Issue Date December 9, 2008
Audit Report Number 2009-PH-0001

TO: Janet M. Golrick, Deputy Assistant Secretary for Multifamily Housing, HT

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: HUD's Region 3 Program Centers Did Not Always Process Section 202 and Section 811 Capital Advances in Accordance with HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) processing of its Section 202 and Section 811 capital advances as part of our annual audit plan. Our audit objective was to determine whether HUD's program centers under the jurisdiction of its Region 3 (program centers) processed Section 202 and Section 811 capital advances in accordance with HUD requirements.

What We Found

Program centers did not always process Section 202 and Section 811 capital advances in accordance with applicable HUD requirements. Two of six program centers did not obtain required approval from HUD headquarters to extend the fund reservation period past 24 months for 21 of 58 open projects with capital advances valued at $46.3 million. HUD had not implemented controls to monitor compliance with this requirement, which is intended to ensure that extending the fund reservation period is consistent with the HUD Secretary's goal of increasing affordable housing for low-income families. Additionally, of the 60 projects that received fund reservation letters during the audit period, 50 (83 percent) were not approved for construction within HUD's 18-month guideline. Capital advance funding often did not cover housing development costs, and program centers did not consider canceling projects despite indications that they would be significantly delayed.

What We Recommend

We recommend that the Deputy Assistant Secretary for Multifamily Housing direct responsible program centers to (1) justify and obtain approval from headquarters to extend the fund reservation period past 24 months for two projects with capital advances totaling $1.8 million that have not gone to initial closing or cancel them if appropriate, (2) justify and provide current status for 19 projects with capital advances of $44.5 million that went to initial closing although program centers had not obtained required HUD approvals of the fund reservation period past 24 months and ensure that the use of the funds is consistent with the HUD Secretary's goal of increasing affordable housing for low-income families, and (3) establish and implement adequate controls for obtaining required headquarters approvals for extension of the fund reservation period past 24 months and for reviewing projects and making recommendations to cancel projects when warranted. We also recommend that the Deputy Assistant Secretary for Multifamily Housing recommend that the Assistant Secretary for Housing - Federal Housing Commissioner reevaluate the effectiveness of HUD's current method for calculating capital advances to ensure that it covers the development costs for Section 202 and Section 811 projects or consider providing notice in the Federal Register that additional capital advance funds will generally be needed to cover the costs of developing the housing.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the report with HUD during the audit and at an exit conference on November 13, 2008. HUD provided written comments to our draft report on November 28, 2008. HUD agreed with our recommendations. The complete text of HUD's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Section 202 Program of Supportive Housing for the Elderly and the Section 811 Program of Supportive Housing for Persons with Disabilities provide federal capital advances and project rental assistance under Section 202 of the Housing Act of 1959 (12 U.S.C. [*United States Code*] 1701q) (Section 202) and Section 811 of the National Affordable Housing Act (42 U.S.C. 8013) (Section 811), respectively, for housing projects serving elderly households and persons with disabilities. The administering office is the Assistant Secretary for Housing - Federal Housing Commissioner, located at the U.S. Department of Housing and Urban Development (HUD), Washington, DC. The applicable regulations for both programs are found in 24 CFR [*Code of Federal Regulations*] Part 891.

The Section 202 and Section 811 programs help to increase the supply of affordable housing with supportive services for elderly families (Section 202) and families with disabilities (Section 811). These programs provide a number of opportunities for very low-income elderly families and families with disabilities to live independently in an environment that provides support services such as cleaning, cooking, transportation, etc. Section 202 eligibility is open to very low-income persons 62 years of age or older and their household members. Section 811 eligibility is open to very low-income persons 18 years of age or older with a physical or developmental disability or chronic mental illness and their household members.

HUD provides Section 202 capital advances to eligible private, nonprofit sponsors to finance the development of rental housing with supportive services for the elderly. The advance is interest free and does not have to be repaid as long as the housing remains available for very low-income elderly persons for at least 40 years. HUD provides Section 811 capital advances to eligible nonprofit sponsors with a 501(c)(3) tax exemption from the Internal Revenue Service to finance the development of rental housing with the availability of supportive services for persons with disabilities. The advance is interest free and does not have to be repaid as long as the housing remains available for very low-income persons with disabilities for at least 40 years. In Region 3, there are two multifamily hubs that are responsible for providing funding, staffing, and technical support to six program centers that administer the programs and interact with the project sponsors. The Philadelphia multifamily hub has four program centers that are located in Philadelphia and Pittsburgh, Pennsylvania; Newark, New Jersey[1]; and Charleston, West Virginia. The Baltimore multifamily hub has two program centers that are located in Baltimore, Maryland and Richmond, Virginia.

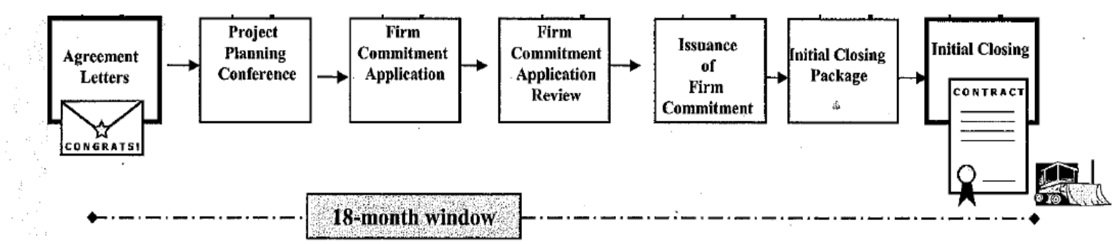
During our review period, HUD granted $166.6 million[2] in capital advance funding for the Section 202 and Section 811 programs within Region 3. The following chart shows details.

[1] Organizationally the Newark, New Jersey, field office is part of HUD's Region 2, but administratively the Newark multifamily program office reports to the Philadelphia multifamily hub.
[2] $166.6 million consists of $134.4 million in Section 202 funding plus $32.2 million in Section 811 funding during fiscal years 2006 and 2007.

HUD's Region 3 Section 202 and Section 811 capital advance funding for fiscal years 2006 and 2007

Allocation area	Fiscal year 2006	Fiscal year 2007	Total
New Jersey	$19,742,300	$29,780,900	**$ 49,523,200**
Pennsylvania	$29,414,100	$19,694,400	**$ 49,108,500**
Maryland	$13,597,500	$15,771,500	**$ 29,369,000**
Virginia	$ 6,761,500	$10,908,700	**$ 17,670,200**
Washington, DC	$ 9,164,200	$ 2,357,400	**$ 11,521,600**
Delaware	$ 5,944,200	$0	**$ 5,944,200**
West Virginia	$0	$ 3,489,100	**$ 3,489,100**
Totals	**$84,623,800**	**$82,002,000**	**$166,625,800**

The point of obligation for both the Section 202 and Section 811 funds is when the Assistant Secretary for Housing - Federal Housing Commissioner signs the agreement letter awarding the capital advance to the sponsor. The duration of the fund reservation for the capital advance is 18 months from the date of issuance with limited exceptions of up to 24 months as approved by HUD on a case-by-case basis. The timeline below shows the key events that should occur during the 18-month period.



Our audit objective was to determine whether HUD's program centers under the jurisdiction of its Region 3 processed Section 202 and Section 811 capital advances in accordance with HUD requirements.

RESULTS OF AUDIT

Finding: Program Centers Did Not Always Process Section 202 and Section 811 Capital Advances in Accordance with HUD Requirements

Two of six program centers did not obtain required headquarters approval to extend the fund reservation period past 24 months for 21 of 58 open projects with capital advances valued at $46.3 million. This condition occurred because HUD had not implemented controls for monitoring compliance with the requirement. As a result, $46.3 million associated with these projects was unsupported because program centers failed to justify how extending the fund reservation period was consistent with the HUD Secretary's goal of increasing affordable housing for low-income families. Additionally, of the 60 projects that received fund reservation letters during the period October 2005 to September 2007, 50 projects (83 percent) had not been approved for construction within HUD's 18-month guideline. Projects experienced significant delays because capital advance funding often did not cover housing development costs and program centers did not consider canceling projects despite indications that the projects would be delayed. These delays and languishing projects cause elderly families and families with disabilities to wait longer than necessary for housing assistance and supportive services.

Program Centers Did Not Obtain Headquarters Approval to Extend Fund Reservations

We analyzed the open projects listed in HUD's Development Application Processing (DAP) system for the Region 3 program centers and identified 58 open projects which had not been approved for initial closing within 24 months as required. In two of the six program centers, project staff failed to obtain the needed headquarters approvals for 21 projects with capital advances valued at $46.3 million as follows:

- Eighteen projects for the Richmond, Virginia, program center valued at $43.4 million and
- Three projects for the Baltimore, Maryland, program center valued at $2.9 million.

24 CFR 891.165 states that the duration of the fund reservation for the capital advance is 18 months from the date of issuance with limited exceptions of up to 24 months as approved by HUD on a case-by-case basis. This process allows headquarters to ensure that there is good cause for approving delays and that extending the fund reservation period is consistent with the HUD Secretary's goal of increasing affordable housing for low-income families. HUD Handbooks 4571.4 and 4571.5 require the program centers to submit to headquarters a request

to either cancel the fund reservation or extend it when projects do not reach initial closing within 24 months of the initial fund reservation.

Of the 21 projects without required headquarters approval, two projects valued at $1.8 million had not reached initial closing as of September 2008 and were experiencing major problems with zoning issues, site changes and obtaining local government approvals. For these two projects, the sponsors had signed the agreement letters accepting the awards and obligating the funds 34 and 47 months earlier. The other 19 projects took between 25 and 58 months to reach initial closing. Since the program centers did not submit requests to headquarters as required, headquarters did not review the projects and approve extending the fund reservation period beyond 24 months or consider the alternative of canceling the fund reservation and using the funds for another project. Details on the 21 projects are shown in appendix C.

HUD Lacked Controls for Monitoring Compliance with the Requirement to Obtain Approvals

HUD had not implemented controls for monitoring compliance with the requirement to obtain approval to extend the fund reservation period beyond 24 months. A project manager in the Richmond program center informed us that the center did not have approvals that specifically referenced extensions beyond the 24-month period. The Director of the Baltimore hub informed us that, as a result of the audit, she had instructed staff to be more diligent in requesting extensions and to ensure that the program centers maintain approvals in the files. The Director also stated that the hub accepted headquarters approval of amendment funds as a tacit approval of its approval of an extension of the period for initial closing. However, headquarters' approval of amendment funds is a separate and distinct approval from an extension of the fund reservation period and should not be used as an implied approval of an extension of the fund reservation period. Moreover, the majority of the projects had not received approval of amendment funds at the time an extension of the fund reservation period was needed. HUD needs to develop and implement controls over program centers regarding obtaining required approvals for extending the fund reservation period beyond 24 months.

The Majority of Recently Funded Projects Experienced Significant Delays

We reviewed all 60 projects that received fund reservation letters during the audit period, October 2005 to September 2007, and found that 50 projects (83 percent) had not been approved for construction within HUD's 18-month guideline. Often this condition occurred because capital advance funding did not cover housing development costs and program centers did not consider canceling projects despite indications that they would be significantly delayed. These issues are further discussed below.

Inadequate Capital Advances Contributed to Project Delays

Although the *Federal Register* notice states that capital advance funds will cover the costs of developing the housing, projects experienced significant delays because capital advance funding did not cover housing development costs. Of the 60 projects that received fund reservation letters during the audit period, 50 (83 percent) had not been approved for construction within HUD's 18-month guideline. For 30 of 41 projects[3] reviewed (73 percent) capital advance funding provided failed to cover the housing development costs by an average of 28 percent. The sponsors of these 30 projects had to seek secondary funding to cover construction costs. Secondary sources included Community Development Block Grant and HOME Investment Partnerships Program funds, state and local funds, and donations. Program centers attributed 41 percent of the project delays to not receiving adequate capital advance funding to cover development costs. Details on the 30 projects are shown in appendix D.

HUD completed a study in April 2005 (Construction Cost Indices HUD Section 202 and 811 Supportive Housing Programs) in which it examined how the development cost limits used to calculate capital advance amounts compared with indicators of local construction costs. Based on this study, HUD decided to change its method for calculating capital advances, which resulted in an increase in capital advance construction costs awarded. HUD also decided to provide additional amendment funds, up to the maximum capital advance amount allowed based on HUD's formula, to move projects along if shortages were experienced. However, program managers told us that capital advances, including additional amendment funds if available, continued to be insufficient to cover the construction costs despite headquarters' efforts to solve this problem. This is because headquarters has taken the position that it would rather leverage local third party funding to increase the number of available housing units under these programs than fully fund a smaller number of them. As a result, sponsors were forced to either seek additional funding from other sources or redesign projects and possibly cut costs, which ultimately added delays to processing projects before construction could begin.

[3] Forty-one projects equals fifty projects that were awarded capital advance funding but did not receive the entire capital advance funds needed to cover housing development costs, minus nine projects for which funding cannot be determined until a firm commitment application is received and approved.

Since one of the major contributing factors for delays continued to be HUD's reluctance to fully fund development costs, HUD should again reevaluate its method for calculating capital advances and ensure that it covers the development costs for Section 202 and Section 811 projects. Otherwise, HUD should consider providing notice in the *Federal Register* that additional funds will often be needed to cover the costs of developing the housing.

Program Centers Did Not Consider Problem Indicators

Twenty-four of the fifty projects (48 percent) experienced delays, and although there were indications of problems during the 18-month timeframe between award of the capital advance and the start of construction, the program centers did not consider the alternative of canceling the fund reservation and recapturing the funds. Although program centers are required to review all information, material, and forms needed to monitor the progress of each fund reservation in accordance with the processing time schedules, they did not consider canceling projects despite indications that the projects could be significantly delayed. For example,

- Sponsors are required by HUD Notice 96-102 to assemble a development team which can "expeditiously" meet program and technical requirements. However, program centers allowed five projects to extend to initial closing although the sponsor's development team was experiencing technical difficulties in providing agreed-upon supportive services.

- Sponsors of Section 811 projects are required by HUD Notice 96-102 and HUD Handbook 4571.4 to possess control of an approvable site one year after being awarded the fund reservation. If the sponsor does not have control within a year, the fund reservation will be cancelled and recaptured as required by Section 811 of the National Affordable Housing Act of 1990. However, 10 projects experienced site control issues/delays, and nine other projects experienced zoning issues/delays, and no requests to cancel projects were submitted.

Program offices need to establish and implement adequate procedures for reviewing projects and recommending that projects be canceled when there are indications that the projects will be significantly delayed.

GAO Identified Problems with Project Processing

The U.S. Government Accountability Office (GAO) issued two reports addressing delays in the delivery of housing assistance to needy families through HUD's Section 202 program. GAO determined that delays were attributable to problems with HUD's methods for calculating capital advances, a lack of training provided to program center staff, outdated program handbooks, and limitations related to HUD's automated project monitoring system. We followed up on the GAO recommendations and found that HUD had not adequately implemented them. Additional details on the reports and our followup on the recommendations can be found in the Followup on Prior Audits section of this report.

Recommendations

We recommend that the Deputy Assistant Secretary for Multifamily Housing direct responsible program centers to

1A. Justify and obtain approval from headquarters to extend the fund reservation period past 24 months for two projects with capital advances totaling $1,827,600 that have not gone to initial closing or cancel them, if appropriate.

1B. Justify and provide current status for 19 projects with capital advances of $44,460,290 that went to initial closing although program centers had not obtained required HUD approvals of the fund reservation period past 24 months and ensure that the use of the funds is consistent with the HUD Secretary's goal of increasing affordable housing for low-income families.

1C. Establish and implement adequate controls for obtaining required headquarters approvals for extension of the fund reservation period past 24 months and for reviewing projects and making recommendations to cancel projects when warranted.

We recommend that the Deputy Assistant Secretary for Multifamily Housing

1D. Implement GAO's recommendations and provide a response to GAO to close out the recommendations or provide GAO a status update and the reasons why a recommendation has not yet been implemented.

1E. Recommend that the Assistant Secretary for Housing - Federal Housing Commissioner reevaluate the effectiveness of HUD's method for calculating capital advances to ensure that it covers the development costs for Section 202 and Section 811 projects or consider providing notice in the *Federal Register* that additional funds will generally be needed to cover the costs of developing the housing.

SCOPE AND METHODOLOGY

We performed our audit at the HUD Philadelphia, Pennsylvania, and Baltimore, Maryland, multifamily hub offices from September 2007 through August 2008. We performed our review 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We included tests of internal controls that we considered necessary. We also used computer-processed data only in conjunction with other supporting documents to reach our conclusions, and we determined that the data were reliable for our purposes. We traced hard-copy records back to data contained in HUD's computer databases, and nothing came to our attention to suggest that the computer-processed data were materially inaccurate or misleading.

The audit covered transactions representative of operations during the period October 2005 through September 2007. We expanded the scope of the audit as necessary.

To answer the audit objective to determine whether HUD program centers under the jurisdiction of its Region 3 field offices processed Section 202 and Section 811 capital advances in accordance with HUD requirements, we

- Interviewed key functional managers from the Philadelphia, Pennsylvania, and Baltimore, Maryland, multifamily hubs responsible for the program centers located in Philadelphia and Pittsburgh, Pennsylvania; Newark, New Jersey; Charleston, West Virginia; Baltimore, Maryland; Richmond, Virginia; and the District of Columbia.

- Reviewed 24 CFR Part 891, HUD Notice 96-102, HUD Handbooks 4571.2, 4571.3, 4571.4 and 4571.5, the fiscal years 2006 to 2008 SuperNOFAs (notice of funds availability), and other applicable HUD regulations.

- Obtained and reviewed the following GAO audit reports: GAO-03-512, Elderly Housing: Project Funding and Other Factors Delay Assistance to Needy Households (May 2003), and GAO-05-174, Elderly Housing: Federal Housing Programs That Offer Assistance for the Elderly (February 2005).

- Contacted and interviewed the GAO audit manager and auditor in charge regarding the GAO reports.

- Analyzed HUD's Section 202 and Section 811 asset development process.

- Made site visits to the Philadelphia, Pennsylvania, and Baltimore, Maryland, multifamily hubs.

- Surveyed key functional managers from program centers to determine reasons for delays, staffing levels, and streamlining processing procedures.

- Interviewed key functional managers at HUD headquarters' Budget and Field Resources department.

- Queried HUD's Weekly Multifamily Project Status and Control Report (DAP 2088) and HUD's Line of Credit Control System.

- Analyzed the projects listed on DAP reports for the Philadelphia multifamily hub, dated February 19, 2008, and for the Baltimore multifamily hub, dated January 31, 2008, as well as updated reports for the hubs, dated September 30, 2008, and October 8, 2008, respectively.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- 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 resources use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- HUD lacked controls to ensure that program centers complied with the requirement to obtain headquarters' approval to extend the duration of the fund reservation beyond 24 months.

- Program centers did not consider problem indicators and recommending canceling projects before they reached the end of the fund reservation period for the capital advance despite indications that the projects would be delayed.

FOLLOWUP ON PRIOR AUDITS

Elderly Housing: Project Funding and Other Factors Delay Assistance to Needy Households, GAO-03-512

In this report, GAO addressed the issue of delays in providing assistance through the Section 202 program. GAO reported that more than 70 percent of the Section 202 projects funded between 1998 and 2000 were delayed. That is, they took longer than 18 months to proceed from the date of the funding award to the date of initial closing. To reduce processing delays, GAO recommended that HUD (1) evaluate the effectiveness of its current methods for calculating capital advances, (2) make any necessary changes to the methods based on the evaluation so that the advances adequately cover project development costs, (3) provide regular training to ensure that all field office staff are knowledgeable of and held accountable for following current processing procedures, (4) update its handbook to reflect current processing procedures, and (5) improve the accuracy and completeness of information entered into the DAP system and expand the system's capabilities to track key project processing stages.

Elderly Housing: Federal Housing Programs That Offer Assistance for the Elderly, GAO-05-174

In this report, GAO reported on the status of HUD's efforts to improve its administration of its Section 202 program in response to the recommendations made in its 2003 report. GAO reported that HUD commissioned a study to examine the calculation of capital advances, but although the results of the study were received in the fall of 2004, HUD had not determined whether to make any changes in its methods for calculating capital advances. In addition, HUD had not implemented the recommendations relating to training the field office staff and updating the Section 202 handbooks. Further, HUD identified needed enhancements to its automated DAP system, but it had not implemented the improvements as recommended. Although HUD had not fully implemented the recommendations, GAO found that the number of delayed Section 202 properties had declined.

We followed up on HUD's implementation of GAO's recommendations. GAO concluded that HUD had taken sufficient action to close two of the five recommendations; however, three of five recommendations remained open. The open recommendations were

- Making necessary changes to the methods for calculating capital advances so that the advances adequately cover project development costs (GAO recommendation 2),

- Provide regular training to ensure that all field office staff are knowledgeable of and held accountable for following current processing procedures (GAO recommendation 3), and

- Update its handbook to reflect current processing procedures (GAO recommendation 4).

HUD headquarters agreed that corrective actions to address GAO's recommendations had not been implemented. Specifically, personnel agreed that

- Instead of using the "means" approach recommended in the April 2005 Construction Cost Indices HUD Section 202 and 811 Supportive Housing Program Study, HUD decided to change its calculating methods to incorporate the 221D3 mortgage limits. Also, if sponsors experience funding shortages, additional amendment funding is available to move projects along. This change was adopted and effective in fiscal year 2006 but was not communicated to GAO for recommendation closure.

- Handbooks were outdated but were in the process of being revised. Although we were initially informed that revised handbooks should be ready in draft form in April 2008, they had not been revised and ready in draft form as of September 2008.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	$ 1,827,600
1B	$44,460,290
Total	**$46,287,890**

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS

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

OFFICE OF HOUSING

NOV 28 2008

MEMORANDUM FOR: John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

FROM: Janet M. Golrick, Acting Deputy Assistant Secretary for Multifamily Housing Programs, HT

SUBJECT: HUD's Region 3 Program Centers Did Not Always Process Section 202 and Section 811 Capital Advances in Accordance with HUD Requirements

Thank you for the opportunity to provide additional comments to your draft report of the audit of the processing of Section 202 and Section 811 capital advance projects by the HUD Multifamily Program Centers in Region 3. Our comments on your recommendations and proposed actions are provided below:

Recommendations

We recommend that the Deputy Assistant Secretary for Multifamily Housing Programs direct responsible program centers to:

1A. Justify and obtain approval from headquarters to extend the fund reservation period past 24 months for two projects with capital advances totaling $1,827,600 that have not gone to initial closing or cancel them, if appropriate.

We agree with this recommendation. The projects are currently under review by Headquarters. We will report on the status of these projects to you on or before December 15, 2008.

1B. Justify and provide current status for 19 projects with capital advances of $44,460,290 that went to initial closing although program centers had not obtained required HUD approvals of the fund reservation period past 24 months and ensure that the use of the funds is consistent with the HUD Secretary's goal of increasing affordable housing for low-income families.

We agree with this recommendation. We will provide you with a status of these projects on or before January 15, 2009.

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1C. Establish and implement adequate controls for obtaining required headquarters approvals for extension of the fund reservation period past 24 months and for reviewing projects and making recommendations to cancel projects when warranted.

We agree with this recommendation. We have directed the Hub Director to develop procedures that implement this recommendation on or before December 31, 2008.

We recommend that the Deputy Assistant Secretary for Multifamily Housing Programs:

1D. Implement GAO's recommendations and provide a response to GAO to close out the recommendations or provide GAO a status update and the reasons why a recommendation has not yet been implemented.

We agree with this recommendation. We will provide GAO with a status update on or before December 31, 2008.

1E. Recommend that the Assistant Secretary for Housing – Federal Housing Commissioner reevaluate the effectiveness of HUD's method for calculating capital advances to ensure that it covers the development cost for Section 202 and Section 811 projects or consider providing notice in the *Federal Register* that additional funds will generally be needed to cover the costs of developing the housing.

We agree with this recommendation. We will provide information clarifying the position of Housing in the Section 202 Fiscal Year 2009 Notice of Fund Availability.

Please contact Willie Spearmon at 202-708-3000 if you have questions or if you wish to discuss this matter further.

Appendix C

CAPITAL ADVANCE EXTENSIONS PAST 24 MONTHS WITHOUT HUD APPROVAL

Count	Program type	Program center	Project number	Project name	Capital advance amount	Funds reservation letter date	Number of months to initial close
1	811	Baltimore, MD	000HD054	Birmingham Green Adult Care	$ 1,368,200	Nov. 21, 2002	44
2	811	Baltimore, MD	052HD066	O'Conor Homes	$ 999,500	Nov. 5, 2004	36
3	811	Baltimore, MD	052HD065	Five Rivers Homes	$ 528,600	Nov. 5, 2004	26
4	202	Richmond, VA	000EE057	Birmingham Green	$ 6,320,600	Nov. 21, 2002	44
5	202	Richmond, VA	051EE110	A Porter's Haven	$ 5,824,400	Jan. 26, 2006	25
6	202	Richmond, VA	051EE103	Parker View	$ 5,463,600	Nov. 5, 2004	34
7	202	Richmond, VA	051EE083	Garber Manor Phase I	$ 4,816,490	Oct. 31, 2001	53
8	202	Richmond, VA	051EE089	Garber Manor Phase III	$ 2,626,500	Nov. 26, 2002	40
9	202	Richmond, VA	051EE070	Checed Creek	$ 2,530,300	Sept. 30, 1999	44
10	202	Richmond, VA	051EE101	Walter Gum Manor	$ 2,178,500	Dec. 4, 2003	45
11	202	Richmond, VA	051EE102	Parker Run	$ 1,882,500	Dec. 4, 2003	27
12	811	Richmond, VA	051HD109	Coppermine Place	$ 1,865,800	Sept. 28, 2001	47
13	202	Richmond, VA	051EE100	Peele Manor	$ 1,730,000	Dec. 4, 2003	26
14	202	Richmond, VA	051EE104	Epworth Manor Phase II	$ 1,624,400	Nov. 5, 2004	46
15	202	Richmond, VA	051EE111	Tartan Village II	$ 1,515,900	Jan. 26, 2006	**Open –** 34 months
16	811	Richmond, VA	051HD074	The Sanderling	$ 1,411,400	Nov. 30, 1998	58
17	811	Richmond, VA	051HD121	James River Apartments	$ 1,261,900	Dec. 5, 2003	39
18	811	Richmond, VA	051HD134	Accessible Space, Inc.	$ 1,213,200	Jan. 26, 2006	32
19	811	Richmond, VA	051HD126	Maynor Street Group Home	$ 468,800	Nov. 15, 2004	33
20	811	Richmond, VA	051HD123	Carlton Avenue Group Home	$ 345,600	Dec. 5, 2003	34
21	811	Richmond, VA	051HD128	Gabriel's Place	$ 311,700	Nov. 15, 2004	**Open –** 47 months
				Total	$46,287,890		

Appendix D

PROJECTS WITH INADEQUATE CAPITAL ADVANCES

Count	Program type	Program center	Project number	Project name	HUD capital advance amount	Additional funds needed to complete project	Total capital advance needed
1	202	Philadelphia, PA	034EE145	Paschall Senior Housing	$ 6,924,900	$2,600,600	$ 9,525,500
2	202	Philadelphia, PA	034EE141	Reba Brown Sr. Residence	$10,210,600	$2,206,000	$ 12,416,600
3	202	Philadelphia, PA	034EE142	Booth Manor II	$ 5,519,700	$1,659,700	$ 7,179,400
4	202	Philadelphia, PA	034EE144	Mantua Presbyterian Apartments	$ 8,897,200	$1,628,800	$ 10,526,000
5	202	Baltimore, MD	052EE056	Odenton Senior Housing II	$ 5,557,300	$1,489,472	$ 7,046,772
6	811	Pittsburgh, PA	033HD095	The Groves at the Woodlands	$ 1,248,800	$1,378,200	$ 2,627,000
7	811	Philadelphia, PA	034HD087	Dauphin County VOA Living Center	$ 1,424,200	$1,212,942	$ 2,637,142
8	811	Newark, NJ	031HD145	West Bergen ILP	$ 1,443,800	$1,100,000	$ 2,543,800
9	811	Philadelphia, PA	034HD088	Baldwin Village	$ 1,551,400	$1,045,309	$ 2,596,709
10	202	Newark, NJ	031EE069	Leonia Retirement Housing II	$ 3,774,600	$1,030,000	$ 4,804,600
11	811	Philadelphia, PA	032HD033	Black Diamond Hope House	$ 459,600	$ 958,891	$ 1,418,491
12	202	Philadelphia, PA	032EE016	Luther Village II	$ 4,313,800	$ 610,027	$ 4,923,827
13	202	Philadelphia, PA	034EE151	Haven Peniel	$ 7,443,500	$ 574,000	$ 8,017,500
14	811	Baltimore, MD	052HD071	Lakeview Properties	$ 1,058,500	$ 470,919	$ 1,529,419
15	202	Richmond, VA	051EE110	A Porter's Haven	$ 5,824,400	$ 465,400	$ 6,289,800
16	811	Newark, NJ	031HD146	JSDD Supportive Living	$ 507,000	$ 439,910	$ 946,910
17	811	Pittsburgh, PA	033HD101	Rosewood Apartments	$ 561,900	$ 410,687	$ 972,587
18	811	Washington, DC	000HD065	Waterside Homes	$ 1,518,200	$ 381,831	$ 1,900,031
19	811	Newark, NJ	035HD063	Allies Homes	$ 880,300	$ 337,512	$ 1,217,812
20	811	Washington, DC	000HD066	GUIDE Nashville	$ 916,900	$ 321,381	$ 1,238,281
21	811	Newark, NJ	031HD151	SCARC Residential Expansion	$ 1,014,000	$ 311,782	$ 1,325,782
22	811	Baltimore, MD	052HD069	Vesta Severn	$ 748,200	$ 279,261	$ 1,027,461
23	202	Pittsburgh, PA	033EE126	Lutheran Village at Chippewa	$ 3,824,000	$ 255,300	$ 4,079,300
24	811	Richmond, VA	051HD135	Deer Haven Drive Group Home	$ 376,700	$ 232,000	$ 608,700
25	811	Baltimore, MD	052HD068	Kirkland Homes	$ 789,600	$ 231,739	$ 1,021,339
26	811	Newark, NJ	031HD147	Alternatives Homes	$ 889,300	$ 207,799	$ 1,097,099
27	811	Baltimore, MD	052HD070	Hughes Homes	$ 689,200	$ 156,459	$ 845,659
28	811	Baltimore, MD	052HD067	Ohana Homes	$ 706,700	$ 139,591	$ 846,291
29	811	Charleston, WV	045HD041	Mulberry Manor	$ 526,200	$ 102,631	$ 628,831
30	811	Pittsburgh, PA	033HD100	Liberty Place	$ 749,300	$ 29,566	$ 778,866
				Totals	**$80,349,800**	**$22,267,709**	**$102,617,509**