

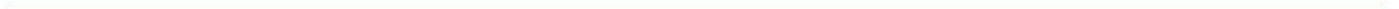


Vineville Christian Towers, Macon, GA

Rental Assistance Demonstration Program

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

**Audit Report Number: 2020-AT-1001
November 4, 2019**





To: Robert L. Kenner, Director, Public and Indian Housing, 4APH
Dane M. Narode, Associate General Counsel, Office of Program Enforcement, CACC
Craig T. Clemmensen, Director, Departmental Enforcement Center, CACB

//Signed//

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

Subject: The Christian Church Homes, Oakland, CA, Did Not Ensure That the Rental Assistance Demonstration Program Conversion Was Accurate and Supported for Vineville Christian Towers

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 Vineville Christian Towers' Rental Assistance Demonstration Program conversion.

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

The Inspector General Act, Title 5 United States Code, Appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

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



Audit Report Number: 2020-AT-1001

Date: November 4, 2019

The Christian Church Homes, Oakland, CA, Did Not Ensure That the Rental Assistance Demonstration Program Conversion Was Accurate and Supported for Vineville Christian Towers

Highlights

What We Audited and Why

We audited Vineville Christian Towers' (project) Rental Assistance Demonstration Program (RAD) conversion in accordance with our annual audit plan. Our audit objective was to determine whether the project's RAD conversion to the Section 8 Project-Based Voucher Program was completed in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements; specifically, whether Christian Church Homes of North California (owner) ensured that the project's RAD conversion was accurate and supported.

What We Found

The owner did not ensure that the project's RAD conversion was accurate and supported. Specifically, the owner did not ensure that (1) the converting units were for qualified tenants who received tenant protection assistance before the submission of the RAD application and had not vacated the units and (2) the RAD conversion was supported with tenant protection assistance based on an adequate housing conversion action. This condition occurred because the owner was not familiar with the requirements related to the RAD conversion and tenant protection assistance. As a result, it (1) improperly executed the Section 8 Project-Based Voucher Program housing assistance payments contract for 90 units at the project, (2) improperly received more than \$485,000 in housing assistance, and (3) may have provided improper certifications to HUD on program compliance.

What We Recommend

We recommend that the Director of HUD's Atlanta, GA, Office of Public and Indian Housing require the owner to (1) cancel the project's contract resulting from the RAD conversion, (2) reimburse its administering public housing agency more than \$485,000 from nonproject funds, and (3) develop and implement procedures and adequately train its staff to help ensure compliance with program requirements. We also recommend that HUD's Associate General Counsel for Program Enforcement and Departmental Enforcement Center take and pursue appropriate enforcement and administrative actions against the owner.

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Background and Objective

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

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

RAD was authorized by Congress in fiscal year 2012 to preserve and improve public housing properties and other HUD-assisted properties. Specifically, RAD's purpose is to provide an opportunity to test the conversion of public housing and other HUD-assisted properties to long-term, project-based Section 8 rental assistance properties to achieve certain goals, including preserving and improving these properties by enabling public housing agencies to use private debt and equity to address immediate and long-term capital needs. RAD has two components. The first component allows the conversion of public housing and moderate rehabilitation properties to properties with long-term project-based Section 8 rental assistance contracts, and the second component allows rent supplement, rental assistance payments, and moderate rehabilitation properties to convert tenant protection assistance² to project-based assistance at the end of the contract.

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

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

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

Tenant protection assistance is governed by regulations under the Section 8 Housing Choice Voucher Program at 24 CFR (Code of Federal Regulations) Part 982. Tenant protection assistance is meant to ensure that there is no displacement of low-income residents as a result of various actions resulting in a loss of subsidy assistance. Tenant protection assistance also provides stability to the property. Since at least 2001, HUD has had the authority, subject to appropriations, to provide regular vouchers to eligible families when a rent supplement or rental assistance payments contract terminates due to expiration, prepayment of the underlying mortgage, or enforcement action; therefore, the rent supplement or rental assistance payments contract units at the property are no longer available as assisted housing. HUD provides tenant protection assistance to the administering public housing agency for all units on the original rent supplement or rental assistance payments contract that were occupied within 24 months of the contract termination. The issuance of tenant protection assistance is triggered by a housing conversion action. The following actions constitute housing conversion actions: preservation prepayments, project-based opt-outs (including expiring rent supplement contracts), HUD enforcement actions, and HUD property dispositions. Form HUD-50059, which is the owner's certification of compliance with HUD's tenant eligibility and rent procedures, is used to assist HUD in identifying which project tenants will be affected housing conversion actions. Further, the form provides a certification by the owner that the tenant's eligibility, rent, and assistance payments have been computed in accordance with HUD's regulations and administrative procedures and that all required verifications were obtained.

The tenants affected by the project's rent supplement contract's expiration or termination in April 2011 were entitled to receive tenant protection assistance, and further qualified for the retroactive RAD conversion described above. Following the contract's expiration or termination, HUD's Financial Management Center, a branch of HUD's Financial Management

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

Division,³ awarded funding in July 2011 to the Authority to provide tenant protection assistance to the tenants affected by the housing conversion action.

The project was accepted into the Section 8 Project-Based Voucher Program as a result of the RAD retroactive conversion. The Authority was responsible for administering the vouchers before and after the RAD conversion. The RAD conversion was completed when the owner and the Authority executed the project-based voucher housing assistance payments contract on May 23, 2015, for 90 of the project's units.⁴ Where the owner converts assistance to Section 8 project-based vouchers, the regulatory and statutory requirements of the Project-Based Voucher program under HUD's PIH programs, apply. Therefore, HUD's office of PIH programs is responsible for the oversight of the units after the RAD conversion.

Our audit objective was to determine whether the project's RAD conversion was completed in accordance with HUD's program requirements; specifically, whether the owner ensured that the project's RAD conversion was accurate and supported.

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

⁴ Only units that meet certain requirements could convert under the retroactive conversion.

Results of Audit

Finding: The Owner Did Not Ensure That the Rental Assistance Demonstration Program Conversion Was Accurate and Supported for Vineville Christian Towers

The owner did not ensure that the project's RAD conversion was completed in accordance with HUD's requirements. Specifically, it did not ensure that all converting units' conversions were accurate and supported. This condition occurred because the owner was not familiar with requirements regarding the RAD conversion and housing conversion actions. As a result, the owner executed an improper housing assistance payments contract for 90 units and improperly received more than \$485,000 in housing assistance payments.

The Project Units' RAD Conversions Were Not Accurate

The owner did not submit an accurate and supported application for the RAD conversion at the project. The owner did not ensure that the contract it executed for the RAD conversion complied with HUD's requirements. Specifically, it did not ensure that all converting tenant protection assistance began before submitting the RAD application. Instead, the RAD application submitted on July 14, 2014, requested to project-base tenant protection assistance issued based on funding awarded by HUD on March 11, 2014, and stated that the owner expected to convert additional tenant protection assistance, which had not yet been issued.⁵ However, according to Office of Public and Indian Housing (PIH) Notice PIH 2012-32, REV-1, section 3.7, retroactive conversions are conversions of tenant protection assistance that have already been issued to project tenants. Further, the issuance of tenant protection assistance must have occurred on or after October 1, 2006. The owner could pursue a retroactive conversion⁶ without first having tenant protection assistance in place only if the owner expected the rent supplement contract to terminate in fewer than 60 days after the RAD application submission. However, the rent supplement contract for the project expired or was terminated in April 2011. Therefore, the only units that could have converted were those that had already been receiving tenant protection assistance between October 1, 2006, and July 14, 2014.

We reviewed the RAD application, housing assistance payments contract, and listing of tenants or units provided by the owner and the Authority. Of the 46 tenants listed in the RAD application, 43 began receiving tenant protection assistance before the RAD application was submitted. However, when compared to the 90 units on the contract, not all of the units listed in

⁵ The RAD application submitted by the owner listed 46 tenants as having successfully signed up for tenant protection assistance and stated that it expected up to 100 additional tenants to successfully sign up.

⁶ There are two types of RAD conversions concerning rent supplement and rental assistance payments projects: prospective and retroactive conversions. In a retroactive conversion, the assistance of existing tenant protection assistance is converted to project-based voucher assistance, and the issuance of new or additional tenant protection assistance is not contemplated in this conversion. See the Background and Objective section of this report for details on the prospective conversion type.

the application matched. We also compared a separate list of 90⁷ tenants provided by the owner as eligible tenants to receive tenant protection assistance to the list of tenants provided by the Authority as tenants associated with the units included on the contract.⁸ We determined that, 12 of the tenants included in the owner’s list did not match the tenants on the Authority’s list. Further, we reviewed 100 percent of the 90 converted units to determine whether the tenants received tenant protection assistance before the RAD application submission, and determined that not all of the 90 tenants received tenant protection assistance before the RAD application submission on July 14, 2014. Of the 90 converted units, 49 (54 percent) had tenant protection assistance that began between August 1 and December 1, 2014, which was between 18 and 140 days after the application submission. The remaining 41 units had tenant protection assistance that began between 4 and 5 days before the RAD application was submitted. The table below identifies the range of days when tenants were admitted into the Section 8 Project-Based Voucher Program with tenant protection assistance in comparison to the submission date of the RAD application.

Table 1

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

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

In addition, the owner did not ensure that vacated units were not included on the contract. Specifically, Notice PIH 2012-32, REV-1, section 3.7, required that if a tenant with tenant protection assistance moved from the property before the execution of the contract, the unit that was occupied by that tenant would not receive assistance under the project-based assistance contract. However, based on our review of the project’s rent rolls and the Authority’s housing assistance payments register, 8 of the 90 units included in the contract were associated with tenants who had moved from the property before the execution of the contract. The owner

⁷ The list of 90 records included a duplicate tenant; therefore, the owner’s list identified only 89 tenants.

⁸ The contract included only a unit number; therefore, we relied on the information provided by the Authority because it was responsible for administering the tenant protection assistance for the project.

executed the contract on March 23, 2015. However, the eight tenants moved out of the property between September 14, 2014, and February 28, 2015, while the owner needed to ensure that only the occupied units were included in the contract. Further, tenants for 4 of the 8 units received tenant protection assistance before they moved out, but after the RAD application submission on July 14, 2014. Therefore, the 4 units are also included in the count of 49 units in the discussion and Table 1 above. The table below shows how many days the tenants had been moved out before the contract execution date.

Table 2

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

The Project Units’ RAD Conversions Were Not Supported

The project units’ RAD conversions were not supported because a completed housing conversion action⁹ did not take place, which would trigger issuance of tenant protection assistance. Further, when tenant protection assistance was triggered due to a prior housing conversion action, the associated tenants did not reside at the project, which resulted in no vouchers that could be converted under RAD.¹⁰ The owner intended to prepay the mortgage;¹¹ however, according to HUD’s Office of Multifamily Housing Programs¹² and the owner’s consultant, the prepayment did not take place. Therefore, there was no need for tenant protection assistance to be issued or a RAD conversion to take place. According to the owner’s consultant and HUD’s Office of Multifamily Housing Programs, the owner intended to prepay the mortgage during the period May 2013 to January 2014; however, the prepayment did not take place due to the owner’s failure to acquire financing. Further, the funding for tenant protection assistance issuance was awarded by HUD in a letter, dated March 11, 2014. The letter stated that funds had been

⁹ According to Notice PIH 2001-41, the following actions constitute housing conversion actions: preservation prepayments, project-based opt-outs (including expiring rent supplement contracts), HUD enforcement actions, and HUD property dispositions.

¹⁰ Notice PIH 2012-32, REV-1, section 3.7, defines the RAD retroactive conversion as a conversion of tenant protection assistance that have already been issued to project tenants as a result of the termination of a rent supplement or rental assistance payments contract due to prepayment of a mortgage.

¹¹ The project was originally financed with a Section 202 direct loan and a Section 201 nonamortizing operating assistance payment flexible subsidy loan. Both of these loans mature in 2022.

¹² HUD’s Office of Multifamily Housing Programs coordinates with the Office of Public Housing regarding the details of housing conversion actions.

obligated to issue tenant protection assistance due to expiration of the project's rent supplement contract. However, the project's rent supplement contract expired or was terminated in April 2011, which the owner¹³ was aware of because the contract expiration was identified by the owner in the RAD application. In addition, HUD previously issued tenant protection assistance in 2011 related to the rent supplement contract expiration.¹⁴ Therefore, the owner should have known that the funding allocated in 2014 was not authorized because (1) the prepayment of the project's mortgage was not completed and (2) the project was awarded tenant protection assistance funding at the time of the rent supplement contract expiration. Consequently, the RAD conversion was not supported. Specifically, only the tenants that received tenant protection assistance in 2011 due to contract termination or expiration would have been eligible for the RAD conversion during 2014. Those tenants would have been eligible if (1) they continued to reside at the property from 2011 through the date the housing assistance payments contract was executed, and (2) they consented to the RAD conversion. However, based on a review of the housing assistance payments register and the rent rolls, we determined that none of those tenants resided at the property when the RAD application was submitted and the housing assistance payments contract was executed.

Additionally, the owner prepared forms HUD-50059¹⁵ and coordinated with the Authority¹⁶ to identify 90 tenants to issue tenant protection assistance. We requested each of the forms HUD-50059 from the owner; however, it was not able to provide us any forms. However, we were able to obtain the forms HUD-50059 for 26 tenants from the Authority.¹⁷ Notice PIH-2001-41 provides that HUD obtains forms HUD-50059 and or tenant profiles from the owner to provide to the Authority. The Authority explained that it relied on the 90 forms HUD-50059 it received from the owner to issue tenant protection assistance to 90 tenants. However, the forms were improperly provided to the Authority. Specifically, the forms were not required as the project's tenants were not affected because a housing conversion action was not completed, as discussed above. Further, the forms HUD-50059 included an inappropriate owner certification that tenants were eligible to receive assistance in accordance with HUD's requirements. In addition, on the project-based housing assistance payments contract, the owner certified that each contract unit for which the owner received housing assistance payments was leased to an eligible family. The contract further provided that HUD considered an owner to be in default of the contract if the owner had made a false statement to HUD or the Authority. Since none of the units was qualified to be converted to receive project-based voucher assistance, the owner may have provided a false statement to the Authority and HUD. Specifically, because there was no eligible

¹³ The rent supplement contract expired or was terminated in April 2011, before the owner acquired the project in December 2012.

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

¹⁵ Form HUD-50059 is the owner's certification of compliance with HUD's tenant eligibility and rent procedures. Based on Notice PIH 2001-41, the form HUD-50059 is used to assist HUD in identifying which project tenants will be affected by housing conversion actions.

¹⁶ Notice PIH 2012-32, REV-1, section 3.3, provides that housing authorities are charged with the active administration of the tenant protection assistance with tenants of record.

¹⁷ Due to the purging of its records, which was consistent with HUD's requirements at 24 CFR 982.158 that records to be maintained during the term of the tenants' lease and 3 years thereafter, the Authority was able to provide only 26 forms HUD-50059.

housing conversion action completed, the 90 tenants discussed above were not eligible to receive tenant protection assistance.

Further, paragraph 3.7.1.A of Notice PIH 2012-32, REV-1, provides that when owners submit their conversion requests, they must supply documentation supporting that tenants have consented to convert their tenant protection assistance to project-based assistance. However, the RAD application included consent from 153 tenants, which exceeded the number of 46 tenants identified in the application and the 90 units included on the contract. Obtaining consent from tenants beyond the ones included in the RAD application or the contract does not serve the purpose of HUD's requirement for the RAD retroactive conversion. Specifically, section 3.3 of Notice PIH 2012-32, REV-1, states that only the units occupied by eligible low-income tenants who received tenant protection assistance and consent to the conversion may be assisted under the contract.

The owner explained that it was not familiar with Notice PIH 2012-32, REV-1, and Notice PIH 2001-41, in which RAD and housing conversion action requirements are provided, respectively. We believe this was demonstrated when the owner obtained more than the required tenant consent forms. For the 90 units in the contract, the owner inappropriately received (1) \$45,532 in housing assistance payments as tenant protection assistance under the Section 8 Housing Choice Voucher Program for the period July 1, 2014, through April 30, 2015, and (2) \$439,943 in housing assistance payments under the Section 8 Project-Based Voucher Program for the period May 1, 2015, through April 30, 2019.

Conclusion

None of the 90 units qualified for the RAD retroactive conversion because there was no housing conversion action in 2014 nor any qualified tenants from 2011. Further, 53 (49 + 4) of the 90 units were improperly included on the contract because (1) 49 units did not have tenant protection assistance before the submission of the RAD application, and (2) 4 (8 - 4) units were not occupied by eligible tenants at contract execution. Due to the owner's lack of understanding of and familiarity with HUD's requirements, the owner executed an improper contract for 90 units, improperly received \$485,475 (\$45,532 + \$439,943) in housing assistance payments, and may have provided improper certifications to compliance with HUD's requirements.

Recommendations:

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

- 1A. Cancel the Section 8 Project-Based Voucher Program housing assistance payments contract for 90 units improperly converted under RAD. The owner should work with HUD and the Authority to protect the tenancy of the affected tenants at the time of contract cancellation.
- 1B. Reimburse HUD's Section 8 program administered by the Authority \$485,475 in housing assistance payments from nonproject funds for the improper issuance of tenant protection

assistance and an improper RAD conversion to the Project-Based Voucher Program for the 90 units.

- 1C. Develop and implement procedures to ensure that when tenant protection assistance is requested as a result of a housing conversion action, the forms HUD-50059 and or tenant profiles is generated only based on a completed action and that the forms or profiles are provided to HUD instead of the Authority.
- 1D. Provide adequate training to staff associated with administering tenant protection and project-based assistance to help ensure compliance with program requirements.

We recommend that the Director of HUD's Associate General Counsel for the Office of Program Enforcement, in coordination with the Director of the Atlanta HUD Office of Public and Indian Housing,

- 1E. Take appropriate enforcement actions against the responsible parties and pursue civil action against the owner for improperly certifying to the eligibility of the project residents.

We recommend that the Director of HUD's Departmental Enforcement Center, in coordination with the Director of the Atlanta HUD Office of Public and Indian Housing,

- 1F. Pursue administrative actions, as appropriate, against the responsible parties for the improper certification included in form HUD-50059 and the Section 8 project-based voucher housing assistance payments contract.

Scope and Methodology

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

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

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

We reviewed 100 percent of the 90 converted units listed on the housing assistance payments contract to determine whether the owner's application was adequate; specifically, whether the owner ensured that it requested RAD conversion of only the units that had tenant protection assistance in place and whether only the qualified tenants occupied the units at the time of contract execution. We relied on tenant information provided by the Authority because the information provided by the owner was (1) not complete, (2) did not match the units included in the contract, and (3) did not match the information identified by the Authority.

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

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

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

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

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

Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- The owner lacked a familiarity with and an understanding of HUD's requirements for RAD conversions and housing conversion actions (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/
1B	\$485,475
Totals	485,475

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3

Comment 4

Comment 5

Comment 4

Comment 6

Comment 7



Owner comments to IG Vineville audit

1. **CCH was following the advice of the Macon Housing Authority and HUD:** PIH notice 2012-32 (Rev.2) describes how owners can apply to RAD to convert soon to expire Rent Supplement contracts to PBV's. Christian Church Homes (CCH) did not apply under PIH Notice 2012-32 (Rev.2) because the Rent Supplement contract had expired 16 months before CCH became the owner of Vineville Christian Terrace (the Property). CCH first heard that there was a possibility to receive PBVs when CCH was shown a letter from the HUD Financial Management Center to the Macon Housing Authority (MHA) saying that HUD had set aside substantial funding for conversion of Housing Choice Vouchers (HCVs) to Project Based Vouchers (PBVs). The conversion of HCVs to PBVs was to be carried out by Macon Housing Authority. CCH was invited by MHA to apply for a conversion, and CCH did so. We were at the time, and still to this day, very grateful to MHA for stepping forward and helping the residents and property with these additional project based vouchers.

After a 10 month process with MHA, MHA informed CCH that CCH was in compliance with the application process and offered CCH a 90 unit PBV HAP contract. CCH also received a letter from the HUD Washington DC, Acting Director, Office of Recapitalization, telling us that they had received our application and that, "it was in compliance with instructions outlined in HUD notice 2012-32".

In fact, it is instructive to review PIH Notice 2012-32 (rev.2) to see which party is responsible for a full review and approval of this conversion process. There are many citations which say the local Housing Authority, the HUD office of Public Housing, and the central office of recapitalization are all 3 responsible for review of compliance with all aspects of the application. Only after all 3 of these branches of government have reviewed and approved an application for compliance shall an owner receive a letter saying the conversion has been approved.

Based on these two written approvals from the two agencies that were responsible for administering the program, CCH proceeded to sign the PBV HAP Contract that has provided subsidy for the last four years. If we had known at that time that we were out of compliance we could have fixed the problem then, or applied for an exception.

Key finding – units were not implemented as HCV's before they were rolled over to PBV's. CCH does not know how many of the residents had successfully signed up for HCV's before they were converted to PBV's. CCH was relying on the Macon Housing

**Ref to OIG
Evaluation**

Auditee Comments

Comment 7

Comment 6

Comment 8

Comment 9

Comment 10

Comment 11

Comment 12

Authority as the agency that was administering both the HCVs and PBVs. When MHA informed CCH that 90 units qualified for PBVs, CCH accepted the guidance and authority of MHA. Again, If we had known at that time that we were out of compliance, rather than receiving a letter saying we were in compliance, we could have applied for an exception.

2. **All subsidies went to low income households and provided a direct benefit to the residents:** There was no misinformation supplied or any intent by CCH to get inappropriate dollars to the Property or into the hands of CCH. All section 8 slots went to qualifying low income seniors and in no way was used to enrich CCH.
3. **CCH has always intended to recapitalize the Property with LIHTC, but has been unable to do so because of circumstance beyond the control of CCH.** During the process for application for PBVs, CCH informed MHA and HUD of CCH's intent to recapitalize the project through the use of Low Income Housing Tax Credits (LIHTC). This would allow the Property to be substantially rehabilitated to correct needed physical improvements and would create adequate reserves to preserve the 200 units of affordable housing for years to come. Unfortunately, the LIHTC allocation system in Georgia was structured so that a number of projects previously selected by MHA would use up all of the LIHTC allocation available to Macon County for a number of years. While CCH was unable to obtain an LIHTC allocation, CCH has now identified a strong and experienced potential buyer of the Property who is likely to obtain an LIHTC allocation and additional funds that will allow the project to be recapitalized. However, the recapitalization will depend on having 90 PBVs available to the Project. Cancellation of the current PBV contract not only will adversely affect the present tenants, but would damage and possibly prevent the successful recapitalization of the Property.
4. **Despite the additional PBV subsidy CCH has had to invest substantial money in this Property.** This Property is a 48.5 year old HUD 202. As such, it has many physical deficiencies and needs millions of dollars of rehabilitation. Many times over the last 4 four years major systems have broken down, such as the elevators, the fire alarm system, and door entry systems. CCH has paid for these repairs out of CCH's own funds that are unrelated to the Property. In addition, there have been months when the Property could not even afford to pay CCH's standard, HUD approved, monthly management fee. CCH always forestalls our own fee if the site has local needs to repair assorted systems. Finally, CCH has never taken any equity, cash flow, or distribution out of this site.

Early stages of RAD Demonstration program, Second Component for properties with expiring Rent Supplement contracts. It is well known among HUD staff and users of the various RAD programs that these programs were in their infancy stage between the years 2011 - 2014 and were being rolled out as a demonstration program. The RAD statute which authorized this program and funding went through several levels of

**Ref to OIG
Evaluation**

Auditee Comments

Comment 12

approval and refinement from Congress, and the notice issued by HUD was revised 3 times before the final version came out. Owners across the country who were applying for various aspects of the RAD program were constantly applying for “exceptions” to make the rules fit the many situation of the real world. This complex maze of congressional and HUD changes in policies and procedures was a contributing factor for MHA, the Office of Recapitalization, and CCH in determining how to follow the intent of the program. The responsibility of complying with the final HUD notice is shared by the Office of Recapitalization and the MHA and they too were caught in a maze of regulations which did not clearly line up. If we had known at that time that we were out of compliance we could have applied for an exception, as did many other owners and developers around the country. An exception granted early on would have helped to avoid the findings in this audit.

Comment 4
and 6

In many cases there was no clear way to properly follow the guidance within the Notice. Thus, CCH relied on MHA and the Office of Recapitalization to review and approve the application for PBVs, and CCH received approval from both MHA and the Office of Recapitalization.

Comment 13
Comment 4

5. **Recapitalization of this Property:** Ultimately, all parties (Congress, all levels of HUD, Macon Housing Authority, the residents, CCH , and any future owners) should want this Property to be recapitalized with \$10 - \$15 million dollars ' worth of improvements. This is what the HUD push for “Preservation” is all about. CCH knows this, and has successfully rolled out preservation programs for several other old HUD buildings through preservation programs authorized by HUD.

Comment 14

Canceling this PBV HAP contract would be counterproductive for these major long term goals. Any owner or investor is likely to back away from the building without the existence of an established and substantial PBV HAP contract. Implementing the recommendations of this audit would be damaging to the residents who live at the site and the long term viability of 200 units of affordable housing in Macon.

Comment 14

Don Stump
President/CEO

OIG Evaluation of Auditee Comments

Comment 1 The owner provided an explanation of the RAD prospective conversion by referencing Notice PIH 2012-32, REV-2, and stated that the Notice was not applicable because the rent supplement contract expired before the owner purchased the project.

We agree that neither Notice PIH 2012-32, REV-2, nor the RAD prospective conversion applied to the project.¹⁸ However, we completed our review based on requirements prescribed in Notice PIH 2012-32 REV-1, which is the revision under which the owner applied to participate in the RAD program and therefore applied to the project. As detailed in the Background and Objective section of this report, we acknowledge that the rent supplement contract expired or terminated before the current owner acquired the project.

Comment 2 The owner described the project name as Vineville Christian Terrace. However, all documentation we reviewed, including the rent supplement contract, RAD application, and Section 8 Project-Based Voucher Program housing assistance payments contract, listed the project's name as Vineville Christian Towers. Therefore, we did not revise the project's name in the report.

Comment 3 The owner stated that it was invited by the City of Macon-Bibb County Housing Authority to apply for the RAD conversion based on funding set aside by HUD for issuance of Section 8 housing choice vouchers.

As discussed in this report, in March 2014, HUD awarded funding for the eligible project tenants to receive tenant protection assistance, which is a type of assistance under the Section 8 Housing Choice Voucher Program. While the tenant protection assistance could be converted through RAD, the funding award itself was not an invitation for the project to apply for the RAD conversion. Further, regardless of the Authority's inviting the project to participate in RAD, the RAD conversion was initiated at the owner's request and the owner's submission of the RAD application.

Comment 4 The owner stated that the Authority found the project's RAD application process to be in compliance and that HUD found the project's RAD application to be in compliance. However, the only approval produced for our review from the three parties, including the owner, the Authority, and HUD, was the approval of the project's RAD request by the Office of Recapitalization. HUD's approval stated that it found the application to be in compliance. However, the approval letter also included a stipulation, which required the owner to verify the number of units before executing the housing assistance payments contract because a tenant could move from the property prior to the execution date rendering that unit ineligible

¹⁸ See the Background and Objective section of this report for details regarding the RAD conversion types.

for assistance. The owner did not comply with the stipulation provided in the approval letter, which resulted in eight units being improperly included in the housing assistance payments contract.

Comment 5 The owner cited Notice PIH 2012-32, REV-2, to describe the approval of the RAD conversion. Specifically, the owner stated that only after the Authority and HUD's Office of Public and Indian Housing and Recapitalization reviewed and approved the application for compliance, did the owner receive a letter saying that the conversion had been approved.

We disagree with the owner's reference to Notice PIH 2012-32, REV-2, because it did not apply. Specifically, the owner's RAD application was submitted and approved under Notice PIH 2012-32, REV-1. In addition, Notice PIH 2012-32, REV-1 did not require HUD's Office of Public and Indian Housing to review and approve the application for compliance, which further supports the audit's conclusion that the owner was not familiar with HUD's requirements for RAD conversion. Although the Authority and the Office of Recapitalization were involved in the review process, as stated previously, the only approval provided for our review was of the Office of Recapitalization. However, the owner did not ensure that the tenant protection assistance was already in place before its submission of the RAD application. The owner should work with HUD during the audit resolution process to provide adequate training to staff associated with administering tenant protection and project-based vouchers to help ensure compliance with program requirements.

Comment 6 The owner stated that if it had known at the time that it was not in compliance, it could have fixed the problem then or applied for an exception.

The owner's comment that it could have fixed problems further supports our conclusion that it lacked a familiarity with HUD's requirements for RAD conversion. For example, the Office of Recapitalization's approval letter provided the owner with an opportunity to update the number of units after the approval but before executing the housing assistance payments contract to account for any tenant's moving out from the property prior to the execution date. However, the owner did not verify the number of units before executing the contract. In addition, the owner's comments did not take into consideration that its request for an exception is not an automatic approval of any noncompliance. The owner should work with HUD during the audit resolution process to provide adequate training to staff associated with administering tenant protection and project-based vouchers to help ensure compliance with program requirements.

Comment 7 The owner stated that it relied on the Authority to determine how many tenants successfully signed up for housing choice vouchers before they were converted to project-based vouchers because it administered both the housing choice and project-based vouchers. In addition, the owner stated that the Authority informed

it of 90 units that qualified for Section 8 Project-Based Voucher Program assistance.

We acknowledge that the Authority administered both housing choice vouchers in the form of tenant protection assistance and project-based vouchers for the project. However, the RAD application submitted by the owner listed 46 tenants as having successfully signed up for tenant protection assistance and stated that it expected up to 100 additional tenants to successfully sign up. In addition, the owner's response did not consider the fact that it provided the 90 forms HUD 50059 to the Authority that were used for issuing tenant protection assistance. The owner should work with HUD during the audit resolution process to cancel the Section 8 Project-Based Voucher Program housing assistance payments contract for 90 units improperly converted under RAD. The owner should also work with HUD and the Authority to protect the tenancy of the affected tenants at the time of contract cancellation during the audit resolution process.

Comment 8 The owner stated that all Section 8 subsidies went to low-income households at the project and no misinformation was supplied, nor was there intent to obtain inappropriate funds.

We did not review the individual tenants' income eligibility because it did not relate to our audit scope. Therefore, we cannot comment on whether the subsidies were used to benefit only low-income households at the project. As stated in this report, the owner certifying to tenant eligibility on the forms HUD-50059 without a completed housing conversion action resulted in the owner's improperly receiving housing assistance payments on behalf of the tenants that did not qualify for such subsidy.

Comment 9 The owner explained that it always intended to recapitalize and rehabilitate the project with low-income housing tax credits (LIHTC)¹⁹ but it had been unable to do so because of circumstances beyond its control.

We acknowledge the owner's efforts to recapitalize and rehabilitate the project by using LIHTC to prepay the project's mortgage. However, any efforts to obtain funding for the project should not have resulted in noncompliance with HUD's requirements. When the prepayment did not complete in 2014 due to circumstance beyond the owner's control, the owner should not have accepted the funding for tenant protection assistance, ultimately resulting in noncompliance with HUD's requirements and an improper RAD conversion. The owner should

¹⁹ LIHTC provides an incentive for investment in low-income communities. Specifically, the U.S. Treasury competitively allocates tax credit authority to intermediaries, such as State and territorial governments, that select investment projects. For their investments, the investors receive a tax credit against their Federal income tax.

work with HUD during the audit resolution process to ensure that recommendations in this report are sufficiently addressed and implemented.

- Comment 10 The owner stated that it had identified a potential buyer for the project and that the sale depended on the project's having the 90-unit Section 8 Project-Based Voucher Program housing assistance payments contract. The owner further stated that the cancellation of the contract would negatively affect the tenants and could prevent the recapitalization of the project.

As cited in this report, the 90-unit contract was an ineligible contract because it resulted from an improper RAD conversion. Therefore, a sale of the project should not take place on the basis of an ineligible contract. The owner should work with HUD and the Authority to cancel the Section 8 Project-Based Voucher Program housing assistance payments contract for the 90 units improperly converted under RAD. The owner should also work with HUD and the Authority to protect the tenancy of the affected tenants at the time of contract cancellation during the audit resolution process. It should be noted that the owner is not prevented from working with HUD and the Authority to seek an opportunity to enter into a separate housing assistance payments contract that is unrelated to the RAD conversion and meets HUD's requirements.

- Comment 11 The owner stated that the project was more than 48 years old, had many physical deficiencies, and needs millions of dollars in rehabilitation. The owner further stated that it paid for many major repairs out of its own funds unrelated to the project. The owner also commented that it had never taken equity, cash flow, or distribution out of the project.

We acknowledge the owner performed its duties in attending to the project's physical deficiencies. However, we did not review the project's financial status because it did not relate to our audit scope. Therefore, we cannot comment on the owner's never taking funds from the project.

- Comment 12 The owner stated that RAD was in its early stages during the project's application process and that the RAD statute went through several levels of approval and refinement from Congress. The owner also explained that the complexity of the changes was a contributing factor in determining how to follow the intent of the program.

We acknowledge that the notice has undergone updates, with two official revisions following the owner's application. The owner submitted its RAD application under Notice PIH 2012-32 REV-1. However, the owner did not identify the changes in criteria that were complex and made it difficult to follow the program.

Comment 13 The owner stated that in many cases, there was no clear way to properly follow the guidance in the RAD notice. Therefore, it relied on the Authority and HUD's Office of Recapitalization to review and approve the application. However, the owner did not identify a specific criteria citation that, it determined to be unclear.

Comment 14 The owner stated that several parties, including but not limited to HUD, the Authority, and the project tenants, should want the project to be recapitalized for preservation purposes. The owner stated that without a substantial Section 8 Project-Based Voucher Program housing assistance payments contract at the project, it was not likely that any owner or investor would buy the project. In addition, the owner stated that implementing the recommendations of this audit would hurt the tenants and the long-term viability of 200 units' of affordable housing in Macon, GA.

We acknowledge the owner's aspirations for the project and do not discourage it from recapitalizing the project as long as it complies with HUD's requirements, including but not limited to the requirements related to the housing conversion actions. As stated previously, a sale of the project should not take place on the basis of the ineligible contract. However, if a substantial contract is required to rehabilitate and recapitalize the project, the owner is not prevented from working with HUD and the Authority to seek an opportunity for entering into a separate housing assistance payments contract that is eligible and complies with HUD's requirements.

Further, we disagree that the implementation of this audit's recommendations would hurt the tenants and the long-term viability of affordable housing in Macon, GA. On the contrary, in recommendation 1A, we recommend that the owner work with HUD and the Authority to protect the tenancy of the affected tenants as a result of cancelling the ineligible contract.