



U.S. Department of Housing and Urban Development, Washington, DC

PIH Required Conversion of Distressed Projects



To: Dominique G. Blom, Deputy Assistant Secretary for Public Housing Investments,
PI

From: //signed//
Kimberly S. Dahl, Regional Inspector General for Audit, 2AGA

Subject: HUD PIH's Required Conversion Program Was Not Adequately Implemented

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 Office of Public and Indian Housing's (PIH) controls over conversions of distressed projects and units to tenant-based rental assistance programs.

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 212-264-4174.



Audit Report Number: 2017-NY-0001

Date: May 18, 2017

HUD PIH's Required Conversion Program Was Not Adequately Implemented

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) required conversion program activities to determine whether HUD ensured that public housing agencies (PHA) properly evaluated their distressed units and converted them to tenant-based rental assistance programs. We selected this program for review based on an approved internal audit suggestion in our annual audit plan. Our audit objective was to determine whether HUD adequately implemented its required conversion program to ensure that its PHAs complied with the procedures for the required conversion of distressed public housing developments to tenant-based rental assistance programs.

What We Found

HUD did not adequately implement its required conversion program. Specifically, HUD did not properly identify potential projects requiring conversion and did not follow up to ensure that PHAs took action by conducting proper analyses to determine if listed projects should be converted to tenant-based rental assistance. HUD also did not apply available remedies when PHAs did not properly identify projects or implement required conversions. We attributed this deficiency to lack of oversight and miscommunication among the Office of Public and Indian Housing (PIH), Office of Field Operations; the Special Application Center; regional PIH field offices; and the PHAs. As a result, HUD did not require PHAs to identify and convert distressed projects, and up to \$75 million in operating subsidies and capital funds could continue to be spent on projects that have not been determined to be physically viable or less expensive than tenant-based rental assistance.

What We Recommend

We recommend that HUD develop and implement policies and procedures to identify potentially distressed projects and monitor and enforce the required conversion program. Additionally, we recommend that HUD determine whether nine PHAs provided appropriate documentation to support whether potentially distressed projects should be converted to tenant-based rental assistance and if conversion is required that it is accomplished timely, thereby ensuring that up to \$75 million is used effectively for projects that are cost effective and have long term viability and ensuring that tenants receive other rental assistance.

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Background and Objective

The required conversion program is included in Section 33 of the United States Housing Act of 1937 as amended and codified at 24 CFR (Code of Federal Regulations) Part 972. The purpose of the program is to ensure that distressed public housing developments are removed from the public housing inventory and tenant-based rental assistance is provided to the residents. The regulations require public housing agencies (PHA) to identify distressed public housing developments (or parts of developments). Distressed public housing developments (or parts of developments) with vacancy rates of 12 percent or more are subject to required conversion if

- It would be more expensive for the PHA to modernize and operate the distressed development as public housing for its remaining useful life than it would be to provide tenant-based rental assistance to all residents of those units; or
- The PHA cannot ensure the long-term viability of the distressed development.¹

In an effort to assist PHAs in identifying developments (or parts of developments) that may be subject to required conversion, the Special Application Center (SAC)² processed information from U.S. Department of Housing and Urban Development (HUD) field offices listing public housing developments nationwide with at least 250 dwelling units on one or more contiguous sites that might be required conversion candidates. SAC created clusters to identify projects that may be required conversion candidates. SAC then compiled Required Conversion Candidate reports with the PHA cluster data, along with information on occupancy and vacancy, which was supposed to be updated periodically.

Our audit objective was to determine whether HUD adequately implemented its required conversion program to ensure that its PHAs complied with the procedures for the required conversion of distressed public housing developments to other rental assistance programs.

¹ Regulations at 24 CFR 972.124, the standards for identifying public housing developments subject to required conversion, provide that the development or portions thereof must be converted if it is a general occupancy development of 250 or more dwelling units and has a vacancy rate of 12 percent and the units are distressed housing, for which the PHA cannot ensure long-term viability or which are more expensive to operate as public housing than providing tenant-based rental assistance.

² The Special Applications Center, a division of HUD's Office of Public and Indian Housing, supports the Nation's PHAs in their desire to provide a better housing stock for their residents by providing technical assistance and approving their plans. SAC reviews, processes and approves nonfunded, noncompetitive applications related to demolition or disposition, eminent domain, home ownership and conversion.

Results of Audit

Finding: HUD's Required Conversion Program Was Inadequately Implemented

HUD did not adequately implement its required conversion program. Specifically, HUD did not properly identify potential projects requiring conversion and did not follow up to ensure that PHAs took action by conducting proper analyses to determine if listed projects should be converted to tenant-based rental assistance. HUD also did not apply available remedies when PHAs did not properly identify projects or implement required conversions. We attributed this deficiency to lack of oversight and miscommunication among the Office of Public and Indian Housing (PIH), Office of Field Operations; the Special Application Center (SAC); regional PIH field offices; and the public housing agencies (PHA). As a result, HUD did not require PHAs to identify and convert distressed projects, and up to \$75 million in operating subsidies and capital funds could continue to be spent on projects that have not been determined to be physically viable or less expensive than tenant-based rental assistance.

HUD Did Not Properly Identify Projects Requiring Conversion or Follow-up with PHAs

HUD did not properly identify potential projects requiring conversion and did not follow up to ensure that PHAs took action on listed projects that HUD had identified as potentially requiring conversion. Conversion is the removal from the public housing inventory of distressed developments that cost more to operate and modernize under their annual consolidated contributions contracts than Section 8 rental assistance and cannot be reasonably revitalized. HUD's required conversion program is part of the mandatory conversion, which was originally implemented under Section 202 of the Omnibus Consolidated Rescissions and Appropriations Act of 1996. Section 202 was rescinded under the Quality Housing and Work Responsibility Act of 1998. This new legislation covered similar actions as part of the following amendment to the United States Housing Act of 1937: Required conversion, implementing Section 33 of the Act.

PHAs are required to identify developments or parts of developments with high vacancy rates that are either too expensive to modernize, compared to converting to tenant-based rental assistance programs, or are not viable in the long term. These developments would be considered distressed and would be required to be converted and eliminated from the public housing inventory. In an effort to assist PHAs in identifying developments that might be subject to required conversion, SAC reported information from HUD field offices listing public housing developments nationwide with at least 250 dwelling units on one or more contiguous sites that might be likely candidates for required conversion. The Required Conversion Candidate report was supposed to be updated monthly, however the most recent report was issued on March 7, 2012. Review of Office of PIH system data and discussion with officials at the HUD headquarters, regional, and PHA levels showed that minimal progress had been made regarding the projects detailed on the

March 7, 2012, report. Further, a conversion plan had not been approved since December 9, 2011, which indicates no distressed projects had been converted to tenant-based rental assistance in over 5 years.

The conversion program required PHAs to evaluate the clusters or developments identified in the Required Conversion Candidate reports as distressed and address them in their 5-year plans. Further, the Acting Director of SAC explained that the PHAs with developments identified in the reports were supposed to prepare and submit a conversion plan in addition to accounting for the distressed projects in their 5-year plans. If SAC or the PHA identifies a development or portion of a development as possibly subject to the required conversion, the PHA must address the required conversion in its next annual plan submission. The PHA must indicate whether the development is subject to the required conversion. Justification for or against required conversion may be based on unit count or occupancy information but generally the PHA must run the cost viability test for the identified units.

A review of a nonstatistical sample of 10 clusters of units belonging to 8 PHAs included in the most recent March 7, 2012, Required Conversion Candidate report found that HUD did not follow up to determine whether PHAs evaluated their developments identified in the report. The report contained 86 clusters belonging to 34 PHAs, consisting of 46,837 non-designated units nationwide.³ PHA officials stated that the Required Conversion Candidate report did not contain sufficient information to help the PHAs identify the distressed projects. Officials for seven of the eight PHAs in our sample stated that they did not submit conversion plans specific to the clusters identified by SAC because they could not identify the distressed developments and applicable units that were noted in the report.

HUD Did Not Enforce the Requirements for PHAs To Evaluate Distressed Developments and Convert Them to Tenant-Based Rental Assistance

HUD did not apply available remedies when PHAs did not properly identify projects or implement required conversions. Specifically, HUD did not require all PHAs to evaluate their developments for conversion to tenant-based rental assistance. Regulations at 24 CFR 972.139 allow HUD to take appropriate action to ensure the conversion of the developments to tenant-based rental assistance programs but these measures were not applied. HUD can identify projects requiring conversion when PHAs fail to do so and can revise conversion plans and revise capital and operating funds provided to the PHAs. According to the Acting Director of SAC, SAC was authorized to review and approve conversion plans but not to enforce compliance with the required conversion program guidelines. The Acting Director stated that the HUD PIH Office of Field Operations was in charge of enforcing PHA compliance with required conversion activities and applying the prescribed sanctions when warranted.

In later discussions with SAC, the Acting Director stated that the conversion plan submission requirement was replaced by the Public Housing Agency Recovery and Sustainability (PHARS) initiative in 2011, before the last Required Conversion Candidate report was issued. The purpose

³ Designated units are those units that are designated to a category of family or group, such as elderly families in a project designated for elderly families. These designations are prepared by PHAs in their designation housing plans and submitted to HUD for approval.

of HUD's PHARS initiative is to ensure effective and sustainable recovery of troubled PHAs by applying multiple phases, such as (1) designating the expected level of performance and assigning field office resources to sustain the troubled PHAs' recovery, (2) providing enhanced financial management and governance assessment to PHAs in troubled status, (3) establishing recovery agreements or action plans and sustainability plans, (4) implementing sustainability plans and following recovery agreement progress, and (5) identifying and implementing repositioning options to remediate the troubled status. PHARS focuses on the recovery of only troubled PHAs and does not appear to address individual projects that could be classified as distressed in PHAs not classified as troubled. In addition, by not requiring the PHAs to first identify whether a development is subject to conversion, PHAs may have violated the statute.

Information on the specific asset management projects most affected by these vacancy rates was not available in HUD systems. HUD did not have information and metrics by asset management projects for multiple years so that a proper analysis could be performed to identify distressed projects and units. This data should agree with the identifiable asset management project (AMP) numbering system in PIH Information Center modules. Data from the PIH Information Center show that nationwide there are 131 PHAs with public housing programs with 250 units or more that have vacancy rates of 12 percent or more. These public housing programs have an inventory of 242,473 units. These 131 PHAs may include both contiguous and non-contiguous sites since the data available in HUD's systems do not currently discern between the two categories. The 131 PHAs had agency-wide vacancy rates that ranged from 12 to 69 percent vacant. HUD authorized an average annual amount of approximately \$1.3⁴ billion in operating subsidies and capital funds for these 131 PHAs. Due to lack of oversight from HUD, there is no assurance that the required analysis is being performed by PHAs to determine if it is more expensive for the PHA to modernize and operate the distressed development as public housing for its remaining useful life than it would be to provide tenant-based rental assistance to all residents of those units and to determine if projects have long term viability. The 131 PHAs with vacancy rates of 12 or more percent included 9 PHAs that were classified as troubled and physically substandard. HUD authorized more than \$75 million⁵ a year in operating subsidies and capital funds for these nine PHAs. If HUD focuses on these higher risk PHAs and implements procedures to ensure compliance with program requirements, it could ensure that up to \$75 million is being effectively used for projects that are cost effective and have long term viability or by using the funds to provide tenant-based rental assistance when warranted. We expect the average annual amount of funds received for the last 3 years to be a reasonable projection of funding for the next year.

Conclusion

HUD did not properly identify potential projects requiring conversion and did not follow up to ensure that PHAs took action by conducting proper analyses to determine if projects should be converted to tenant-based rental assistance. The most recent Required Conversion Candidate

⁴ \$1,349,561,043=3-year average (2013 through 2015) of operating subsidies (\$940,468,963) and capital funds (\$409,092,080) HUD authorized to 131 PHAs nationwide having public housing programs with 250 or more units and vacancy rates of 12 percent or more.

⁵ \$75,540,916=3-year average of operating subsidies (\$52,361,485) and capital funds (\$23,179,431) HUD authorized to 9 PHAs nationwide having public housing programs with 250 or more units and vacancy rates of 12 percent or more with a PHAS classification of troubled or substandard physical.

report, which was prepared by SAC, was over 4 years old and PHAs indicated that they did not submit conversion plans because they could not identify the projects that were subject to conversion. No projects have been approved for conversion to tenant-based rental assistance in over 5 years even though there are 131 PHAs with PHA-wide vacancy rates of 12 percent or more. These deficiencies were due to lack of oversight and miscommunication among PIH's, Office of Field Operations; SAC; regional PIH field offices; and the PHAs. HUD did not require PHAs to perform analyses of developments to identify and convert distressed projects. Also, HUD did not apply the measures available in 24 CFR 972.139 when PHAs do not properly identify projects and convert distressed projects to tenant-based rental assistance including HUD identifying the projects and authorizing the transfer of operating and capital funds to tenant-based rental assistance. As a result, up to \$1.3 billion in operating subsidies and capital funds might continue to be spent on projects that may have been required to be converted to tenant-based rental assistance programs. HUD should develop and implement policies and procedures to identify potentially distressed projects and monitor and enforce the required conversion program. If HUD initially focuses on ensuring that higher risk PHAs complied with program requirements, it could ensure that up to \$75 million is being used effectively for projects that are cost effective and have long term viability and ensure that residents receive other assistance.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Public Housing Investments direct staff to

- 1A. Determine whether the nine PHAs that were classified as troubled or physically substandard have public housing developments that are subject to the required conversion requirements to support whether potentially distressed projects should be converted to tenant-based rental assistance. If conversion is required, ensure that it is accomplished timely, thereby ensuring that up to \$75,540,916 is used effectively for other projects that are cost effective and have long term viability and ensuring that residents receive other rental assistance.⁶
- 1B. Develop and implement policies and procedures with the Office of Field Operations regarding identification of potentially distressed projects and monitoring and enforcement of the required conversion program.

⁶ The \$75 million cited as funds to be put to better use is based on an analysis of available data. We recognize that the 131 PHAs cited in this report, including the 9 PHAs that comprise the \$75 million figure, may not have projects with at least 250 units on one or more contiguous sites that have vacancy rates of 12 percent or more. However, the data did not allow us to calculate vacancy rates for each group of contiguous units, and HUD could not provide a reasonable, supported method to identify projects subject to required conversion. To address this recommendation, HUD will need to determine whether these PHAs have projects that are subject to required conversion.

Scope and Methodology

The audit focused on whether HUD adequately implemented the required conversion program to ensure that PHAs successfully identified and converted their distressed units and projects. The audit generally covered the period January 1, 2013, through December 31, 2015, and was extended as necessary to meet the objective of the review. We performed audit fieldwork from February to September 2016 in our office located in Newark, NJ, and communicated with HUD headquarters in Washington, DC, and SAC in Chicago, IL.

To accomplish our objective, we

- Reviewed relevant program requirements and applicable Federal regulations to gain an understanding of the required conversion program guidelines.
- Used computer-processed data such as PHA unit and occupancy data from the Information Management System and PIH Information Center relevant to HUD's required conversion programs for distressed housing. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.
- Interviewed HUD headquarters and field office staff and PHA officials to gain an understanding of their roles and responsibilities in the funding process for the Public Housing Operating Fund program, as well as implementing the process.
- Using Audit Command Language (ACL)⁷ sampling function, selected a nonstatistical sample of 10 clusters belonging to 8 PHAs with approved demolition and disposition units from the most recent Required Conversion Candidate report, dated March 7, 2012. The sample cannot be used to project the results of our finding.
- Submitted a request for program status updates and financial information to SAC, the HUD Office of the Chief Financial Officer, the PIH Office of Field Operations, and regional PIH offices.

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.

⁷ ACL data analytics is a data extraction and analysis software developed by ACL Services, Ltd., for fraud detection and prevention and risk management. ACL data analysis software is also used to find irregularities or patterns in transactions that could indicate control weaknesses or fraud.

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:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - 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 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 Deficiencies

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

- HUD did not have adequate controls to ensure PHAs complied with the statutory requirements for conversion of public housing units to tenant-based rental assistance programs for units that do not have long-term viability or are not cost effective when compared to tenant-based rental assistance programs.

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1A	\$75,540,916

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if HUD verifies whether the nine PHAs identified that were classified as troubled or substandard physically have provided documentation to support whether potentially distressed projects should be converted to tenant-based assistance and whether any required conversion is accomplished timely, it could put up to \$75 million to better use for projects that have been determined to be physically viable or when the tenants could be housed at a lower cost through other rental assistance programs.⁸


⁸ The \$75 million cited as funds to be put to better use is based on an analysis of available data. We recognize that the 131 PHAs cited in this report, including the 9 PHAs that comprise the \$75 million figure, may not have projects with at least 250 units on one or more contiguous sites that have vacancy rates of 12 percent or more. However, the data did not allow us to calculate vacancy rates for each group of contiguous units, and HUD could not provide a reasonable, supported method to identify projects subject to required conversion. To address this recommendation, HUD will need to determine whether these PHAs have projects that are subject to required conversion.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

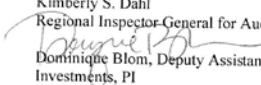
Auditee Comments


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

ASSISTANT SECRETARY FOR
PUBLIC AND INDIAN HOUSING

February 24, 2017

MEMORANDUM FOR: Kimberly S. Dahl
Regional Inspector General for Audit, 2AGA

FROM: 
Dominique Blom, Deputy Assistant Secretary, Office of Public Housing
Investments, PI

SUBJECT: Auditee Response
HUD PIH's Required Conversion Program Was Not Adequately
Implemented
OIG Draft Audit Report Number: 2017-NY-000x
Updated Version Issued: February XX, 2017

Thank you for providing the Office of Public Housing Investments (OPHI) the opportunity to comment on the draft audit report prepared by the Office of Inspector General (OIG) entitled "HUD PIH's Required Conversion Program Was Not Adequately Implemented, OIG Draft Audit Report Number: 2017-NY-000x." It is our understanding that OIG conducted the audit to determine whether HUD ensured that public housing agencies (PHA) properly evaluated their distressed units and converted them to tenant-based rental assistance programs, when required, pursuant to 24 CFR 972.

PIH acknowledges responsibility for monitoring and enforcing PHAs adherence to and compliance with the regulations of the Required Conversion program pursuant to 24 CFR Part 972 Subpart A. PIH agrees to develop and implement better policies and procedures to monitor and enforce the Required Conversion program. However, PIH questions the OIG's methodology for identifying possible PHAs and developments subject to the Required Conversion program and, thus, questions the \$75 million figure. In reviewing the nine PHAs identified in the OIG report, PIH's assessment determined that none of the nine PHAs were subject to the Required Conversion program, as outlined below:

In accordance with §972.124, public housing developments subject to required conversion must have a general occupancy 250 or more dwelling units and meet the following criteria:

- 1) The development is on the same or contiguous sites. This refers to the actual number and location of units, irrespective of HUD development project numbers.
- 2) The development has a vacancy rate of at least a specified percent for dwelling units not in funded, on-schedule modernization, for each of the last three years, and the vacancy rate has not significantly decreased in those three years.
 - a) [...] For a conversion analysis performed after [March 16, 2009], the specified vacancy rate is 12 percent.
 - b) For the determination of vacancy rates, the PHA must use the data it relied upon for the PHA's latest Public Housing Assessment System (PHAS) certification, as reported on the Form HUD-51234 (report on Occupancy). Units in the following categories must not be included in this calculation:
 - i) Vacant units in an approved demolition or disposition program;
 - ii) Vacant units in which resident property has been abandoned, but only if state law requires the

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Comment 1

Comment 2

Ref to OIG
Evaluation

Auditee Comments

Comment 2

Comments
2 and 3

Comment 4

Comment 5

Comment 2

2

- property to be left in the unit for some period of time, and only for the period of time stated in the law;
- iii) Vacant units that have sustained casualty damage, but only until the insurance claim is adjusted;
 - iv) Units that are occupied by employees of the PHA and units that are used for resident services; and
 - v) Units that HUD determines, in its sole discretion, are intentionally vacant and do not indicate continued distress.
- 3) The development either is distressed housing for which the PHA cannot assure the long-term viability as public housing, or more expensive for the PHA to operate as public housing than providing tenant-based assistance.

PIH notes that all three criteria stated in §972.124 must be met for required conversion consideration. PIH was able to ascertain the number of units in each AMP and the vacancy data for each AMP using data from PIC and the Department's Financial Data Schedule – the instrument used to determine the levels of funding for both the Operating and Capital Funds. Please see the second tab, "PIH Data," in the spreadsheet which shows the number of units and the compiled annual vacancy rates for each physical development of the 9 OIG sampled PHAs.

The nine PHAs combined have 21 AMPs. Of those 21 AMPs, 19 have unit counts of 249 or less. As a result, the initial standard for identifying public housing developments subject to required conversion, namely if the development has 250 or more dwelling units, is not applicable for those 19 AMPs.

The remaining two AMPs, both in the Gary Housing Authority (IN011) and under HUD receivership, are under an aggressive reconfiguration and redevelopment plan led by the Office of Recovery and Prevention (ORP). PIH asserts that the regulatory provision found at §972.124 (b)(2)(v), "Units that HUD determines, in its sole discretion, are intentionally vacant and do not indicate continued distress..." is applicable and also exempts these developments.

PIH recognizes that, at first glance, it may appear that the Department and the PHAs may not have implemented a conversion program designed to reduce costs and protect the residents. On closer examination, however, PIH introduced a more stringent policy and enacted procedures to better identify potential distressed projects, regardless of size. The Public Housing Agency Recovery and Sustainability (PHARS) Initiative, which began in 2011, has drastically reduced the number of substandard housing units and has enabled both the Department and the PHAs to better prevent distressed sites.

OPHI, as well as all of PIH, hope that the comments and spreadsheet help you in preparing your final report. Based on the analysis of the 9 PHAs, PIH submits that the \$75 million figure, which OIG contends could have been put to better use, was inaccurately determined. We respectfully request that this dollar figure be removed from the audit. We look forward to working cooperatively with your organization to address any concerns or questions as they relate to the Required Conversion program.

OIG Evaluation of Auditee Comments

- Comment 1 HUD acknowledged its responsibility for monitoring and enforcing PHAs' adherence to and compliance with the regulations of the required conversion program pursuant to 24 CFR Part 972. Further, it agreed to develop and implement better policies and procedures to monitor and enforce the required conversion program. We are encouraged that HUD acknowledged its responsibility for monitoring and enforcing the statutory requirement that PHAs identify distressed public housing developments or parts of developments that may be subject to required conversion, and agreed to develop and implement better policies and procedures to monitor and enforce the required conversion program.
- Comment 2 HUD questioned OIG's methodology for identifying possible PHAs and developments subject to the required conversion program, and therefore, questioned the \$75 million calculation of funds to be put to better use. HUD noted that it was able to determine the number of units in each AMP and the vacancy rates for each AMP using data from the PIH Information Center and the Department's Financial Data Schedule. In a spreadsheet detailing its analysis, HUD indicated that the 9 PHAs had 21 AMPs representing 3,206 units. We disagree with HUD's analysis of the number of AMPs and units for each of the nine PHAs. Based on data contained in the PIH Information Center as of February 2017, we believe that HUD's analysis omitted 72 AMPs from the 9 PHAs that represented 8,609 dwelling units. We are committed to working with the HUD to resolve the discrepancies with the AMP and unit data during the audit resolution process.

As noted in the report, the \$75 million figure cited as funds to be put to better use is based on an analysis of available data. We recognize that the 131 PHAs cited in this report, including the 9 PHAs that comprise the \$75 million figure, may not have projects with at least 250 units on one or more contiguous sites that have vacancy rates of 12 percent or more. However, the data available in HUD's systems do not currently allow us to discern between vacancy rates at contiguous and non-contiguous units, and HUD could not provide a reasonable, supported method to identify projects subject to required conversion.

Based on the inconsistencies regarding the number of AMPs and units identified in HUD's analysis and the fact that the data did not allow us to calculate vacancy rates for each group of contiguous sites, OIG maintains that HUD should determine whether the nine PHAs that were classified as troubled or physically substandard have public housing developments that are subject to the required conversion requirements to support whether potentially distressed projects should be converted to tenant-based rental assistance. If conversion is required, HUD should ensure that it is accomplished timely, thereby ensuring that up to \$75

million is used effectively for other projects that are cost effective and have long term viability and ensuring that residents receive other rental assistance.

Comment 3 HUD contended that 19 AMPs at the 9 PHAs had unit counts of 249 or less, and were therefore not subject to the required conversion program. Our analysis of February 2017 PIH Information Center data found that 79 AMPs at the 9 PHAs had 249 dwelling units or less. However, the number of units in an AMP is not an accurate measurement of the actual location of the units. It is possible that two or more AMPs are located on the same or contiguous sites. Regulations at 24 CFR 972.124 specifically note that when it is referring to 250 dwelling units on the same or contiguous sites, it is referring to the actual number and location of the units irrespective of the HUD development project number (AMP).

Comment 4 HUD contended that only two AMPs at one PHA had 250 units or more. Our analysis of February 2017 PIH Information Center data found that 14 AMPs at 5 of the 9 PHAs had 250 dwelling units or more. However, as noted in comment 3 above, the number of units in an AMP is not necessarily an accurate measurement of the actual location of the dwelling units and whether they are contiguous.

HUD also contended that the two AMPs in question are located at a PHA that is under receivership. It noted that the two AMPs are under an aggressive reconfiguration and redevelopment plan and that these developments are exempt based on regulations at 24 CFR 972.124(b)(2)(v). We acknowledge that the regulations provide HUD discretion to not consider units that it determines are intentionally vacant and do not indicate continued distress. However, because HUD was not certain which units at this PHA were distressed in the Required Conversion Candidate report dated March 7, 2012, we maintain that HUD should determine whether the PHA has developments that are subject to the required conversion requirements and document its determination, including whether it considers certain units exempt under 24 CFR 972.124(b)(2)(v).

Comment 5 HUD contended that while it may appear that HUD and PHAs may not have implemented a conversion program designed to reduce costs and protect residents, it introduced a more stringent policy and enacted procedures to better identify potential distressed projects, regardless of size, through the PHARS initiative. It noted that the initiative began in 2011 and has drastically reduced the number of substandard housing units and has enabled both HUD and PHAs to better prevent distressed sites.

We maintain that while the PHARS initiative may have helped reduce the number of substandard housing units, it focuses on the recovery of troubled PHAs and does not appear to address individual projects that could be classified as distressed in PHAs not classified as troubled. PHARS does not remove the statutory requirement that PHAs identify distressed public housing developments or parts of developments that may be subject to required conversion. By not requiring the PHAs to first identify whether a development is subject to conversion, HUD may have allowed PHAs to violate the statute.