HUD's Chicago Multifamily Housing Regional Center, Chicago, IL

Resident Home-Ownership Program

Office of Audit, Region 5
Chicago, IL

Audit Report Number: 2018-CH-0001
December 22, 2017

To: Daniel J. Burke, Director of Multifamily Midwest Region, 5AHMLA

//signed//

From: Kelly Anderson, Regional Inspector General for Audit, 5AGA

Subject: HUD Needs To Improve Its Oversight of Grants Funded Through Its Resident Home-Ownership Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's oversight of grants funded through its resident home-ownership program under the Low-Income Housing Preservation and Resident Homeownership Act of 1990.

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 website. 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 312-913-8499.

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HUD Needs To Improve Its Oversight of Grants Funded Through Its Resident Home-Ownership Program

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of grants funded through its resident home-ownership program under the Low-Income Housing Preservation and Resident Homeownership Act of 1990, based on the results we reported for HUD's program grants for Carmen-Marine Apartments (2015-CH-1010) and West Park Place Condominium (2016-CH-1009) and the preliminary results of our audit of HUD's program grant for Lakeview East Cooperative. The audit was part of the activities in our fiscal year 2017 audit plan. Our objective was to determine whether HUD had adequate oversight of grants funded through its program to ensure that the projects were operated in accordance with HUD's requirements.

What We Found

HUD did not have adequate oversight of grants to ensure that the projects were operated in accordance with HUD's requirements. Specifically, it did not sufficiently monitor the projects and ensure that grantees submitted reports showing continued compliance with the program. It also had not provided technical assistance to the grantees or management agents, ensured the grantees and management agents received training, or issued guidance concerning requirements in the grant and use agreements. As a result, the grantees did not operate the projects in accordance with HUD's requirements and were at risk of having to reimburse HUD for the program grants.

What We Recommend

We recommend that the Director of HUD's Multifamily Midwest Region conduct onsite management reviews of the projects to ensure that the projects are operated in accordance with HUD's requirements and the grant agreements and work with HUD's Office of Multifamily Asset Management and Portfolio Oversight to develop and issue guidance on requirements in the grant and use agreements.

Table of Contents

Background and Objective

During the 1960s and 1970s, the U.S. Department of Housing and Urban Development (HUD) financed thousands of housing projects under its Federal Housing Administration (FHA) mortgage insurance programs. HUD insured loans for the projects for up to 40 years. However, it allowed owners to prepay the FHA-insured mortgage after 20 years and convert the projects to market-rate housing, providing a powerful incentive for owners to prepay the FHA-insured mortgage, particularly if the property had appreciated in value. This early prepayment option, along with the expiration of project-based rental assistance contracts, resulted in the loss of several hundred thousand affordable housing units. To prevent further loss of affordable housing units, Congress enacted the Low-Income Housing Preservation and Resident Homeownership Act in 1990. The Act imposed a general prepayment limitation of federally insured mortgages and offered owners fair-market-value incentives to extend low-income affordability standards for the remaining useful life of the projects or transfer the projects to nonprofit organizations, tenant associations, or community-based organizations that would keep the housing units affordable for the remaining useful life of the projects. The incentives included resident home-ownership program and capital grants. During fiscal years 1996 through 1998, Congress appropriated $987.5 million to HUD for properties eligible for assistance under the Act or the Emergency Low-Income Housing Preservation Act of 1987. Congress has not appropriated funds to HUD for properties eligible for assistance under the Act since 1998.

HUD awarded only three grants through its resident home-ownership program under the Act. It awarded the (1) Carmen-Marine Tenants' Association for Carmen-Marine Apartments in Chicago, IL, (2) 707 Tenants' Association for Lakeview East Cooperative in Chicago, IL, and (3) West Park Place Residents Association for Preservation for West Park Place Condominium in Chicago, IL, grants of more than $56 million through the program. The following table shows for the three grants, the grantee, the name of the project for which the grantees received the grants, the date of the grant agreement HUD awarded, and the amount of the grants.

Grantee	Project	Date	Amount
Carmen-Marine Tenants' Association	Carmen-Marine	Jan. 1994	$23,104,550
707 Tenants' Association[1]	Lakeview East	Aug. 1996	18,756,339
West Park Place Residents Association for Preservation	West Park Place	May 1995	14,183,850
Total			**$56,044,739**

The grantees were required to use the funds to acquire and rehabilitate the projects and transfer ownership of the buildings or project's units to a cooperative or condominium form of ownership (Carmen-Marine Cooperative for Carmen-Marine, Lakeview East Cooperative for Lakeview East,

[1] HUD's program grant agreement with the 707 Tenants' Association for Lakeview East included more than $12.2 and $6.5 million in program and capital funds, respectively. This was the only program grant agreement that included capital funds.

and West Park Place Condominium Association for West Park Place), which would then sell memberships in the cooperative or the project's units, as appropriate, to tenants in occupied units.[2] HUD also entered into program use agreements with the grantees.

We audited HUD's program grants for Carmen-Marine (2015-CH-1010), West Park Place (2016-CH-1009), and Lakeview East (2017-CH-1006). The grantees and management agents did not operate the projects in accordance with HUD's requirements. Although the program is no longer funded, the grantees and management agents will more than likely be required to operate the projects in accordance with HUD's requirements for at least 25 more years.

HUD's Office of Multifamily Asset Management and Portfolio Oversight has oversight responsibility for the three projects subject to provisions of the Act. HUD's Chicago Multifamily Housing Regional Center has monitoring responsibility for the three projects, Monitoring project operations is required to ensure that HUD's multifamily housing programs are administered as intended by identifying deficiencies to eliminate fraud, waste, and mismanagement.

Our objective was to determine whether HUD had adequate oversight of grants funded through its program to ensure that the projects were operated in accordance with HUD's requirements.

[2] The Carmen-Marine Cooperative, Lakeview East Cooperative, and West Park Place Condominium Association were also considered grantees.

Results of Audit

Finding: HUD's Oversight of Grants Funded Through Its Resident Home-Ownership Program Had Weaknesses

HUD did not have adequate oversight of grants funded through its program to ensure that the projects were operated in accordance with HUD's requirements. Specifically, it did not sufficiently monitor the projects and ensure that grantees submitted reports to show continued compliance with the program. It also had not provided technical assistance to the grantees or management agents, ensured the grantees and management agents received training, or issued guidance concerning requirements in the grant and use agreements. These deficiencies occurred because HUD had weaknesses in its procedures and controls regarding oversight of the grants. As a result, the grantees did not operate the projects in accordance with HUD's requirements and were at risk of having to reimburse HUD for the program grants.

Projects Were Not Operated in Accordance With HUD's Requirements

We audited HUD's program grants for Carmen-Marine, West Park Place, and Lakeview East. The grantees and management agents did not operate the projects in accordance with HUD's requirements. The issues included but were not limited to

- The grantees did not determine the fair market value of memberships or units after the initial conversion period to support that owners did not pay more than the fair market value for their memberships or units and HUD's secured interest in the memberships or units was appropriately valued (West Park Place and Lakeview East). Further, the West Park Place Condominium Association could not support the amount of net proceeds that should have been paid to the City of Chicago's HOME investment trust fund from subsequent unit sales (West Park Place).

- The grantees did not always maintain a proper waiting list for rental units (all three projects) or could not provide sufficient documentation to support that for memberships or units sold to initial owners, households were appropriately selected from waiting lists (Carmen-Marine and West Park Place).

- The grantees could not provide sufficient documentation to support that (1) the payments to HUD for initial unit or membership sales were accurate (all three projects), (2) the grantees used their share of the proceeds from initial unit or membership sales in accordance with the grant agreements (West Park Place and Lakeview East), and (3) housing was affordable for all owners or members (all three projects).

- The grantees did not ensure that members or owners of record maintained their units as their principal residence (all three projects).

- Units were used for purposes other than rental, condominium, or cooperative housing (West Park Place and Lakeview East).

- The grantees did not submit reports to HUD showing continued compliance with the program (all three projects).

Based on the results of our audits, the Director of HUD's Multifamily Midwest Region notified the grantees for Carmen-Marine, West Park Place, and Lakeview East that HUD had preliminarily determined that the grantees were in default of the grant and use agreements for the projects.

Monitoring Was Not Sufficient To Ensure Compliance With Requirements

Contrary to HUD Handbook 4350.1, REV-2,[3] HUD's monitoring of the projects was not sufficient to ensure that the projects were operated in accordance with HUD's requirements.

The Regional Center generally relied on onsite use restriction agreement compliance monitoring reviews by a third-party contractor for its onsite management reviews of the projects. The contractor conducted monitoring reviews of West Park Place and Lakeview East in May 2012 and June 2015, respectively, to determine whether the projects were operated in accordance with the requirements of HUD's use agreements with the grantees. Although the monitoring reviews identified issues with housing not being affordable for all members, the monitoring reviews were not sufficient to identify nearly all of the issues noted in the audit reports. The monitoring reviews focused on (1) a review of the use agreements to determine whether the owners or management agents had a copy of the use agreements and whether it matched HUD's use agreements; (2) tenant file reviews to determine whether the housing was affordable for households, the unit sizes were appropriate for the households, and the units appeared to be maintained in decent, safe, and sanitary condition; and (3) tenant surveys to evaluate property management.

Further, the Carmen-Marine Cooperative denied the contractor access to conduct a monitoring review of Carmen-Marine in 2012. Therefore, the Regional Center conducted a use agreement compliance review in March 2014 and found that the management's operations were not satisfactory. The Director requested that we audit the program grant for the project as part of the Regional Center's fiscal year 2015 priority activities.

HUD's Real Estate Assessment Center and staff in the Regional Center assigned to monitor the projects were also responsible for reviewing the grantees' financial statements each year. The following table shows the performance ratings the Real Estate Assessment Center had given the three grantees' financial statements each year since 2010.[4]

[3] See appendix C for criteria.
[4] A performance rating of not troubled means acceptable performance, potentially troubled means acceptable performance but continued acceptability is at a risk, and troubled means unacceptable performance.

Fiscal year ended	Carmen-Marine	Lakeview East	West Park Place
2010	Not troubled	Not troubled	Troubled
2011	Not troubled	Not troubled	Potentially troubled
2012	Not troubled	Not troubled	Troubled
2013	Troubled	Not troubled	Not troubled
2014	Troubled	Not troubled	Troubled
2015	Not troubled	Not troubled	Troubled
2016	Not troubled	Troubled	Troubled

The Regional Center did not have standards for the type of action that must be taken if a project receives a performance rating of potentially troubled or troubled. Any action taken was at the discretion of the staff assigned to the project. The Regional Center's staff reviewed the financial statements after the Real Estate Assessment Center's review. However, reviewing the grantees' financial statements generally would not assist in identifying the issues noted in the audit reports.

An asset resolution specialist with the Regional Center stated that the only monitoring activities that had a set timeline were the financial statement reviews, which were performed annually. The Director of HUD's Multifamily Midwest Region said that the Office of Multifamily Asset Management and Portfolio Oversight considered the onsite use restriction agreement compliance monitoring reviews conducted by the third-party contractor to be sufficient. However, the projects are unique assets within the Office of Multifamily Housing and need specialized oversight. Therefore, he planned to have staff from the Regional Center conduct at least annual onsite monitoring reviews of the projects.

Reports Were Not Submitted to HUD

The Regional Center did not ensure that the grantees submitted reports to HUD showing continued compliance with the program as required by the grant agreements. Further, the grant agreements for the projects state that HUD would review the reports to determine compliance with the program. The reports included but were not limited to

1) semiannual reports on vacancies,
2) semiannual reports or surveys of nonpurchasing tenants,
3) monthly reports on the status of resales,
4) monthly reports on the status of sales activity, and
5) reports on changes in closing costs.

The reports would have assisted HUD in ensuring that the projects were operated in accordance with HUD's requirements and the grant agreements.

However, as part of the audit resolution for Carmen-Marine, the grantee had been submitting monthly reports on vacancies, nonpurchasing tenants, the status of resales, the status of sales activity, and changes in closing costs. Further, as part of the audit resolution for West Park Place and Lakeview East, the Regional Center planned to have the grantees submit the required reports.

HUD Had Not Provided Technical Assistance or Issued Guidance

The grantees' board members and management agents' staff lacked an adequate understanding of HUD's requirements and the grant agreements. HUD had not provided the board members and staff technical assistance or ensured the board members and staff received training on HUD's requirements and the grant agreements since at least 2010. However, as part of the audit resolution for West Park Place, the Regional Center provided onsite technical assistance in June 2017 to the board members, management agent staff, and unit owners. Further, as part of the audit resolution for Lakeview East, the Regional Center planned to also provide technical assistance to the board members and management agent staff. The Regional Center should also provide technical assistance to the board members and management agent staff associated with Carmen-Marine. The asset resolution specialist said that HUD did not generally provide technical assistance to grantees unless it was specifically requested or required by nonperformance. The Director also said that the grantees could contract with third-party consultants to provide training.

In addition, there are requirements in the grant and use agreements that the board members and staff of the management agents would benefit from if HUD issued guidance. These requirements include but are not limited to (1) determining the fair market value of the membership shares and units, (2) the submission of required reports to HUD, and (3) the transfer of the ownership of shares within 6 months from the date of acquisition.

The grant agreements for the projects generally state that the purchase price of shares or units must not exceed the fair market value for the shares or units. Therefore, the grantees were required to obtain appraisals of units before they were sold. However, since the shares and units are subject to restrictions specific to the program, appraisals of the program shares and units should be more complicated than typical appraisals for shares or units that are not subject to such restrictions. The appraisals should account for the impact the restrictions may have on the fair market value of the shares and units. Guidance regarding appraisals for program shares and units would provide the grantees a better understanding of the appraisal process.

The grant agreements for the projects generally state that the grantees must submit reports to HUD to demonstrate continued compliance with the requirements of the program. Guidance on what should be included in the reports or the development of standard reports would make it easier for the grantees to complete the reports and submit them to HUD.

The grant agreements for Carmen-Marine and Lakeview East state that the grantees must make a bona fide attempt to transfer ownership of the shares to a subsequent member within 6 months from the date of their acquisition of the shares. If the grantees are unable to transfer a share, they must rent the unit to a tenant who meets the applicable tenant profile. The grant agreements do not specify what is meant by a bona fide attempt to transfer ownership. The Regional Center considers a bona fide attempt to transfer ownership of a share to be (1) marketing a share to potential buyers through external media outlets, (2) screening potential buyers that have expressed an interest in purchasing a share, and (3) being under a contract of sale with a potential buyer within 6 months from the date of the grantees' acquisition of a share. Otherwise, the grantees would be required to rent the unit to a tenant who meets the applicable tenant profile. Guidance regarding what is meant by a bona fide attempt to transfer ownership would provide the grantees a better understanding of when they are required to rent a unit they reacquired from a member.

The Director agreed that HUD should provide additional guidance regarding certain requirements in the grant and use agreements and stated that he would work with the Office of Multifamily Asset Management and Portfolio Oversight to develop and issue guidance.

Conclusion

The weaknesses described above occurred because HUD did not have adequate oversight of grants funded through its program to ensure that the projects were operated in accordance with HUD's requirements. It had weaknesses in its procedures and controls regarding oversight of the grants to ensure that it sufficiently monitored the projects and grantees submitted reports to show continued compliance with the program. Further, providing technical assistance to the grantees and management agents or ensuring the grantees and management agents receive training and issuing guidance concerning requirements in the grant and use agreements would be beneficial. The Director said that he could not comment on HUD's oversight of the projects before he became the Director in 2013. However, the projects may not have received proper oversight because they are unique assets within the Office of Multifamily Housing. He planned to provide the appropriate oversight going forward. As a result, the grantees did not operate the projects in accordance with HUD's requirements and were at risk of having to reimburse HUD for the program grants.

Recommendations

We recommend that the Director of HUD's Multifamily Midwest Region

1A. Conduct onsite management reviews of the projects to supplement the onsite use restriction agreement compliance monitoring reviews to ensure that the projects are operated in accordance with HUD's requirements.

1B. Work with the Office of Multifamily Asset Management and Portfolio Oversight to develop and issue guidance on requirements in the grant and use agreements that would benefit the grantees' board members and staff of the projects' management agents.

Scope and Methodology

We performed our audit work from April through September 2017 at HUD's Chicago regional office located at 77 West Jackson Boulevard, Chicago, IL. The audit covered the period January 1994 through March 2017, but was expanded through September 2017 to include the results of our audit of HUD's program grant for Lakeview East and the procedures and controls HUD had implemented or planned to implement to improve its oversight of grants funded through its program to ensure that the projects were operated in accordance with HUD's requirements.

To accomplish our objective, we reviewed

- Applicable laws; HUD's regulations at 24 CFR (Code of Federal Regulations) Part 248; HUD Handbooks 4350.1, REV-2, 4350.6, CHG-4, 4370.1, REV-2, and 4381.5, REV-2; HUD's grant and use agreements with the grantees for the projects; and Office of Inspector General (OIG) audit reports 2015-CH-1010 (September 30, 2015), 2016-CH-1009 (September 30, 2016), and 2017-CH-1006 (September 5, 2017).

- Data in HUD's Integrated Real Estate Management System.

In addition, we interviewed HUD staff.

We selected to review HUD's oversight of all three of the grants funded under its program.

We relied on data from HUD's Integrated Real Estate Management System. Although we did not perform a detailed assessment of the reliability of the data, we performed minimal levels of testing and found the data to be adequately reliable for our purposes.

We provided the results of our audit to the Director of HUD's Multifamily Midwest Region during the audit. We asked the Director to provide written comments on our discussion draft audit report by December 6, 2017. The Director decided not to comment on the draft report.

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 objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- HUD did not have adequate oversight of grants funded through its program to ensure that the projects were operated in accordance with HUD's requirements (finding).

Appendixes

Appendix A

Applicable Requirements

Regulations at 24 CFR 248.173(r) state that a resident council must submit reports, as required by HUD, to show continued compliance with the requirements of the program.

In HUD's grant agreements for Carmen-Marine, dated, January 6, 1994; West Park Place, dated May 10, 1995; and Lakeview East, dated August 29, 1996, the grantees agreed to carry out grant activities under the grant agreements in compliance with the regulations, the terms of the resident home-ownership plans for the projects, and any other applicable laws and regulations.

Article II(b) of the grant agreements for the projects states that HUD will be responsible for monitoring the approved activities of the grantees during the effective period of the grant agreements.

Article IV(e) of the grant agreements for Carmen-Marine and Lakeview East states that the grantees must make a bona fide attempt to transfer ownership of the shares to a subsequent member within 6 months from the date of their acquisition of the shares. If the grantees are unable to transfer a share, they must rent the unit to a tenant who meets the applicable tenant profile.

Article IV(e) of the grant agreement for West Park Place states that at the time a unit is sold, the grantee must calculate the fair market value of the unit. The unit purchase price must never exceed the unit value.

Article IV(f) of the grant agreements for Carmen-Marine and Lakeview East states that at the time of the sale of the shares, the purchase price of the shares must not exceed the fair market value for the shares.

Article VII(d) of the grant agreement for Lakeview East and article VIII(d) of the grant agreements for Carmen-Marine and West Park Place state that the grantees must submit reports to HUD to show continued compliance with the requirements of the program. The grantees may use forms from the existing HUD programs for these reporting requirements. However, if such forms do not exist because the grantees have unique requirements, the grantees will develop the forms. The format for submitting the reports will be subject to HUD approval. HUD will review the reports to determine compliance with the approved resident home-ownership plans. The areas of the resident home-ownership plans that currently require reports include but are not limited to (1) semiannual reports on vacancies, (2) semiannual reports or surveys of nonpurchasing tenants, (3) monthly reports on the status of resales, (4) monthly reports on the status of sales activity until all units have been initially sold, and (5) reports on changes in closing costs as needed.

Article XII(a) of the grant agreements for Carmen-Marine and West Park Place and article XXIII(a) of the grant agreement for Lakeview East state that the grantees, in performing the terms, provisions, and requirements of the grant agreements, must also follow the provisions and terms of HUD's use agreements with the grantees and the resident home-ownership plans for the projects, which are incorporated into the grant agreements.

Paragraph 2 of HUD's use agreements for Carmen-Marine, dated January 6, 1994, and Lakeview East, dated August 29, 1996, states that the use agreements will remain in effect until each of the following four events has occurred but in no event longer than the remaining useful life of the projects: (1) there are no longer any units of the projects used as rental housing, (2) all initial members have sold their memberships, (3) all of the members' promissory notes to HUD have been paid in full, and (4) all terms of the resident home-ownership plans have been performed. The grantees may petition HUD to determine that the remaining useful life of the projects has expired not less than 50 years from the dates of approval of the plans of action for the projects.

Paragraph 2 of HUD's use agreement for West Park Place, dated May 10, 1995, states that the use agreement will remain in effect until each of the following four events has occurred but in no event longer than the remaining useful life of the project: (1) there are no longer any units of the project used as rental housing, (2) all initial owners have sold their units, (3) all of the owners' promissory notes to HUD have been paid in full, and (4) all terms of the resident home-ownership plan have been performed. The grantee may petition HUD to determine that the remaining useful life of the project has expired not less than 50 years from the date of approval of the plan of action for the project.

Paragraph 6-1 of HUD Handbook 4350.1, REV-2, states that project monitoring is an integral part of HUD's Office of Multifamily Housing's responsibilities. Monitoring project operations is required to ensure that HUD's multifamily housing programs are administered as intended by identifying deficiencies to eliminate fraud, waste, and mismanagement. The management review is one of the integral mechanisms of project monitoring used to ensure that owners and agents comply with the requirements of relevant business agreements. Paragraph 6-4 states that when resources are available, HUD reviewing officials must complete management reviews within 6 months of a change in project ownership or management or when desk reviews and risk assessments indicate that physical, financial, or management problems exist and the extent or cause of the problem is not immediately apparent (potentially troubled and troubled project category). Paragraph 6-6 states that the onsite management review is designed to work in conjunction with other HUD reviews. Paragraph 6-7 states that preparation for the review is essential for effective monitoring and the reviewing official should be knowledgeable of the owner's and agent's operations. The desk review is designed to provide a well-rounded view of the project and identify potential problems that must be targeted during the onsite review. Paragraph 6-11.E. states that HUD staff are required to review the annual financial statements as part of monitoring project operations. HUD's Financial Assessment Subsystem collects the data. However, it is the staff's responsibility to review the Subsystem's printouts and notes to determine the owner's and agent's compliance with HUD requirements. Paragraph 6-12 states that HUD field office staffs are responsible for planning and carrying out management and occupancy reviews. In the absence of resources, HUD field office staff must determine which properties will be selected for review annually. The decision for prioritizing reviews should reflect knowledge of local conditions, events, and the possible risk to HUD based on the information available.

Paragraph 9-43 of HUD Handbook 4350.6, CHG-4, states that a resident council must submit reports to HUD to show continued compliance with the requirements of the program. The resident council may use forms from the existing HUD programs for these reporting requirements. However, if such forms do not exist because the resident council has unique requirements, the resident council will develop the forms. HUD will review the reports to determine compliance with the approved resident home-ownership plan. The areas of the resident home-ownership program that currently require reports include but are not limited to (1) semiannual reports on vacancies, (2) semiannual reports or surveys of nonpurchasing tenants, (3) monthly reports on the status of resales, (4) monthly reports on the status of sales activity until all units have been initially sold, and (5) reports on changes in closing costs as needed.

Paragraph 6.2 of HUD Handbook 4381.5, REV-2, states that the three basic types of monitoring activities of management agents are physical inspections, management reviews, and financial reviews. HUD conducts onsite visits to review the management of HUD-insured and HUD assisted properties. Key management areas, such as occupancy practices and onsite recordkeeping, are examined to ensure that program requirements and procedures are properly followed. The financial management of HUD projects is also regularly monitored. HUD staff review financial statements and other documents to ensure that project funds are handled properly.