



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

February 18, 2020

MEMORANDUM NO:
2020-AT-0802

Memorandum

TO: John L. Garvin, General Deputy Assistant Secretary for Housing, H
Dominique G. Blom, General Deputy Assistant Secretary for Public and Indian
Housing, P
Christopher L. Seats, Deputy Assistant Secretary for Multifamily Housing Programs,
HT

//Signed//

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

SUBJECT: HUD Inaccurately Allotted Funding for Tenant Protection Assistance and
Improperly Approved a Proposed RAD Conversion

INTRODUCTION

We reviewed the U.S. Department of Housing and Urban Development's (HUD) funding allotment for tenant protection assistance at the Vineville Christian Towers (project) related to a housing conversion action¹ and its approval of the project's Rental Assistance Demonstration Program (RAD) conversion. The review was initiated as a result of internal issues identified during an external audit of the project's RAD conversion.² The objective was to determine whether HUD accurately allotted funding for tenant protection assistance and whether it properly approved the project's proposed RAD conversion.

This memorandum contains four recommendations for corrective action. 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 this review.

¹ See the Background section of this memorandum for types of housing conversion actions.

² We expect to issue two external audit reports on the project's RAD conversion during fiscal year 2020.

METHODOLOGY AND SCOPE

To accomplish our audit objective, we interviewed HUD program staff, employees of the Housing Authority of the City of Macon-Bibb County, an owner consultant, and owner employees. In addition, we obtained and reviewed the following:

- Applicable laws, HUD's regulations at 24 CFR (Code of Federal Regulations) Parts 982 and 983, and Office of Public and Indian Housing (PIH) Notice PIH-2012-32, REV-1, Housing Notice 2001-41, and combined Housing and PIH Notice H-2019-09 PIH-2019-23 (HA).
- HUD correspondence, Christian Church Homes of North California's (owner) RAD application, HUD's approval of RAD conversion for 90 units, the project's rent supplement contract, list of projects with rental assistance payments contracts that can apply for a retroactive type of RAD conversion, HUD's procedures for processing funding for tenant protection assistance due to housing conversion actions, HUD's Integrated Real Estate Management and Line of Credit Control Systems.

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

BACKGROUND

HUD provides tenant-based rental assistance in the form of tenant protection assistance to assist eligible tenants that are affected by different types of housing conversion actions. Housing conversion actions include preservation prepayments, project-based opt-outs (including expiring rent supplement contracts), HUD enforcement actions, and HUD property dispositions. Specifically, 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. Regarding multifamily projects, to convert project-based assistance to tenant protection assistance due to housing conversion actions, HUD's Office of Multifamily Housing Programs advises PIH of the need for such funding. PIH collaborates with Multifamily to identify the number of vouchers needing to be funded. PIH also reviews the request for consistency with program eligibility requirements for housing conversion actions and invites or selects a public housing agency to administer the tenant protection assistance. Further, PIH completes a housing conversion action worksheet that is used for awarding the funding of tenant protection assistance. The Financial Management Center, which is a branch of the Financial Management Division, awards the selected public housing agencies funding to provide assistance in the form of tenant protection assistance. Once the funds are allotted, the Authority is authorized to provide rental assistance in accordance with HUD's requirements.

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 and Project-Based Voucher Programs.

The project is financed by a pre-1974 202 Direct Loan from HUD under the provisions of Section 202 of the National Housing Act. Such projects are subject to compliance with the requirements and regulations of HUD regarding rent charges, operating methods, accounting procedures, and other matters until the mortgage matures. The project 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 had a pre-1974 rent supplement contract.³

The Financial Management Center allotted \$714,827 for tenant protection assistance for 167⁴ of the 196 units in March 2014. The Authority explained that it provided tenant protection assistance between July 9 and December 1, 2014, based on tenant eligibility, for 90 units. Further, the Authority and PIH explained that any funding remaining from the allotment, which was not used for providing tenant protection assistance due to the limited number of qualified tenants, was included in the Authority's overall funding to provide rental assistance through the PIH programs it administers.

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 assistance⁵ to project-based assistance at the end of the contract.

The second component allows owners of projects funded under the rent supplement, rental assistance payment, and moderate rehabilitation programs to convert tenant protection assistance

³ Rent supplement contracts, issued under the Rent Supplement program enacted in 1965, are rental assistance agreements between private multifamily project owners and HUD.

⁴ The number of affected tenants can be different from the total number of units in the project because the tenant protection voucher funding was awarded for the affected tenants based on occupancy at the time of the housing conversion action. For example, units vacant for longer than 24 months at the time of the housing conversion action are not considered for awarding of tenant protection funding.

⁵ 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 contracts, and prepayments of HUD-subsidized Section 236 or 221(d)(3) mortgages, resulting in a loss of subsidy.

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 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 the termination or a termination or expiration of a rent supplement or rental assistance payments contract due to prepayment of a mortgage.

The project was accepted into the Section 8 Project-Based Voucher Program as a result of the RAD retroactive conversion. The owner submitted its RAD application to HUD's Office of Recapitalization and provided a copy to the Authority on July 14, 2014. The Office of Recapitalization, which oversees the RAD activities, was responsible for the preservation and recapitalization of federally assisted affordable housing and overseeing and processing financial transactions, including RAD conversions, to ensure the long-term physical and financial viability of affordable rental housing. The Office of Recapitalization is organized within HUD's Office of Multifamily Housing Programs. The Authority was responsible for administering the project's assistance before and after the RAD conversion as tenant protection assistance and project-based assistance, respectively. The RAD conversion was completed when the Authority and the owner executed the Project-Based Voucher Program housing assistance payments contract on March 23, 2015, for 90⁶ of the project's units.

RESULTS OF REVIEW

HUD inaccurately allotted funding for tenant protection assistance at the project and improperly approved the project's RAD conversion. Specifically, the Financial Management Division inappropriately processed a funding allotment for tenant protection assistance for a housing conversion action at the project based on unsupported requests from Multifamily and PIH program offices. Further, the Office of Recapitalization improperly approved the project's RAD conversion for 90 units. These conditions occurred because (1) the procedures for funding allotments did not specify requiring support of the housing conversion action and (2) along with not maintaining adequate approval documentation, the Office of Recapitalization did not ensure that its requirement was met before approving the RAD conversion request for the project. As a result, nearly \$715,000 in tenant protection assistance funding was inaccurately allocated, and more than \$624,000 in housing assistance payments and administrative fees was improperly provided through an ineligible Section 8 Project-Based Voucher Program housing assistance payments contract.

Inaccurate Allotment of Funding for Tenant Protection Assistance

HUD's Financial Management Division's allotment of funding for tenant protection assistance for the project was not accurate. Specifically, the Financial Management Division

⁶ Only units that met certain requirements could convert under the retroactive conversion.

inappropriately processed an allotment of funds for tenant protection assistance for a housing conversion action at the project based on unsupported requests from Multifamily and PIH programs. After receiving a request from the Multifamily field office, on February 10, 2014, the PIH field office provided a housing conversion action worksheet to the Office of Public Housing's Financial Management Division for expiration of the rent supplement contract with a target date of April 1, 2014. However, the project did not have an active rent supplement contract in 2014 because it had expired or been terminated in April 2011. This condition occurred because the procedures for processing the approval of funding for tenant protection assistance did not specify requiring support⁷ of the housing conversion action. The procedures required PIH only to determine that the request was consistent with program eligibility requirements for a housing conversion action. Therefore, if the procedures had been specific, PIH would have noted that the project's rent supplement contract had expired or been terminated. The lack of support for the housing conversion action resulted in an improper allotment totaling \$714,827 for the project in 2014.

In addition, the procedures for processing funding allotment for tenant protection assistance for housing conversion actions did not specifically prevent allotment of funding more than once for same housing conversion action. When the rent supplement contract expired or was terminated in April 2011, an allotment of nearly \$233,000 for tenant protection assistance was processed in July 2011. As stated above, a separate allotment of nearly \$715,000 was processed in 2014 for the same housing conversion action of contract expiration, when there was no active rent supplement contract. The procedures broadly stated that the Financial Management Division would review the request for accuracy. However, because procedures are detailed steps to be taken for completion of a task, they need to be specific. Therefore, if the procedures had specifically required support of the housing conversion action, the Financial Management Division would have identified in 2014 that an allotment had already been processed for the same housing conversion action in 2011, when the contract expired or was terminated. Therefore, the processing of another allotment for the expiration of the rent supplement contract was not accurate.

The procedures for processing funding allotments for tenant protection assistance for housing conversion actions were updated in February 2017. Specifically, the procedures were updated in a memorandum, dated February 9, 2017, which was issued jointly by the General Deputy Assistant Secretary for Housing and the General Deputy Assistant Secretary for Public and Indian Housing to all Multifamily and Public Housing staff. The updated procedures required that for each eligible conversion triggering event, separate conversion worksheets⁸ be completed by PIH and provided to the Financial Management Division to ensure reviews of separate triggering events. Further, specific to RAD conversions, the updated procedures added an attachment that help screen for the proposed conversion, the number of vouchers being requested per each separate conversion triggering event and asks if there are Section 8 contracts existing on the property. However, the updated procedures did not specify the need for documentation to

⁷ The support documentation, for example would have been a copy of the contract to show the expected expiration date and payment information from HUD's Line of Credit Control System to show that payments on the contract had stopped.

⁸ The previous procedures in place at the time of the project's funding allotment processing also required a similar housing conversion action worksheet; however, the worksheet did not specify documentation be attached to substantiate the underlying conversion or require verification of any previous conversions.

support the proposed housing conversion actions before allotment of funding. Further, the updated procedures did not require verification that funding for tenant protection assistance was not previously allotted for the same type of housing conversion action before the allotment of funding. The updated procedures stated that the Financial Management Division would review the current conversion action worksheet and calculate budget authority. As stated above, the procedures needed to be specific.

Improperly Approved RAD Conversion

The Office of Recapitalization improperly approved the proposed RAD conversion for the project. Specifically, on March 3, 2015, it improperly approved the project's RAD conversion for 90 units. The approval stated that the Authority certified that tenants residing in 90 units consented to convert their tenant-based assistance in the form of tenant protection assistance to project-based assistance. However, neither the Office of Recapitalization nor the Authority was able to provide us with such certification. Instead, the Authority disputed that it provided such certification. The owner's RAD application submitted to the Office of Recapitalization with a copy also provided to the Authority contained significant information regarding tenant protection vouchers that was not properly considered by the Office of Recapitalization in approving the RAD conversion. The RAD application, dated July 9, 2014, and submitted on July 14, 2014, asked to project-base tenant protection assistance issued based on funding awarded by HUD on March 11, 2014, and further stated that it expected to convert additional tenant protection assistance, which had not yet been issued. In the application, the owner identified 46 specific tenants whom it stated had received tenant protection assistance. In addition, the owner added that it expected up to 100 additional tenants to be eligible for the RAD conversion after being processed by the Authority.

In accordance with Notice PIH-2012-32, REV-1, paragraph 3.3(C)(1), for retroactive conversions, eligible units related to the termination of rental assistance were those units occupied at the time of the RAD conversion by households that resided in rent supplement or rental assistance payments contract units and that received tenant protection assistance as a result of the expiration or termination of a rent supplement or rental assistance payments contract. Therefore, only the units already receiving tenant protection assistance were eligible for the RAD conversion type of retroactive conversion. However, the Office of Recapitalization improperly approved the RAD conversion for 90 units,⁹ which exceeded the number of units that received tenant protection assistance before the submission of the RAD application. We reviewed the Authority's records and determined that tenants for only 41 (46 percent) of the 90 RAD-converted units began receiving tenant protection assistance on July 9, 2014, and July 10, 2014, which was 4 to 5 days before the RAD application submission. However, tenants for the remaining 49 (54 percent) units began receiving tenant protection assistance between August 1 and December 1, 2014, which was 18 and 140 days after the application submission date. The issuance of new or additional tenant protection assistance after the submission date of the application should not have been considered to be part of a retroactive conversion.

In addition, the Office of Recapitalization did not maintain adequate documentation to explain its

⁹ The Office of Recapitalization approved the RAD conversion for 90 units based on additional communication provided by the owner after the submission of the application with 46 tenants.

approval basis. The Director of Office of Recapitalization explained that due to staff turnover, there was no record to explain the basis for approving the RAD conversion of the project. As a result, \$485,475 in housing assistance payments and \$138,624 in administrative fees were improperly provided through a Section 8 Project-Based Voucher Program housing assistance payments contract that was not eligible.¹⁰

Regarding future RAD prospective and retroactive conversions, the Office of Recapitalization explained that as of October 1, 2019, there were two rental assistance payments contracts that met the application deadline¹¹ for a prospective conversion. In addition, it explained that there was one property previously associated with rent supplement contract that also met the application deadline for a retroactive conversion.¹²

Conclusion

The procedures for funding allotment did not specifically require support of the housing conversion action, and along with not maintaining adequate approval documentation, the Office of Recapitalization did not ensure that its requirement was met before approving the RAD conversion request for the project. As a result, \$714,827 in tenant protection assistance funding was inaccurately allocated, and \$624,099 (\$485,475 + \$138,624) in housing assistance payments and administrative fees was improperly provided through an ineligible Section 8 Project-Based Voucher Program housing assistance payments contract.

RECOMMENDATIONS

We recommend that the General Deputy Assistant Secretary for Housing, in coordination with the General Deputy Assistant Secretary for Public and Indian Housing,

- 1A. Update and implement the internal procedures for processing housing conversion actions to require documentation, including but not limited to expired contracts or financial documentation from HUD's Line of Credit Control System, to show when the last payment was made for the contract to support the proposed housing conversion actions before allotment of tenant protection funds.
- 1B. Update and implement internal procedures to require verification that tenant protection funds were not previously allotted for the same type of housing conversion action.

¹⁰ We questioned the improper housing assistance payments and administrative fees in separate audit reports, mentioned in footnote 2 of this memorandum, for deficiencies related to the project's RAD application and the Authority's contract execution.

¹¹ The Notice H-2019-09 PIH-2019-23 (HA) issued on September 5, 2019, specified an application deadline of September 30, 2019, for any proposed retroactive RAD conversions of a rent supplement or rental assistance payments contract. While we did not assess the method used for establishing this deadline, we also did not question the establishment of a deadline because the legislation HR 2112 authorizing RAD permitted HUD's Secretary to make alterations when necessary for effective conversion under RAD.

¹² The application date is not the same as the completion date of the RAD conversion. Specifically, the RAD conversion is considered completed upon the execution of the Section 8 Project-Based Voucher Program or Project-Based Rental Assistance housing assistance payments contract, which could occur at any time after September 30 2019, depending on the individual project's situation. As of November 30, 2019, the RAD conversion was not completed for the one project perusing a retroactive conversion.

We recommend that the Deputy Assistant Secretary for Multifamily Housing require the Office of Recapitalization

- 1C. For the remaining retroactive RAD conversion not completed, to take steps, including but not limited to maintaining adequate approval documentation to ensure that it enforces its requirement that the tenant protection assistance is provided to tenants before the submission of the RAD application.
- 1D. For the remaining retroactive RAD conversion not completed, to take steps including but not limited to training staff responsible for reviewing and approving RAD applications to ensure that it enforces its requirement that the tenant protection assistance is provided to tenants before the submission of the RAD application.

Appendix A

Auditee Comments and OIG's Evaluation

Auditee Comments


Ref to OIG Evaluation

Comment 1

Comment 1
Comment 2

Comment 3

Comment 4



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

NOV - 5 2019

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

FROM: John L. Garvin, General Deputy Assistant Secretary for Housing, H
Dominique G. Blom, General Deputy Assistant Secretary for Public and Indian Housing, P

SUBJECT: HUD Inaccurately Allotted Funding for Tenant Protection Assistance and Improperly Approved a Proposed RAD Conversion

Thank you for the opportunity to review the Discussion Draft Memorandum dated September 19, 2019, regarding the Office of the Inspector General's (OIG's) review of the Vineville Christian Towers transaction and the conclusions of your audit. As you know, the Rental Assistance Demonstration (RAD) program is proving to be a highly successful strategy for preservation of at-risk affordable housing stock through conversion to Section 8 rental assistance contracts. As a demonstration, processes and procedures are continuously being reviewed with internal and external stakeholders to help shape a more robust RAD program and HUD understands and values the audit process as an improvement and accountability tool. We look forward to implementing the OIG recommendations as appropriate.

HUD concurs with the OIG finding that HUD inaccurately allotted funding for tenant protection assistance at the property, improperly determined the number of units within the RAD Component II retroactive conversion and did not adequately document the RAD conversion. HUD has separately provided some informal suggestions to the OIG to improve the precision of the description of facts in the Discussion Draft Memorandum, and we appreciate your willingness to consider and, as appropriate, accept those edits.

Subsequent to the events being reviewed through this audit, HUD issued updated guidance to staff of the Office of Multifamily Housing Programs and the Office of Public and Indian Housing in a memo dated February 9, 2017 ("2017 Guidance"), entitled "Internal Procedures for Processing Housing Conversion Actions." The 2017 Guidance builds on the procedures for staff found in PIH Notice 2001-41, entitled "Section 8 Tenant-Based Assistance (Enhanced and Regular Housing Choice Vouchers) For Housing Conversion Actions – Policy and Processing Guide." The 2017 Guidance clarifies the conversion process in a step-by-step way and adds a "Housing Conversion Action Eligibility Checklist" for use by PIH to verify household eligibility for Tenant Protection Voucher (TPV) assistance. These measures were added to help ensure that certain multifamily conversion triggers, including RAD, were matched to the appropriate number of units of voucher assistance provided, especially where multiple authorities were in place (e.g., Rent Supplement contract expiration, eligible loan prepayment,

www.hud.gov espanol.hud.gov

Auditee Comments

Ref to OIG Evaluation

Comment 3

2017 Guidance requires separate worksheets for each individual conversion authority to create a clear record of the requests and approvals.

The 2017 Guidance sets procedures to enhance HUD's ability to match conversion authorities to TPV requests and provides clarity toward identifying the relevant basis for triggering the issuance of TPV assistance. It does not, however, specify that documentation be attached to substantiate the underlying conversion or require verification of past conversions on the property, as suggested in this OIG Discussion Draft Memorandum.

Comment 3

The 2017 Guidance, implemented improvements that should mitigate the risk of future conversion errors. HUD hopes the OIG will note this progress in its final report. HUD does anticipate, following issuance of the final audit report and review of the final OIG corrective action recommendations, that the Office of Multifamily Housing Programs and the Office of Public and Indian Housing will modify the 2017 Guidance and the associated housing conversions worksheets to require additional documents from the owner to support the housing conversion action and to verify that tenant protection funds were not previously allotted for the same type of housing conversion action.

Comment 3

Comment 5

Also subsequent to the events reviewed through this audit and even to the OIG review itself, HUD has made policy changes that will further mitigate the risk of inaccurate analysis of a retroactive RAD conversion of a Rent Supplement or Rental Assistance Payments contract. On September 5, 2019, HUD issued a revision to the RAD implementing notice, "Rental Assistance Demonstration – Final Implementation, Revision 4, Notice H-2019-09 PIH-2019-23 (HA)" which specifies that any proposed retroactive RAD conversions of a Rent Supplement or Rental Assistance Payments contract must apply for conversion by September 30, 2019. As of October 1, 2019, there is only one retroactive RAD conversion that remains to close and will be subject to these requirements.

Comment 6

HUD again thanks the IG and its auditors for their time and consideration on this audit report. If anything further is needed with respect to completion or follow-up regarding these matters, please do not hesitate to contact either of the signatories hereto, or Tom Davis, Director of the Office of Recapitalization within the Office of Multifamily Housing Programs (██████████), or Danielle Bastarache, Deputy Assistant Secretary for Public Housing and Voucher Programs within the Office of Public and Indian Housing (██████████).

Comment 7

OIG Evaluation of Auditee Comments

Comment 1 HUD agreed with our findings and stated that it looks forward to implementing our recommendations as appropriate.

We appreciate HUD's comments and look forward to working with it during the audit resolution process to ensure that the recommendations are appropriately addressed and implemented.

Comment 2 HUD stated that it separately provided us with informal suggestions to improve the precision of the description of facts in this memorandum.

We appreciated HUD's suggestions, which we have incorporated in this memorandum as appropriate.

Comment 3 HUD explained that since the time of the project's events took place, updated guidance was issued on February 9, 2017, to the Multifamily and PIH staff, providing them clarification in a step-by-step manner and requiring a housing conversion action eligibility checklist for funding allotments. Specifically, HUD emphasized that (1) measures were added to help ensure that certain multifamily conversion triggers, including RAD, were matched to the appropriate number of units and (2) separate worksheets are required for each individual conversion action to create a clear record of requests and approvals. Further, HUD stated that the updated guidance implemented improvements that should mitigate the risk of future conversion errors and it hoped that we recognize this in our reporting. However, HUD agreed with our findings cited in this memorandum and stated that the updated guidance did not require documentation to support the conversion or require verification of past conversions on the property. HUD concluded that it will modify its updated guidance and the associated housing conversions worksheets to require additional documents to support the housing conversion action and to verify that the tenant protection funds were not previously allotted for the same type of housing conversion action.

We commend HUD's procedural updates and acknowledge that it should help to mitigate some risks associated in the process. Further, in completing our audit work, we have already noted the updated guidance and included our analysis of it in this memorandum. Specifically, we compared the updated guidance issued in February 2017 to the previous procedures that were in place in 2011 and 2014 when tenant protection assistance funding was allotted for the project's tenants. But, we incorporated in this memorandum, the informal suggestions made by HUD on specifics of the guidance issued in 2017. Particularly, we incorporated that there were separate worksheets required for each conversion action. In addition, we acknowledged that specific to RAD conversions, the updated procedures added an attachment that help screen for the proposed conversion, the number of vouchers being requested per each separate conversion triggering event and asks if there are Section 8 contracts existing on the property. However, as

also noted by HUD, the updated procedures did not require documentation to support the proposed conversion or require verification of past conversions. We appreciate HUD's plans to modify its updated procedures and we look forward to working with HUD during the audit resolution process to ensure that the internal procedures for processing funding allotment for tenant protection assistance based on proposed housing conversion actions are adequately updated and implemented to require (1) support of the proposed housing conversion actions and (2) verification of past conversions to show that tenant protection funds were not previously allotted for the same type of housing conversion action.

Comment 4 In explaining its procedures updated in February 2017, HUD stated that a housing conversion action eligibility checklist was added to be used by its PIH staff to verify household eligibility for tenant protection assistance.

As detailed in the background section of this memorandum, once HUD allots the funding, the housing authority is authorized to provide rental assistance in accordance with HUD's requirements. Accordingly, the housing authority determines the tenants' eligibility to receive tenant protection assistance in the form of monthly rental subsidy. Therefore, PIH staff do not verify household eligibility for tenant protection assistance; however, they use the checklist to determine the number of tenants eligible at the property for allotting funding to the housing authority.

Comment 5 HUD stated that since the time of our review, it has made policy changes, and identified that on September 5, 2019, it implemented a deadline of September 30, 2019, for the submission of applications for RAD retroactive conversions. In addition, HUD stated that the policy changes will further mitigate the risk of inaccuracies in HUD's analysis of the RAD retroactive conversions.

We acknowledge that establishing a deadline for properties to utilize RAD retroactive conversion will inherently mitigate some risk of inaccurate analysis due to the limited number of applications that will be received and accepted. However, HUD did not clarify what other, if any, policy changes were made. Therefore, HUD should implement the recommendations provided in this memorandum.

Comment 6 HUD stated that as of October 1, 2019, only one RAD retroactive conversion remained to close.

Based on HUD's comments and additional information received from HUD through November 30, 2019, we updated the finding and recommendations 1C and 1D in this memorandum to reflect the current number of in-progress RAD conversions remaining to close.

Comment 7 Email addresses and phone numbers of HUD officials were redacted due to privacy concerns.