many HUD staff [REDACTED] from across the country, all of whom seem to have the same mission as GHA to provide safe, quality, affordable housing to low-income, elderly, and the disabled in the Greensboro Community.

Although the audit period was intense for GHA, [REDACTED] and [REDACTED] were both detail-oriented, thorough and professional. At GHA our intent is to implement all programs (HUD and others) in accordance with rules, regulations and guidelines as applicable. We are very proud of our staff for implementing this new program as effectively as they have and look forward to the continued conversion and renovations of our properties all of which is being done to provide a safe, quality living environment for the over 12,000 residents we serve.

Sincerely,

Tina Akers Brown