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TO: Janet Golrick, Assistant to the Deputy Assistant Secretary for Multifamily Housing,
HT

FROM: //signed//
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7AGA

SUBJECT: HUD's Office of Multifamily Housing Generally Met Requirements While
Administering the Opt-Out Process for Section 8 Projects

HIGHLIGHTS

What We Reviewed and Why

We reviewed the U.S. Department of Housing and Urban Development's (HUD) oversight of projects that opted out of the Section 8 program between January 1, 2004, and December 31, 2007. We reviewed the opt-out process because it involved large amounts of funds potentially not accounted for or remitted to HUD. Our objectives were to determine whether HUD

- Complied with all applicable program requirements and
- Ensured that applicable project owners who opted out of the Section 8 program remitted residual receipts to HUD as required.

What We Found

With a few minor exceptions, HUD complied with applicable requirements while administering the opt-out process for the nine Section 8 projects in our sample. In

addition, for all nine projects, the responsible depository properly remitted residual receipts to HUD or released the residual receipts to the project owners, or the balance in the residual receipts account was zero so no action was required. We communicated the minor exceptions to HUD in a separate management letter.

What We Recommend

Since we did not identify any significant deficiencies, there are no recommendations in this report.

Auditee's Response

We provided the discussion draft of the audit report to the Office of Multifamily Housing on June 20, 2008, and received its verbal concurrence on July 10, 2008. The Office of Multifamily Housing agreed with our report.

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BACKGROUND AND OBJECTIVES

Congress authorized the Section 8 program in 1974, and the U.S. Department of Housing and Urban Development (HUD) developed the program to provide rental subsidies for eligible tenant families residing in newly constructed, rehabilitated, and existing rental and cooperative apartment projects. HUD's Office of Multifamily Housing has oversight responsibility for approximately 30,000 insured or assisted properties with more than 2.5 million units. Of these units, more than 1.2 million units are Section 8-assisted units located in more than 17,000 properties. When a project owner opts out of the Section 8 program, HUD terminates the project's housing assistance payments contract. HUD has an established process that project owners must follow when they opt out of the Section 8 program. HUD's multifamily hubs provide oversight of this process across the country. The new regulations at 24 CFR (*Code of Federal Regulations*) Parts 880, 881, and 883 require that upon termination of the housing assistance payments contract, the project remit excess residual receipts to HUD.

The objectives of the review were to determine whether HUD complied with all applicable program requirements and ensured that applicable multifamily project owners who opted out of the Section 8 program remitted residual receipts to HUD as required.

RESULTS OF REVIEW

HUD generally complied with requirements while administering the opt-out process for the nine Section 8 projects we reviewed. All nine projects in our sample properly remitted residual receipts to HUD, paid the residual receipts to the owners, or took no action because the balance in the residual receipts account was zero.

HUD generally followed the requirements as stated in the Section 8 Renewal Policy guidebook, chapters 8, 10, and 11, for those projects that opted out of the Section 8 program. Chapter 8 provides processing instructions that the Office of Multifamily Housing must follow once an owner elects to opt out. Chapter 10 includes both the disposition of residual receipts process, which explains whether a housing assistance payments contract is under the old or new regulations, and the notification requirements, which include actions the Office of Multifamily Housing must take with accounting staff to ensure that owners remit residual receipts when required. Chapter 11 instructs the Office of Multifamily Housing of housing conversion actions once a project owner opts out. The Office of Multifamily Housing must provide enhanced vouchers for the assisted eligible residents under the expiring project-based contract at the date of expiration.

The HUD offices did not consistently apply one aspect of the opt-out requirements. This issue was not material to the opt-out process and did not negatively affect the outcome of the nine projects in our sample. We reported this issue to HUD separately in a management letter.

SCOPE AND METHODOLOGY

Our review covered the period January 1, 2004, through December 31, 2007. We performed our on-site review in the Denver and New York Multifamily Hubs from March 6 through March 27, 2008.

To accomplish our objectives, we obtained and reviewed applicable Section 8 opt-out requirements and regulations. We requested that the Office of Multifamily Housing in Headquarters identify all projects that met the following criteria:

- Opted out of the Section 8 program between 2004 and 2007,
- Governed by new regulations,
- Owned by nonprofits or limited distribution partnerships, and
- One hundred percent subsidized.

Multifamily Housing identified 28 projects that met the criteria. From these 28 projects, we selected both projects in Denver and all seven projects in New York to review. We selected the projects in Denver because of their proximity to the auditors' duty station and the projects in New York because that location had a large amount of opt-out projects and large residual receipt amounts. We obtained and reviewed opt-out and asset management files for the nine projects selected. We reviewed the files for supporting documentation to show compliance with the established opt-out process and to identify remittance of residual receipts to HUD or payments to owners. We also interviewed HUD officials and staff.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.