

June 2012

RECOVERY ACT

Housing Programs Met Spending Milestones, but Asset Management Information Needs Evaluation



G A O

Accountability * Integrity * Reliability

Why GAO Did This Study

The Recovery Act required HUD to distribute \$4 billion to PHAs through its Public Housing Capital Fund. Congress also created two programs to provide funds to HFAs to restart stalled projects. This report responds to two ongoing GAO mandates under the act: to examine states' and localities' use of Recovery Act funds and to report on the quarterly estimates of jobs funded. This report examines the progress PHAs and HFAs made in spending grant funds, the ways the funds were used, and the actions HUD and PHAs took to ensure that recipients spent grants on time and for the intended purposes. It also assesses the quality of job estimates reported by Recovery Act recipients and reports the status of GAO Recovery Act recommendations. GAO visited PHA- and HFA-sponsored projects in 7 states and the District of Columbia, interviewed federal and local agency officials, evaluated HUD's and Treasury's monitoring strategies, surveyed 56 HFAs, and analyzed recipient-reported data.

What GAO Recommends

GAO recommends that Treasury assess the extent to which HFAs are utilizing information provided to them by project owners to ensure the long-term viability of buildings during the 15-year compliance period. In response to Treasury's comment on the draft recommendation that it assess HFA capacity to conduct asset management after projects are built, GAO clarified the recommendation to specify that Treasury use available information for assessing how HFAs are ensuring long-term viability of buildings. Treasury's views and GAO's response are discussed more fully in the report.

RECOVERY ACT

Housing Programs Met Spending Milestones, but Asset Management Information Needs Evaluation

What GAO Found

Almost all public housing authorities (PHA) met their spending deadlines for the Public Housing Capital Fund formula and competitive grant programs. As mandated, all but one PHA spent 100 percent of their formula grants by March 17, 2012. According to Department of Housing and Urban Development (HUD) officials, PHAs with competitive grants were on track to meet their September 2012 spending deadlines. PHAs we interviewed cited various challenges to meeting the grant deadlines, such as the tight time frames and many attributed their ability to meet deadlines to good planning within their organizations and help from HUD. According to analyses of HUD data, about 3,100 PHAs planned to undertake improvements with their formula grants that affected about 495,000 housing units. Many used their grants to make improvements that enhanced energy efficiency, such as installing energy-efficient windows and appliances. GAO determined that HUD's monitoring strategy for these programs incorporated key internal controls, such as developing and implementing measures that allowed HUD staff to compare actual with planned results. At specific sites that GAO visited, PHAs were able to demonstrate work was under way or had been completed.

All housing finance agencies (HFA) met their December 2011 disbursement deadlines for funds they received under Section 1602 of the American Recovery and Reinvestment Act of 2009 (Recovery Act). Most HFAs also met their February 2012 deadline to spend Tax Credit Assistance Program (TCAP) funds. Almost all HFAs reported that the funds helped restart stalled affordable housing projects that otherwise could not have moved forward. Project owners primarily used the funds to construct new housing units. HFAs identified several factors that helped them meet the deadlines, particularly their experience and established practices and procedures. As GAO reported in September 2010, TCAP and Section 1602 programs require HFAs to do more project oversight than they typically would to ensure that project owners comply with long-term program requirements. The Recovery Act requires that HFAs perform "asset management," which includes ensuring the long-term viability of projects. But some HFAs may not have the necessary experience, as third-party investors have often supported HFAs with this additional oversight. HUD has begun gathering data to help determine which projects may need additional oversight, but Treasury has not. Treasury staff would benefit from collecting information that would allow them to assess how HFAs are implementing their asset management policies and procedures.

The accuracy of full-time equivalent (FTE) data reported by recipients of the Public Housing Capital Fund competitive and formula programs and TCAP has improved over time. HUD staff have continued to monitor the data for errors—for example, for over counts of FTEs—and have worked with recipients to make corrections. The number of FTEs reported per quarter for HUD programs peaked in 2010 and 2011 and gradually declined each quarter as funded activities were completed. The Recovery Act does not require HFAs to report FTEs for Treasury's Section 1602 program.

Contents

Letter		1
	Background	4
	PHAs Met Spending Deadlines for Grants and HUD's Monitoring Incorporated Key Internal Controls	9
	Recipients Met Deadlines for Section 1602 and TCAP Expenditures, but Treasury Does Not Plan to Fully Evaluate Asset Management Activities	23
	Conclusions	47
	Recommendation for Executive Action	48
	Agency Comments and Our Evaluation	48
Appendix I	Scope and Methodology	55
Appendix II	Results from Survey of State Housing Finance Agencies	61
Appendix III	Recommendations from Prior GAO Recovery Act Reports with Sections on Housing	78
Appendix IV	Status of Prior Open Recovery Act Recommendations and Matters for Congressional Consideration	83
Appendix V	Comments from the Department of Housing and Urban Development	89
Appendix VI	Comments from the Department of the Treasury	90
Appendix VII	GAO Contact and Staff Acknowledgments	92

Table

Table 1: Status of Prior Open Recovery Act Recommendations and Matters for Congressional Consideration	83
--	----

Figures

Figure 1: Energy-efficient Activities Most Frequently Undertaken by PHAs	11
Figure 2: Examples of Housing Projects Funded with Formula Grants	13
Figure 3: Examples of Housing Projects Funded with Competitive Grants	16
Figure 4: Total Number of Projects Awarded TCAP, Section 1602 or Both Fund Types	25
Figure 5: Examples of Projects Funded by the TCAP and Section 1602 Programs	27
Figure 6: Range of Average Prices Paid Per Tax Credit at Project Closing, for 50 States and the District of Columbia, 2005-2010	28
Figure 7: Number of Projects That Moved Forward with and without Section 1602 and TCAP Assistance, and Those That Did Not Move Forward, 2007-2010	30
Figure 8: FTEs That Recipients Reported for Recovery Act Housing Funds, October 2009 through December 2011	45

Abbreviations

EPIC	Energy and Performance Information Center
FTE	full-time equivalent
HFA	housing finance agency
HUD	Department of Housing and Urban Development
IRC	Internal Revenue Code
LIHTC	Low-Income Housing Tax Credit
LOCCS	Line of Credit Control System
NEPA	National Environmental Policy Act
OFHEO	Office of Fair Housing and Equal Opportunity
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	public housing authority
RAMPS	Recovery Act Management and Performance System
RATB	Recovery Accountability and Transparency Board
Recovery Act	American Recovery and Reinvestment Act of 2009
TCAP	Tax Credit Assistance Program
Treasury	Department of the Treasury

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

June 18, 2012

Report to Congressional Committees

In response to the economic crisis, Congress enacted the American Recovery and Reinvestment Act of 2009 (Recovery Act) to, among other things, preserve and create jobs and promote economic recovery.¹ Under the Recovery Act, the Department of the Treasury (Treasury) has paid out approximately \$249.1 billion in funds for use by state and local governments to use for a variety of purposes, including the provision of affordable housing.² This report, which addresses housing programs that received Recovery Act funds, responds to two recurring mandates in the Recovery Act. The first requires that we review, every 60 days, the use of Recovery Act funds by recipients. The second requires us to comment and report quarterly on estimates of jobs funded and counted as full-time equivalents (FTE), as reported by recipients of Recovery Act funds.³

This report discusses how public housing authorities (PHA) used almost \$4 billion in grants distributed by the Department of Housing and Urban Development (HUD) to fund a variety of capital and management activities.⁴ It updates our September 2010 report and also provides information on two new programs that Congress created as part of the Recovery Act.⁵ These programs addressed the lack of private investment in projects that would otherwise have used Low-Income Housing Tax Credits (LIHTC) when the market for these tax credits was disrupted in

¹Pub. L. No. 111-5, § 3, 123 Stat. 116 (2009).

²For updates, see <http://gao.gov/recovery>.

³Pub. L. No. 111-5§, 1512(e), 123 Stat. 115, 288. FTE data provide insight into the use and impact of the Recovery Act funds, but recipient reports cover only direct jobs funded by the Recovery Act. These reports do not include the employment impact on suppliers (indirect jobs) or on the local community (induced jobs). Both data reported by recipients and other macroeconomic data and methods are necessary to understand the overall employment effects of the Recovery Act.

⁴PHAs are typically local agencies created under state law that own and manage public housing.

⁵GAO, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds*, [GAO-10-999](#) (Washington, D.C.: Sept. 20, 2010).

2008. The two programs are the Tax Credit Assistance Program (TCAP), which is administered by HUD, and the Grants to States for Low-Income Housing Projects in Lieu of Low-income Housing Credits Program under Section 1602 of the Recovery Act (Section 1602 Program), which is administered by Treasury. State housing finance agencies (HFA) were to use the funding from these programs to provide gap financing for stalled “shovel-ready” projects and to offset the drop in the demand for—and subsequently the price of—LIHTCs.⁶

Specifically, our reporting objectives were to examine (1) the progress PHAs made in spending their grant funds, what is known about how funds were used, and the actions HUD and PHAs took to help ensure that recipients spent their grants on time and for intended purposes; (2) the progress state HFAs made in disbursing funds, what is known about how funds were used, and the actions Treasury and others took to ensure that recipients disbursed funds on time and for intended purposes; and (3) the quality of job estimates reported by Recovery Act recipients, including housing grant recipients.

To address the first objective, we obtained data on program expenditures and summary information on the use of Recovery Act funds from HUD officials. To obtain more specific information about how funds were used at specific locations, we visited project sites funded by 19 PHAs in seven states and the District of Columbia.⁷ While the results cannot be generalized within these states or to other states, we selected these states using several criteria, including the amount of Recovery Act funds each received, the types of projects funded, geographic diversity, and the availability of photographic evidence from earlier GAO visits, allowing us to make comparisons over time. In addition, we identified whether HUD’s plans for monitoring the use of Recovery Act funds contained key internal controls contained in GAO’s internal control standards, reviewed monitoring files to identify if agency officials took steps outlined in their monitoring plans, and reviewed reports issued by the HUD Inspector General. See appendix I for more information about our methodology.

⁶HFAs are state-chartered authorities established to help meet the affordable housing needs of the residents of their states. Although they vary widely in characteristics such as their relationship to state government, most HFAs are independent entities that operate under the direction of a board of directors appointed by each state’s governor.

⁷The seven states were California, Colorado, Georgia, Illinois, Massachusetts, Mississippi, and Pennsylvania.

For our second objective, we obtained data on program expenditures for the TCAP and Section 1602 programs, respectively, from HUD and Treasury. In addition, to collect information on HFA experiences with these programs, and how the funds were used, we also developed a Web-based survey for HFA managers in all 50 states, the District of Columbia, American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. We began our survey in December 2011 and received usable responses from all survey respondents (see app. II for the survey results). In addition, to obtain information about how funds were used at specific locations, we visited 11 project sites in seven states. We also reviewed HUD and Treasury plans for monitoring HFA disbursement of Recovery Act funds, as well as actions they planned to take to provide assurance that HFAs had the capacity to perform asset management over the 15-year compliance period. In addition, we interviewed staff from the HUD and Treasury Offices of Inspector General, as applicable, to identify audit work they may have completed for the TCAP and Section 1602 programs. We requested similar information for these programs from the Recovery Accountability and Transparency Board (RATB) and state auditors.

For our third objective, we assessed the 10 quarters of recipient reporting data that were publicly available at Recovery.gov as of January 31, 2012 to understand the quality of jobs data reported by housing program recipients for the Public Housing Capital Fund and TCAP grants. We also analyzed the data for consistency and conducted other analyses on recipients' reports for the Recovery Act.⁸ The Recovery Act did not require recipients of Section 1602 grants to file such reports.⁹

Our oversight of programs funded by the Recovery Act has resulted in more than 100 related products with numerous recommendations since we began reporting on the Recovery Act.¹⁰ Appendix III contains a list of

⁸In addition to conducting our analyses of recipient report data for housing programs under the Recovery Act, we continued, as in prior rounds, to perform edit checks and analyses on all prime recipient reports to assess data logic and consistency and identify unusual or atypical data.

⁹The Recovery Act recipient reporting requirements apply only to programs under Division A of the Recovery Act, which includes TCAP. The Section 1602 Program is under Division B of the Recovery Act, and, therefore, not subject to recipient reporting requirements.

¹⁰See <http://www.gao.gov/recovery> for related GAO products.

recommendations that we made for housing programs. This report also updates agency actions in response to recommendations from our previous Recovery Act reports that have not been fully implemented (referred to in this report as open recommendations) in appendix IV.¹¹

We conducted this performance audit from June 2011 through June 2012 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. See appendix I for more information about our methodology.

Background

Grants to Public Housing Authorities

PHAs, under contract with the federal government, own and manage approximately 1.2 million units of public housing at the local level, including housing that serves the elderly, persons living with disabilities, and families with and without children. PHAs vary in size, with 74 percent of all PHAs categorized as small (administering fewer than 250 units each) and responsible for about 17 percent of all public housing units nationally. In contrast, large PHAs (administering more than 1,250 units each) administer over half of all public housing units.¹²

Federal funding for public housing comes from two main formula grant programs—the Public Housing Capital Fund and the Public Housing Operating Fund—which are meant to supplement the rents collected by PHAs to meet the operation, maintenance, and capital needs of public housing. The Public Housing Capital Fund provides funds annually by formula to about 3,200 PHAs for the development, financing, and modernization of public housing developments and for management improvements. A federally created and funded program, this fund is

¹¹For updates, see <http://gao.gov/recovery>.

¹²Congressional Research Service, *Introduction to Public Housing*, Maggie McCarty, Specialist in Housing Policy (Washington, D.C.: Jan. 6, 2012).

administered by HUD's Office of Capital Improvements, with the assistance of HUD field offices.

The Recovery Act included a \$4 billion appropriation for the Public Housing Capital Fund to be used by PHAs for capital and management activities for PHAs. The act required that PHAs give priority to capital projects, for contracts that could be awarded based on bids within 120 days from the date the funds were made available to the PHAs and for projects that were already underway or included in their 5-year capital plans. The act required that the grants be awarded in two parts:

- *Formula Funds:* The Recovery Act required HUD to allocate \$3 billion through the Public Housing Capital Fund to PHAs using the same formula for amounts made available to PHAs in fiscal year 2008. HUD allocated Capital Fund formula dollars (formula grants) to 3,134 public housing agencies shortly after passage of the Recovery Act, and after entering into agreements with housing agencies.¹³
- *Competitive Funds:* As required by the Recovery Act, HUD also distributed nearly \$1 billion to public housing agencies based on competition for priority investments, including investments that leveraged private-sector funding and financing for renovations and energy conservation retrofitting. In September 2009, HUD awarded 396 competitive grants totaling \$995 million to 212 PHAs.

Recovery Act Tax Credit Programs

HFAs administer a wide range of affordable housing and community development programs. They support the LIHTC program, which is a federal program, by competitively awarding tax credits among housing development projects in their state that serve low-income households.

In recent years, the LIHTC program has been regarded as the primary federal vehicle for affordable housing production and preservation. Congress established the LIHTC program in the Tax Reform Act of 1986 (P.L. 99-514) (Internal Revenue Code Section 42) to provide an incentive for the development or rehabilitation of affordable rental housing. In return for contributing tax credit equity to the projects, private investors receive

¹³GAO, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds*, [GAO-10-999](#) (Washington, D.C.: Sept. 20, 2010).

tax credits over a 10-year period. Projects must comply with LIHTC requirements for 15 years, including maintaining affordable housing units, to avoid recapture of the tax credits. State housing finance agencies award LIHTCs to owners of qualified rental properties (developers) who then reserve all or a portion of their units for low-income tenants. Once awarded LIHTCs, project owners typically attempt to obtain funding for their projects by doing what is referred to as selling the tax credits to third-party investors that are willing to contribute equity to the projects.¹⁴ Investors purchasing the tax credits can claim them over the next 10 years once the property is “placed in service,” provided that the property continues to comply with program requirements.¹⁵

In 2008 and 2009, the LIHTC program was severely disrupted when tax credit markets collapsed and project owners could not obtain funding for projects that would have qualified for the credit. In February 2009, Congress created TCAP and the Section 1602 programs which operate differently but are both intended to address lack of private investment in LIHTC projects.¹⁶

- *TCAP*: HUD provided TCAP funds to HFAs in the form of grants for capital investment in LIHTC projects according to a predetermined

¹⁴The arrangement of project owners providing LIHTCs to investors in return for an equity investment is generally referred to as “selling” the tax credits. The owners of the buildings are permitted to claim the credit from the building on their tax return. Technically what is being sold to third-party investors is not the credit, but an ownership interest in the building (through a partnership or other entity). For purposes of this report we refer to direct investors and syndicators generally as “third-party investors” or “investors.”

¹⁵“Placed-in-service” is defined in IRS Notice 88-116 as being the date on which the first unit in the building is certified as being suitable for occupancy under state or local law.

¹⁶Pursuant to the Recovery Act, GAO is to review the use of funds of programs included under the act’s Division A, Appropriations Provisions. TCAP is a Division A program, while the Section 1602 Program is included under Division B, Tax and Other Provisions. GAO chose to include the Section 1602 Program in its review because, like TCAP, it supplements the LIHTC program, and state housing finance agencies (HFA) are implementing the two programs simultaneously.

formula.¹⁷ The HFAs were to award the funds competitively according to their qualified allocation plans, which explain selection criteria and application requirements for housing tax credits as determined by the states and in accordance with Section 42 of the Internal Revenue Code (IRC). Projects that were awarded low-income housing tax credits in fiscal years 2007, 2008, or 2009 were eligible for TCAP funding, but HFAs had to give priority to projects that were “shovel-ready” and expected to be completed by February 2012.

- *Section 1602 Program:* The Section 1602 Program allowed HFAs to exchange returned and unused tax credits for a payment from Treasury at the rate of 85 cents for every tax credit dollar. HFAs were permitted to exchange up to 100 percent of their unused 2008 tax credits and credits returned in 2009 and up to 40 percent of their 2009 tax credit allocation and any amounts an HFA may have derived in 2009 from a national pool of unused credits.¹⁸ HFAs were to award Section 1602 funds as a cash payment or noninterest bearing, nonrepayable loan program. HFAs were permitted to award Section 1602 Program funds to project developers to finance the construction or acquisition and rehabilitation of qualified low-income buildings in accordance with the qualified allocation plans, which establishes selection criteria for LIHTC projects and application requirements (as determined by each state in accordance with Section 42 of the Internal Revenue Code). The last day for HFAs to commit funds to project owners was December 31, 2010, but funds could be disbursed through December 31, 2011, provided that the project owners paid or

¹⁷HFAs in each state, the District of Columbia, the Puerto Rico, Guam, and the U.S. Virgin Islands receive LIHTC allocations. The Recovery Act directed HUD to distribute TCAP funds in accordance with the fiscal year 2008 HOME Investment Partnerships Program (HOME) formula allocations to state participating jurisdictions, thereby limiting the funds to states as defined by the HOME (HOME formula). Guam and the U.S Virgin Islands are defined as “insular areas” under HOME, rather than as “states,” and therefore, did not receive TCAP funds. While TCAP funds were distributed based on the HOME formula, HOME requirements generally do not apply to TCAP funds.

¹⁸Forty-nine states, the District of Columbia, American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands participated in the Section 1602 Program to date. New York is the only state that did not request Section 1602 Program funds.

incurred at least 30 percent of the total adjusted basis of the project by the end of 2010.¹⁹

Recipient Reporting

The Recovery Act sought to increase transparency and accountability in a program's use of funds. Section 1512 of the Recovery Act requires fund recipients, including PHAs that received Public Housing competitive and formula grant funds, and HFAs that received TCAP funds, to report certain information quarterly. Following Office of Management and Budget guidance, recipients reported on FTEs for which Recovery Act funding directly paid and not the employment impact on suppliers of materials (indirect jobs) or on the local communities (induced jobs). Recipients report, among other types of information, a description of their project or activity, the progress of their projects, and the number of resulting estimates of jobs funded and counted as full-time equivalents (FTE). The job calculations are based on the total hours worked divided by the number of hours in a full-time schedule, expressed as FTEs. The funding recipient is responsible for the reporting of all data required by section 1512 of the Recovery Act each quarter for each of the grants it received under the act. Recipients provide the reports through FederalReporting.gov, and the data are then made available to the general public through the Recovery.gov website.

HUD developed the Recovery Act Management and Performance System (RAMPS) to track information on the work funded by the Recovery Act.²⁰ PHAs receiving formula and competitive grant funding were required to use RAMPS for quarterly reporting on Recovery Act work, including the total number of housing units they planned to and actually did rehabilitate or develop, as well as specific information about the number and type of energy-efficient improvements they undertook. For example, RAMPS contains information on the number of energy-efficient windows or the number of Energy-Star appliances installed by each PHA. However, while RAMPS contains a high-level narrative description of all Recovery Act funded improvements, it does not collect data on improvements not

¹⁹Pursuant to Treasury regulations, project owners must have, by the close of 2010, paid or incurred at least 30 percent of the subawardee's total adjusted basis in land and depreciable property that is reasonably expected to be part of the low-income housing project.

²⁰In addition, RAMPS contains information on PHA compliance with the National Environmental Policy Act (NEPA).

related to energy efficiency. For example, RAMPS does not contain information on the number of elevators a PHA may have replaced or the number of parking lots it may have repaved.

PHAs Met Spending Deadlines for Grants and HUD's Monitoring Incorporated Key Internal Controls

Formula Grant Program

All but 1 of 3,115 PHAs met their March 17, 2012, deadline for expending a total of \$2.98 billion in obligated formula grant funds, with 3,101 of 3,115 PHAs expending all but \$45,000 of the total.²¹ However, 14 of the 3,115 PHAs had unexpended balances and were in the process of returning funds or the funds were pending recapture by HUD. HUD officials attributed the success of most PHAs to the Recovery Act's clear obligation and expenditure deadlines, PHAs' previous documentation and planning for rehabilitation needs, processes PHAs had in place to implement their plans, and technical assistance from HUD field offices. HUD officials said HUD is planning to recapture the \$45,000 that had not been expended by the deadline.²² In the previous year, 3,112 PHAs of 3,116 PHAs met their March 17, 2011, deadline to expend 60 percent of their formula grant funds.²³ At that time, 2,435 of these PHAs, or about 78

²¹According to HUD, it had 14 grantees with unexpended balances by the 100 percent expenditure deadline. Of these they considered only 1 grantee as missing the 100 percent expenditure deadline. Of the other grantees with unexpended balances, 7 PHAs had the funds recaptured for violations. The remaining 6 PHAs were in the process of returning funds voluntarily because they knew they would not meet the deadline. In total, HUD anticipates recapturing a total of about \$402,700, including the \$45,000 unexpended balance for the PHA that missed the expenditure deadline.

²²HUD plans a total recapture of about \$402,700 because of PHA final returns of unexpended funds, repayments to HUD, and HUD Office of Inspector General audits.

²³After the March 17, 2011, deadline, HUD recaptured about \$892,000 in funds from 4 PHAs. Since HUD recaptured all of one PHA's formula grants funds, the total number of PHAs with obligated funds decreased from 3,116 to 3,115.

percent of PHAs that received formula grant funds, had already expended 100 percent of their funds.²⁴

HUD's analyses of RAMPS data as of December 31, 2011 (the most recent quarter of data available at the time of this report), indicate that PHAs had planned to use formula grant funds to undertake rehabilitations that affected about 495,000 units and to develop about 5,743 units.²⁵

HUD defines a developed unit as one that is newly constructed or acquired by the PHA. As of December 31, 2011, PHAs reported that they had collectively undertaken rehabilitations that affected about 462,000 units and developed about 5,500 units.

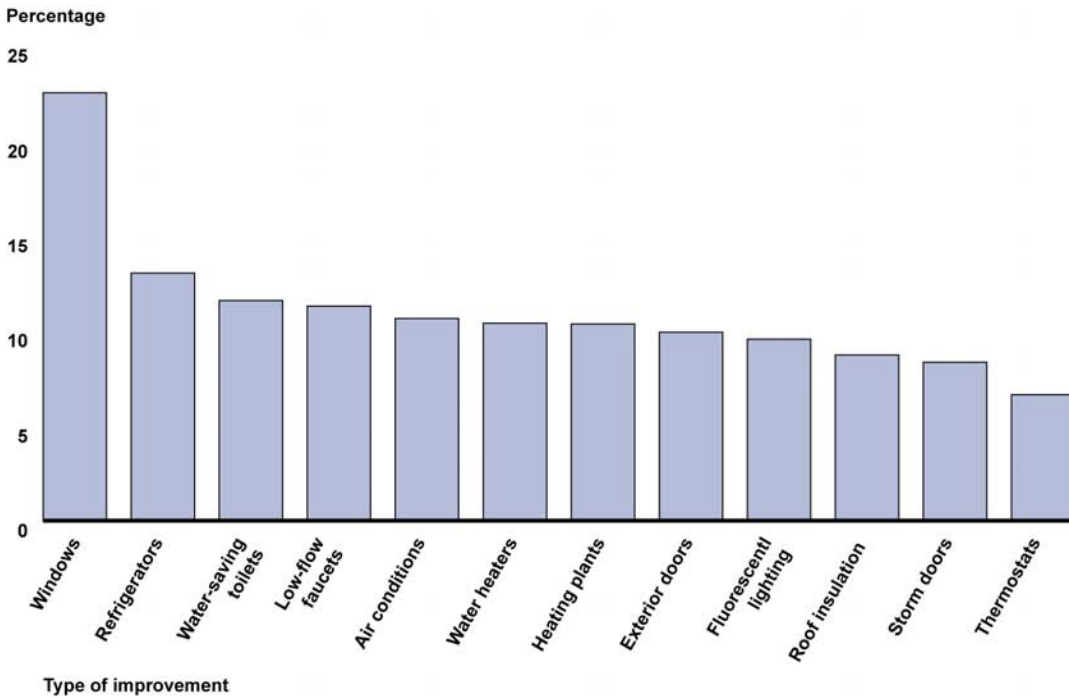
Based on our analysis of RAMPS data, with data current as of April 19, 2012, out of the 3,115 PHAs that received formula grant funds, 2,766 PHAs used formula funds for rehabilitation. Of these 2,766 PHAs, we found that 1,678 completed energy efficient improvements.²⁶ Our analyses of HUD's RAMPS data indicated that the types of rehabilitations that PHAs were most likely to undertake were installation of energy efficient windows, refrigerators, and toilets (see fig. 1).

²⁴See [GAO-10-999](#). In addition, as we previously reported, all housing agencies met their March 2010 obligation deadline for formula grants by either obligating all of their funds or rejecting or returning a portion of the funds.

²⁵For the purpose of counting the number of units rehabilitated, HUD instructed PHAs to count the number of units that were affected by an activity. For instance, if a PHA installed an energy-efficient roof on one building that had five units, the PHA was to report that five units were rehabilitated.

²⁶RAMPS contained information on 2,766 of the 3,115 PHAs that received formula grant funding. Since our analyses focused solely on buildings that were rehabilitated and RAMPS only tracks information on activities that promote energy efficiency, our analyses excluded the other 349 PHAs. The data we analyzed includes data submitted as of December 31, 2011, the most recent quarter of completed and reviewed data available at the time of our review, and additional data submitted by some PHAs as of April 19, 2012.

Figure 1: Energy-efficient Activities Most Frequently Undertaken by PHAs



Source: GAO analysis.

Public Housing agency officials we interviewed reported that they used formula grant funds to undertake improvements that were important to maintaining and upgrading their housing projects. At the PHAs we visited, grants were used for a wide variety of purposes including the replacement of roofs, installation of energy-efficient windows with double-paned glass, renovations of kitchens and bathrooms, refurbishment of community rooms, and installation of new furnaces. More specifically, we observed completed work at each of the following sites.

- Kenmore Apartments (Chicago, Illinois): The Chicago Housing Authority used \$16.8 million for the complete gutting and renovation of these apartments. We have observed this property from the beginning of its rehabilitation work (see fig. 2). Renovations included energy-efficient replacement windows, a high-efficiency heating plant, programmable thermostats, low-flow showerheads, and faucet aerators.
- Waltersville Estates (Vicksburg, Mississippi): The Vicksburg Housing Authority used \$889,000 for the rehabilitation of these buildings. As

part of this work, the buildings received new roofs, and deteriorated siding and fascia boards were replaced (see fig. 2). In addition, the exposed fascia boards were wrapped in aluminum, and chain link fencing was removed.

- Cheshire Bridge High Rise (Atlanta, Georgia): The Atlanta Housing Authority used \$2.4 million for the renovation of this high rise building. This funding was used to upgrade equipment in its common areas, including computers and laundry facilities. As a result of these upgrades, on December 13, 2011, we observed new computers, a new fitness room, and new laundry equipment at Cheshire Bridge (see fig. 2).

Figure 2: Examples of Housing Projects Funded with Formula Grants



Chicago Housing Authority—Kenmore Apartments before (left photo; November 2009) and after (right photo; January 2011) renovations.



Replaced siding and fascia boards at Waltersville Estates (September 2011), Vicksburg Housing Authority.



Renovated laundry room at Chishire Bridge High Rise (December 2011), Atlanta Housing Authority.

Source: GAO.

Competitive Grant Program

According to our analyses of HUD data, all 210 PHAs with competitive grants met their September 29, 2011, deadline to disburse 60 percent of each competitive grant awarded.²⁷ HUD officials credited PHA progress in expending the funds to the same factors that contributed to their success in meeting the formula grant deadlines, as well as HUD staff commitment to facilitating agreements that involved financing from other sources.²⁸ In addition, as of September 29, 2011, PHAs had completely expended funds for 171 (43 percent) of the 400 competitive grants awarded.²⁹ By March 18, 2012, the number of completely expended grants increased from 171 to 232 (58 percent). HUD officials expect that PHAs will meet their respective deadlines for spending 100 percent of each type of competitive grant in September 2012.

As required by the Recovery Act, in September 2009 HUD awarded nearly \$1 billion in competitive grant funds to PHAs for “priority” investments, including those that leveraged private sector funding or financing for renovations and energy conservation retrofitting. While many PHAs received one competitive grant, others received more than one. As of September 29, 2011, PHAs were using the funding as follows:

- To increase the energy efficiency and environmental performance at housing properties, HUD awarded 269 grants totaling \$606.6 million to 170 PHAs, including 35 grants totaling \$290.2 million to 34 PHAs for increasing energy efficiency and 234 grants totaling \$316.4 million to 136 PHAs for retrofitting buildings with energy-conserving technology. For example, HUD awarded \$10 million to the Denver Housing Authority for new construction of a high-rise building with 100 public housing units and community facilities to serve seniors and persons with disabilities. The high rise was to include many green

²⁷According to HUD, 12 PHAs received funding reallocated from other PHAs. Nine of these 12 PHAs did not meet the 60 percent expenditure deadline but were not required to do so because they received their grants by way of reallocations. In addition, they are not required to spend 60 percent of their grants until September 2012.

²⁸The Recovery Act required that HUD, when awarding competitive grants, consider whether the grant applicant would be able to leverage private sector funding. So, for example, PHAs we interviewed also obtained financing obtained through tax credits, other federal programs, and private financing.

²⁹[GAO-10-999](#). In September 2009, HUD awarded 396 competitive grants in the amount of \$995 million to 212 PHAs. Afterwards, 3 PHAs returned competitive grants totaling approximately \$14 million to HUD.

features, including solar photovoltaic panels, Energy Star appliances, and double- or even triple-paned windows (see fig. 3.)

- For gap financing for projects stalled due to financial issues, HUD awarded 36 grants totaling \$177.9 million to 32 PHAs. For example, HUD awarded \$9.6 million to the District of Columbia Housing Authority to support construction of infrastructure improvement for the Capper Carrollsburg Townhomes Phase II's 163 total units, of which 47 are public housing units. The PHA reported that the competitive funds were needed because they were unable to raise capital in the municipal bond markets or raise sufficient private capital by offering LIHTCs. As described in the PHA's grant application, the competitive funding would be primarily used to fund the replacement or repair of underground water lines, install waste management systems, improve curbs and gutters, and improve public landscaping (see fig. 3).
- For public housing transformation, HUD awarded 14 grants totaling \$93.4 million to 13 PHAs. For example, HUD awarded \$10 million to the City of Sacramento Housing Authority for the renovation of Riverview Apartments. The PHA reported that the distressed building with 108 units was creating blight in the surrounding neighborhood and that as a result the units could not be occupied. For example, the plumbing fixtures, plumbing, the pipes and HVAC systems had all deteriorated and needed to be replaced and the roof was damaged and leaking (see fig. 3).
- For improvements addressing the needs of the elderly or persons with disabilities, HUD awarded 81 grants totaling \$94.8 million to 45 PHAs. As an example, HUD awarded \$2.8 million to the San Francisco Housing Authority for the Robert B. Pitts Project in San Francisco, in which 198 units (or more than 60 percent of the units) are set aside for residents who are elderly or have a disability. At the time of the award, nine units needed to be made more accessible (with roll-in showers for wheel chairs) to be in compliance with federal accessibility standards. During our site visit, we observed examples of these showers and other accessibility improvements, including upgraded elevator cars with Braille added to the button panel and additional outdoor ramps and bathroom handrails (see fig. 3).

Figure 3: Examples of Housing Projects Funded with Competitive Grants



Newly constructed tower at 10th and Osage Senior/Disabled Housing and Community Center (December 2011), Denver Housing Authority.



New electrical and HVAC systems (January 2012), Sacramento Housing and Redevelopment Agency.



Roll-in shower (December 2011), San Francisco Housing Authority.



Area beneath which infrastructure improvements will be made at Capper Carrollsburg Townhomes Phase II (December 2011), District of Columbia Housing Authority.

Source: GAO.

As of December 31, 2011, RAMPs data indicated that PHAs with competitive grants planned to undertake rehabilitation work affecting 46,065 units and develop 4,206 units and that they had completed rehabilitation work affecting about 31,500 units and development of about

2,600 units. According to HUD, for competitive grant funding, development meant new construction of units.

PHAs Reported Few Challenges Meeting Recovery Act Milestones

Officials from most of the PHAs we interviewed, 8 of the 12 PHAs in the four primary states in which we conducted our work, noted that the tight time frame was the primary challenge they faced in using their grants but that they had been able to overcome it. PHA officials we interviewed attributed their success in meeting the Recovery Act deadlines to several things, particularly planning. Most of the PHA officials we interviewed said that their previous planning efforts meant that they knew how they wanted to use their Recovery Act funds. For example, officials for one PHA in California said that it already had up-to-date information on the capital needs for all of its properties, which enabled its staff to quickly prioritize work that could be done with the Recovery Act funding. Another PHA in Massachusetts had just completed a 5-year planning process that its officials said helped in identifying appropriate Recovery Act projects, while another PHA in Illinois said that focusing on “shovel-ready” projects was key to meeting the deadlines.

Many of the PHAs whose officials we interviewed also cited HUD’s helpfulness, noting that coordination with HUD was important in helping to meet Recovery Act deadlines, although a few said that HUD guidance could have been clearer. Officials from a PHA in Illinois noted that HUD was very responsive to requests and provided anything that was needed. And officials from a PHA in Colorado remarked that the HUD field office had not been “overly intrusive” and that the agency had developed a good working relationship with HUD. Among the actions that PHA officials cited as particularly helpful were assisting with permits and closing, sending out meeting reminders, and remaining involved throughout the obligation and expenditure stages.

Officials from about half of the PHAs also cited the experience of their project teams and the usefulness of processes they had in place. Officials from several PHAs noted that their staff had experience in administering projects and one noted that it had been considered high-performing before they received the Recovery Act funds. A representative of a PHA in Illinois said that the PHA created a special group to focus on spending the Recovery Act funds, which facilitated communication across its departments and created a collaborative working environment. Officials from a PHA in Massachusetts noted that prior to the Recovery Act it had already determined how to reduce energy consumption in a building, allowing it to qualify for competitive grant funding.

When PHA officials identified challenges to complying with Recovery Act formula grant deadlines, most noted that meeting the obligation deadlines had presented more challenges than meeting the expenditure deadlines. Eight of the 12 PHAs we interviewed indicated that the tight timeframes for meeting the obligation deadlines as an explanatory factor. As part of the obligation challenge, a few PHAs cited the procurement process, for example, the time needed to advertise the bidding process to contractors and do it correctly to avoid errors. In addition, as we previously cited as a challenge in our May 2010 report, officials from several PHAs pointed specifically to the “Buy American” requirement, as presenting various challenges, such as getting all the contracts executed by the one year deadline and being sure the Buy American requirements were met.³⁰ Officials at one PHA in Massachusetts noted that requirements for the Buy American were especially challenging when coupled with requirements to buy “green” products. A few PHAs noted that HUD guidance could have been clearer—including on how to comply with the Buy American requirement—and on how to submit data to RAMPs. Officials from another PHA noted that the FederalReporting.gov website could have been clearer, while another described this website as “not user-friendly.”

HUD Used Key Internal Controls in Monitoring Grant Recipients

HUD developed a monitoring strategy for each of the 3 years that awarded Recovery Act formula and competitive grants would be in use. The purpose of this monitoring was to ensure that grant recipients—PHAs—spent their grant funds on time, in conformance with program requirements, and for the intended purposes.

We determined that HUD’s monitoring of PHAs’ use of formula grant funds incorporated and addressed key internal control activities intended to provide reasonable assurance that Recovery Act funds were spent as planned. We also found that HUD implemented the monitoring strategies it developed for the first 2 years of the Recovery Act.³¹ The four key

³⁰[GAO-10-604](#)

³¹For this report, we primarily focused on HUD’s implementation of its year two strategy (March 2010 to March 2011), since all parts of it were completed at the time of our audit. We examined completed monitoring reviews for 21 of 24 projects we visited for which HUD completed a year two monitoring review in seven states and the District of Columbia. HUD did not complete a monitoring review for 3 of the 24 sites. We also verified that work was underway or had been completed at each of the 24 sites.

internal control activities we reviewed for our assessment were (1) establishing policies and procedures, (2) establishing measures and indicators, (3) implementing policies and procedures, and (4) comparing planned to actual results.³²

- *Establishing policies and procedures:* HUD’s strategies for the second year (from March 2010 to March 2011) and third year (from March 2011 to March 2012 or grant close-out) of the Recovery Act identified specific procedures for assessing PHAs’ progress in meeting milestones, complying with reporting requirements, and spending funds on approved work items. The strategies identified risk-based criteria for determining which PHAs would receive which type of review—for example, remote or on-site—and established time frames for completing the reviews. For example, the year two strategy for the formula grant program stated that PHAs designated as “troubled performers” under HUD’s Public Housing Assessment System (PHAS) would receive a minimum of one on-site review between March 2010 and March 2011 and that other PHAs would be subject to additional remote or on-site reviews only if, for example, they had failed to expend funds on time or had procurement-related deficiencies.³³ In addition, the strategies outlined quality control reviews, performed by HUD’s Office of Field Operations, to help ensure uniformity in monitoring across HUD’s field offices. HUD’s strategies also called for an outside contractor to perform independent reviews of PHAs receiving the largest amounts of formula funding.
- *Establishing measures and indicators:* The checklists HUD staff used to implement the department’s monitoring strategies in years two and three contained measures and indicators to determine whether PHAs were using grant funds in a timely manner and spending the funds on approved items. For example, the quick-look checklist for the formula program asked HUD reviewers to assess whether PHAs had executed contracts before the deadline for obligating funds and had the necessary approvals in place for work items. Similarly, HUD’s on-

³²GAO, *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001).

³³HUD developed PHAS to evaluate the overall condition of PHAs and measure their performance in areas such as financial condition, management operations, and physical condition of the housing stock. PHAs that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

site monitoring checklist asks reviewers to describe the results of their visual inspection and upload any photographs taken onto a HUD tracking site. Finally, for year three, HUD developed indicators for helping ensure that all field offices close out grants consistently and in accordance with HUD requirements. For example, HUD reviewers are to determine whether all significant Recovery Act monitoring deficiencies have been closed out by reviewing all prior grant monitoring checklists and monitoring notes regarding the particular PHA under final review.

- *Implementing policies and procedures:* The steps that HUD took during the time of our review indicated that the agency had implemented its monitoring strategies for the first two years of the Recovery Act. As we previously reported, HUD implemented and completed its monitoring strategy for the formula grants for year one (2009)—a strategy that included identifying PHAs to be considered “troubled” for the purpose of the Recovery Act monitoring, as well as conducting remote and on-site reviews and providing technical assistance.³⁴ In year two (from March 2010 to March 2011) HUD completed 520 on-site reviews and 916 remote reviews, including 546 quick-look reviews. According to HUD officials, the department has continuously reviewed the findings from all Recovery Act monitoring to help inform and direct future monitoring and technical assistance targets. In general, HUD’s analyses of monitoring results have uncovered two broad themes: first, that many PHAs, particularly smaller ones, require ongoing oversight and technical assistance regarding procurement and grant administration requirements; and second, that the quality of the monitoring can vary from office to office and reviewer to reviewer. In light of this, in year two, HUD completed one consolidated quality assurance and quality control review for the purpose of assessing the quality of monitoring conducted by HUD field offices. HUD also commissioned an outside contractor to conduct independent reviews as an additional assessment of PHA operations. As of December 2011, the independent contractor had reviewed 109 of the largest grants. As a result of its year two quality assurance and quality control review, HUD identified 11 field offices that were in need of additional training and technical assistance to maintain the quality of reviews. The independent reviews performed by the contractor

³⁴GAO, *Recovery Act: States’ and Localities’ Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, [GAO-10-604](#) (Washington, D.C.: May 26, 2010).

HUD hired also identified areas for improvement at PHAs that HUD considered in its subsequent monitoring. Finally, for its year three monitoring (from March 2011 to March 2012 or grant close-out), as of April 2012, HUD reported completing 232 competitive grant reviews and 2,415 formula grant reviews.

- *Comparing planned to actual results:* HUD said that one of its primary methods of determining whether each PHA spent grant funds as planned was the grant close-out certification process. As part of this review, HUD staff have identified if any outstanding deficiencies remained from prior reviews and evaluate PHAs' overall performance in planning, procurement, and contract administration. As of April 2012, over 2,600 PHAs had sent certifications to HUD verifying that they were complete with all grant activities and accounting, HUD staff had completed 2,155 closeout reviews, and 455 grants had been reviewed by a third-party auditor (if required) and certified by HUD staff as fully closed out.³⁵ According to HUD officials, as of April 2012, based on their monitoring to date, PHAs generally have completed the improvements and renovations they planned to make with their Recovery Act formula funds. The officials noted that projects funded with the competitive grants largely remained ongoing as of April 2012. As a result, officials said they could not yet assess the final use of the competitive funds.

HUD's approach to monitoring competitive grants was similar to its approach to monitoring formula grants. As a result, we were able to determine that HUD's monitoring of PHA competitive fund grants also largely addressed key internal control activities that would provide reasonable assurance that Recovery Act competitive funds were spent as planned. For example, during the year two time frame, HUD conducted 52 on-site reviews and 387 remote reviews, including 289 quick-look reviews and 98 quality assurance and quality control reviews. As was the case with the formula grant program, the quality assurance and quality control reviews for the competitive grant program allowed HUD to target particular field offices for additional training and technical assistance.

In addition to the steps HUD took to help ensure that Recovery Act funding was spent on time and as intended, PHA officials we interviewed

³⁵Only those PHAs with total expenditures over \$500,000 from federal funding in a fiscal year cycle are required to obtain a third-party audit under the Single Audit Act.

also described other internal controls they implemented to help ensure the proper use of grant funds. These included performing site inspections to assess the progress of work, preparing written logs of construction activities, and withholding final payment until determining that all work had been satisfactorily completed. HUD's monitoring review checklists contained measures and indicators to help assess whether PHAs had internal controls such as these in place.

HUD field offices implemented the monitoring strategies developed by HUD's Office of Field Operations. Staff from the HUD field offices we interviewed stated that the guidance and direction the Office of Field Operations provided were helpful in executing monitoring activities in the field. For example, staff from one field office said that the automation of certain policies and procedures, such as monitoring checklists, supported greater uniformity and reduced the amount of reporting errors. Officials from HUD's Office of Field Operations stated that they had learned a significant amount from the years of monitoring Recovery Act funds and planned to institute key practices, such as more extensive use of automation, in other monitoring efforts.

Several PHA officials we interviewed perceived HUD staff as helpful in assisting them in meeting various Recovery Act requirements, some of which were new because they had been created specifically for the act (for example, RAMPS) and some of which PHAs may not have been accustomed to but applied because of Recovery Act provisions (for example, the Buy American requirements). However, PHA officials' views differed on the need for and appropriateness of the oversight HUD applied to Recovery Act funds. Some PHA officials stated that there was more oversight for the Recovery Act than for normal Public Housing Capital Fund grants. Others noted that the increased oversight was appropriate, given the shortened time frames for obligating and expending funds.

PHA officials we interviewed were sometimes reviewed by other entities besides the HUD field offices, including the HUD Office of Inspector General (OIG), GAO, and independent financial auditors. As of April 2012, HUD's OIG had issued 9 department-wide audits related to the Recovery Act and 84 audits related specifically to the Public Housing Capital Fund, including performance audits of individual PHAs. According to HUD OIG staff, the performance audits found that many PHAs generally administered the Recovery Act grants according to requirements, but the OIG reported issues at some of the PHAs reviewed, including improper obligation of funds.

The Recovery Accountability and Transparency Board a non-partisan, non-political agency created by the Recovery Act to provide transparency in the use of Recovery Act funds and detect and prevent waste, fraud, and mismanagement, has also been involved in monitoring efforts. As of April 2012, the board reported receiving 10 complaints related to HUD's Public Housing Capital Fund formula and competitive grant programs and had forwarded those complaints on to the HUD OIG. Representatives from the board did not consider any of the complaints to be highly unusual or more significant than other complaints involving Recovery Act funds.

Recipients Met Deadlines for Section 1602 and TCAP Expenditures, but Treasury Does Not Plan to Fully Evaluate Asset Management Activities

HFAs Met Disbursement Deadlines for Section 1602 Program and TCAP

All HFAs completed their disbursements of Section 1602 funds by the December 31, 2011, deadline. According to Treasury data, as of December 31, 2011, 55 HFAs had disbursed \$5.65 billion in Section 1602 awards to 1,496 project developers. However, 15 HFAs did not disburse about \$6.69 million in funds which they had requested but had not sub-awarded to project developers.³⁶ Grant sub-awardees were required to spend Section 1602 funds within 3 days of the HFA providing them. Based on December 2010 data in HFAs' last required quarterly reports, Treasury estimated that about 89,000 units would be completed with Section 1602 funding, of which about 86,000 would be for low-income residents. Treasury will gather additional information about the number of units placed in service as part of annual reports submitted to them by HFAs.

³⁶According to Treasury, HFAs reported that these remaining funds were either never sub-awarded or were not needed in projects.

Most TCAP grantees met their February 16, 2012, deadline to expend 100 percent of their TCAP funds. As of February 16, 2012, the 52 HFAs that received TCAP grants disbursed almost all of the \$2.24 billion in TCAP funds they committed to 861 projects.³⁷ According to a HUD official, since project owners incur costs before requesting TCAP funds from HFAs for reimbursement of eligible activity expenses, HUD considers the HFAs as having expended the funds, after the HFA draws down funds from LOCCS.³⁸ HUD officials reported that they had recaptured the remaining \$10.9 million in undisbursed funds. HUD is required to return these funds to the U.S. Treasury. As of February 16, 2012, HUD reported about 27,500 of about 62,400 planned units to be funded with TCAP funds had been completed. However, other projects that received TCAP funding may not have been completed, because developers may be using funds from multiple sources and work on those projects is continuing.³⁹

Use of Section 1602 and TCAP Funds

We conducted a web-based survey of all 50 states, the District of Columbia, and 5 territorial HFAs—all of which received Section 1602 or TCAP funds or both to collect information on HFA experiences with these programs, how the funds were used, and to assess the role of these funds in temporarily filling the gap left by diminished investor demand for LIHTCs. All HFAs responded. This survey followed up on our survey of HFAs, distributed in November and early December 2009, which provided information on the status of program delivery, expected results, and challenges to implementation.⁴⁰ In addition to the survey, we also

³⁷Because the Recovery Act directed HUD to distribute TCAP funds in accordance with HOME formula allocations to state participating jurisdictions, TCAP participation was limited to the 50 states, the District of Columbia, and Puerto Rico. In contrast, Section 1602 was also made available to 5 U.S. territories. New York State did not participate.

³⁸As required by HUD Notice: CPD-09-03-REV (May 4, 2009), federal funds cannot be drawn from the U.S. Treasury in advance of the need to pay an eligible cost. Consequently, TCAP funds cannot be drawn from the U.S. Treasury and placed in escrow or advanced in lump sums to project owners. Once funds are drawn from the grantee's U.S. Treasury account, they must be expended for an eligible TCAP cost within 3 days.

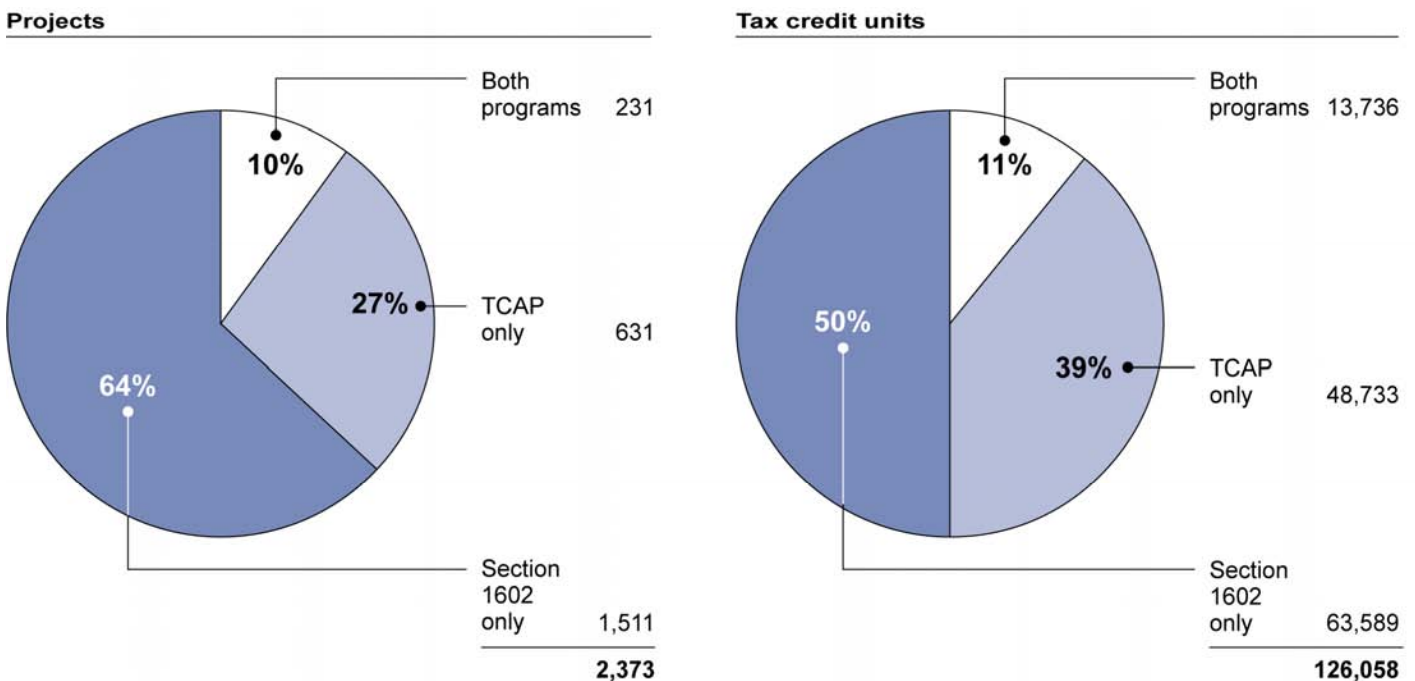
³⁹See appendix II, question 20 for more information about other sources of funding used to fund Section 1602 and TCAP projects.

⁴⁰See GAO, *Survey of State Housing Finance Agencies' Use of the Low-Income Housing Tax Credit Assistance Program (TCAP) and the Section 1602 Program*, [GAO-10-1022R](#) (Washington, D.C.: Sept. 20, 2010) for more information about the survey of HFAs that we administered in November and early December 2009.

conducted structured interviews with HFAs in four states—California, Illinois, Massachusetts, and Mississippi.

In response to our survey, HFAs reported that project developers planned to use Section 1602 funds, TCAP funds, or a combination of these and other funding sources to develop 2,373 projects and 126,058 tax credit units. Figure 4 shows the number of projects and tax credit units (housing units where resident income may not exceed a maximum allowable income) that HFAs awarded Section 1602 or TCAP funds or both as of our December 2011 survey.

Figure 4: Total Number of Projects Awarded TCAP, Section 1602 or Both Fund Types



Source: GAO analysis of HFA survey data.

Note: The percentages for the tax credit units do not add up to 100 percent do to the rounding of the individual percentages.

In response to our 2011 survey question about how funds would be used, HFAs generally indicated that most Section 1602 funds would be used to construct new units. On average, HFAs reported that 63 percent of their subawards were for new construction, 33 percent for rehabilitation, and 4 percent for a combination of new construction and rehabilitation.

We observed 11 project sites that were funded with Section 1602 and/or TCAP funds in seven states—California, Colorado, Georgia, Illinois, Massachusetts, Mississippi, and Pennsylvania. Of these 11 projects, 5 involved new construction, 5 involved rehabilitations of existing buildings, and 1 project site used funds for both new construction and rehabilitation. Figure 5 includes examples of TCAP and Section 1602 funded projects. Examples of TCAP and Section 1602 projects include the following:

- The Kasanof Bakery project (Boston, Massachusetts): The Massachusetts Department of Housing and Community Development awarded this development, \$3.8 million in TCAP funds. TCAP funds were used to construct 48 new units (see fig. 5).
- Hopewell Courtyard (Stewartstown, Pennsylvania): The Pennsylvania Housing Finance Agency awarded this development \$5.6 million in TCAP funds for construction of 96 units. These units are intended for residents ages 55 years and older (see fig. 5).
- Bayside Village (Pascagoula, Mississippi): The Mississippi Home Corporation awarded this development \$5 million in Section 1602 funds for the rehabilitation of a high school built in 1937 into 57 apartment units that will offer independent living for seniors. The project preserved the exterior windows and many of the blackboards and lockers because it also used tax credits designated to preserve historic structures (see fig. 5).

Figure 5: Examples of Projects Funded by the TCAP and Section 1602 Programs



Newly constructed Thomas L. Atkins Apartments (September 2011), Kasanof Bakery Project.



Newly constructed units at Hopewell Courtyard (January 2012).



Old school entrance remodeled showing the "art deco" entryway with restored windows and doors (left photo) and completed kitchen in one-bedroom unit (right photo) (September 2011), Bayside Village.

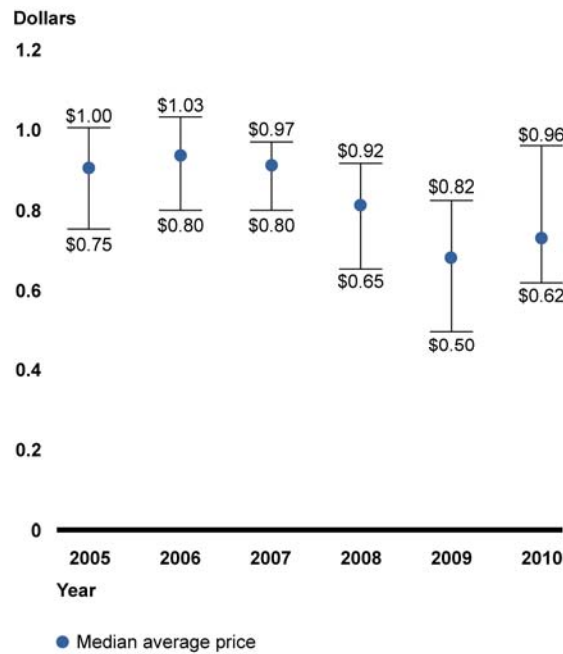


Source: GAO.

Demand for Tax Credits Has Decreased but TCAP and Section 1602 Funds Helped Restart Stalled Projects

As we previously reported, both the demand for tax credits and the price investors were willing to pay for them declined from 2007 to 2009.⁴¹ Across all the HFAs collectively, the average prices paid per dollar of tax credit in their states declined, creating funding gaps in projects that had received tax allocations in 2007 and 2008. As a result, many planned construction and rehabilitation projects were stalled. Figure 6 summarizes the range of average tax credit prices in the 50 states and the District of Columbia in 2005 through 2010. HFAs reported state average tax credit prices in 2007 that ranged from a high of 97 cents to a low of 80 cents. By 2009, the range of average prices had dropped to a high of 82 cents and to a low of 50 cents.

Figure 6: Range of Average Prices Paid Per Tax Credit at Project Closing, for 50 States and the District of Columbia, 2005-2010



Source: GAO analysis of HFA survey data.

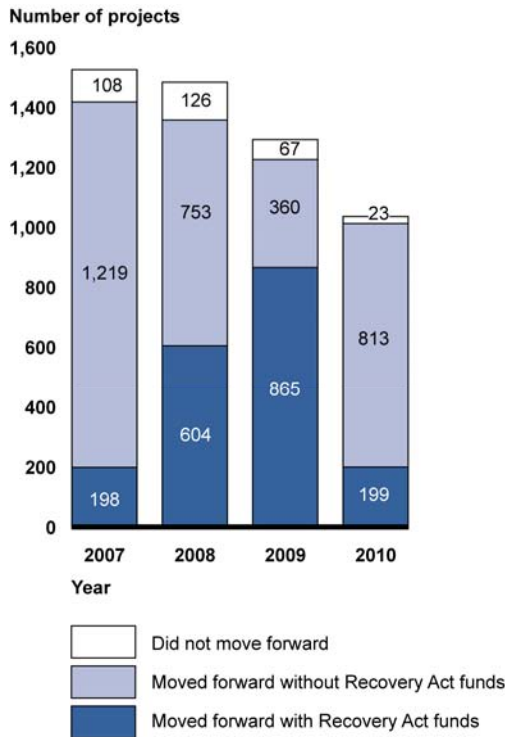
Note: The median is the value, in this case, the average price, which falls in the middle of a set of values arranged from smallest to largest; there are an equal number of values above and below the median value.

⁴¹GAO-10-604.

As shown in figure 6, average tax credit prices generally increased in 2010. HFA representatives we interviewed also said that tax credit prices continued to increase in 2011. For example, HFA officials in one state said that in 2011, some investors had been making commitments of 90 cents and said that they believed these higher prices reflected the support that the Recovery Act had provided to the market. Similarly, in another state, HFA officials reported that prices were also up significantly and that the price in their state was approaching \$1.00 for some development projects but more often was in the \$0.90 range. However, prices within a state may vary, for example differing between rural and urban areas. According to state HFA officials in California, the price in 2005 and 2006 was generally in the \$0.90 range, with prices ranging from a high of \$0.70 for projects in rural areas to \$1.04 or \$1.05 in urban areas.

Almost all HFAs that received TCAP and/or Section 1602 funds reported that these funds temporarily filled the gap left by diminished investor demand for low-income housing credits and allowed projects that had stalled because of a lack of investors to continue. Of the 56 HFAs that received TCAP and/or Section 1602 funds, 50 reported that these programs mostly or completely filled the gap in investor demand. As part of the survey, we asked HFAs to report on the number of projects that ultimately moved forward to close on financing with and without the use of Recovery Act funds for the years 2007, 2008, 2009, and 2010. We also collected data on the number of projects that did not move forward at all. As shown in figure 7, HFAs reported collectively that 2009 saw the highest number of projects move forward with the use of TCAP Section 1602, or both types of assistance. In that year, 865 of 1,258 projects (69 percent) moved forward with Recovery Act assistance.

Figure 7: Number of Projects That Moved Forward with and without Section 1602 and TCAP Assistance, and Those That Did Not Move Forward, 2007-2010



Source: GAO analysis of HFA survey data.

HFAs Reported Challenges in Implementing TCAP and Section 1602

From one-third to nearly one-half of the 56 HFAs that we surveyed reported facing challenges in meeting deadlines for TCAP and Section 1602 expenditures. Just over one-third (19 HFAs) viewed meeting TCAP expenditure deadlines as moderately or very challenging, and close to one-half (25 HFAs) reported the same level of challenges for Section 1602 expenditure deadlines. The information we obtained from our survey does not explain why a somewhat higher number of HFAs generally viewed meeting the Section 1602 expenditure deadlines as more difficult than meeting TCAP deadlines. However, in September 2010, we reported that according to some HFA officials, some project owners could face challenges in meeting the requirement that they pay or incur at least 30 percent of the adjusted cost basis of the project by December 31, 2010,

citing delays stemming from the time needed to assemble or disburse funding by HFAs, litigation, and routine construction delays.⁴²

When it came to identifying reasons for why their agency's Recovery Act projects or expenditures were successful, many HFAs responded by describing how they used established practices and procedures and relied on experienced staff. They also cited monitoring of construction sites and good communication and collaboration as important factors. For example, one HFA official recorded that the agency had experienced team members in place with expertise in accounting, LIHTC allocation, construction, legal matters, and compliance. In terms of what HFAs would consider good practices for the future, many HFAs cited the importance of efficient processes. For example, one HFA official recorded that by modifying existing procedures and practices with which its network of developers were familiar, the HFA could award the Recovery Act funds quickly and efficiently. Other HFA officials mentioned the importance of program oversight—for example, one HFA recorded that it implemented a pay-based payroll reporting system to aid it in tracking and monitoring contractor compliance with the Davis-Bacon Act wage requirements and required all general contractors and subcontractors working on a project to register and use the system for electronic submission of payroll reports. Some HFAs mentioned what they could have done differently, such as by better monitoring of grant subawardees and construction.

In terms of what HUD and Treasury did well and could be considered good practices for the future, many surveyed HFAs indicated that HUD and Treasury were responsive. One HFA said that they greatly appreciated the responsiveness of agency staff in responding to their questions. For example, a representative of one HFA said that it appreciated the speed and clarity with which HUD and Treasury staff responded to questions and thought that the monitoring and oversight was also very timely. A representative of another HFA said that it liked the way in which Treasury repeatedly updated a frequently-asked-questions document whenever a new question was asked.

However, some HFAs we surveyed reported that implementing TCAP challenged the agencies in several ways. As we reported in May 2010, TCAP funds are subject to certain federal requirements, such as the

⁴²[GAO-10-999](#).

Davis-Bacon Act and the National Environmental Policy Act (NEPA) requirements. In addition, several HFAs said that both Treasury and HUD could have provided clearer, more consistent guidance, especially up front, and one HFA said that they had a hard time keeping up with program rules for both programs. However, as described in our May 2010 report, because TCAP and the Section 1602 programs were new programs for HUD and Treasury, respectively, the agencies needed to develop guidance that covered all aspects of the program, and the guidance had to be carefully crafted to be consistent with the existing LIHTC program. In addition, HUD had to develop additional guidance to address the federal requirements that applied to TCAP, and received no additional administrative resources to implement the program.⁴³

Agencies Have Taken Steps to Assess Asset-Management Capabilities but Treasury Does Not Plan to Fully Evaluate Asset Management Implementation

Recovery Act and Asset Management

As we reported in September 2010, TCAP and the Section 1602 Program require HFAs to assume a greater project oversight role than in the standard LIHTC program.⁴⁴ The Recovery Act requires that housing credit agencies perform asset management functions, or contract for the performance of such services, at the owner's expense, to not only help ensure compliance with Section 42 of the Internal Revenue Code of 1986 (Section 42) but also to ensure the long-term viability of buildings.

While HFAs have typically performed limited annual compliance monitoring for their traditional LIHTC projects, they do not necessarily also perform asset management activities to help ensure the long-term physical and financial viability of the projects. Investors who have purchased tax credits under Section 42 of the Internal Revenue Code (IRC) program carry out asset management during the fifteen years after

⁴³ [GAO-10-604](#).

⁴⁴ [GAO-10-999](#).

a project is placed in service. The primary focus of LIHTC annual compliance monitoring is to help ensure that LIHTC goals for affordable rental housing are met. Once LIHTC projects have been placed in service, state agencies are responsible for monitoring the projects for compliance with Section 42 requirements concerning household income and rents and project habitability. However, while asset managers also take steps to ensure properties remain in compliance with Section 42, they also undertake an additional set of activities, commonly referred to as “asset management” that focus on the long-term financial and physical health and viability of project. An important objective of asset management is to preserve and protect the investor’s benefit stream. Typically, investors do not expect the project to produce income. Instead, investors look to the credits, which will be used to offset their income tax liabilities, as their return on investment.⁴⁵ Third-party investors are highly motivated to perform asset management because of the risk of tax credits being recaptured if the property is found to be out of compliance during the 15-year compliance period. For example, an LIHTC tax credit could be subject to recapture should a household residing in a residence funded by tax credits not have qualifying incomes.

In traditional LIHTC projects, third-party investors play an important role in helping ensure compliance with tax credit program requirements through asset management. Asset management includes the many activities that relate to monitoring and planning for the long-term financial and physical health and viability of a project. In addition to monitoring compliance with LIHTC requirements, asset management activities also examine long-term issues related to plans for addressing a project’s capital needs, changes in market conditions, and recommendations and implementation of plans to correct troubled projects. For example, asset managers are likely to take a much closer look at a project’s finances than what HFAs would do for long-term compliance monitoring. As explained by one HFA representative, while its staff might review a high-level financial report to see if a project has a negative cash flow, an asset manager would look more thoroughly at the property’s financial health by looking at unit vacancy rates, tenant income, and the project’s ability to pay its bills. In addition, asset managers are likely to make more frequent physical inspections at properties than state agencies that monitor LIHTC projects

⁴⁵Congressional Research Service, *An introduction to the Design of the Low-Income Housing Tax Credit*, 7-5700 (Washington, D.C.: Sept. 17, 2010)

for compliance. Under LIHTC regulations, state agencies are only required to make onsite visits once every 3 years.⁴⁶ Nearly all HFAs we interviewed for our September 2010 report noted that a third-party investor provided additional oversight and monitoring or financial interest in a project, and some said that they would coordinate with and rely on reviews and audits that investors and private construction lenders perform to satisfy their asset management obligations under TCAP. In addition, HFAs noted a range of challenges associated with asset management, with some HFAs and investors noting challenges as projects aged. They said that between the 5th and 12th year of a project's life, projects may begin to show signs of physical and financial stress.⁴⁷

By program design, many Section 1602 projects have no LIHTC investor equity, and do not benefit from the additional level of oversight these investors provide.⁴⁸ In effect, the HFA becomes a primary "investor" with its award of the Section 1602 funds. HFAs we surveyed collectively reported that 592 of at least 1,511 projects (39 percent) had LIHTC investor equity.⁴⁹ The numbers of Section 1602 projects with and without LIHTC investor equity varied widely by state. For example, HFAs in states with some of the larger awards, such as Texas (\$594 million) and North Carolina (\$135 million), reported that none of their Section 1602 projects had any LIHTC investor equity in any of their Section 1602 projects. In contrast, other states, with larger awards, such as Florida (\$579 million) and Ohio (\$118 million) had a higher proportion of projects with LIHTC investor equity. The Florida HFA reported having LIHTC investor equity in 41 of its 56 Section 1602 projects, and Ohio reported having LIHTC investor equity in 64 of its 71 Section 1602 projects. As we indicated in September 2010, some HFAs have required third-party investor

⁴⁶Treas. Reg. §1.42-5(c)(2)(ii)(B).

⁴⁷[GAO-10-999](#).

⁴⁸The Section 1602 Program, by design, does not require that Section 1602 projects have LIHTC funding. The Section 1602 Program allowed HFAs to exchange returned and unused tax credits for a payment from Treasury at the rate of 85 cents for every tax credit dollar. Thus, there are always other sources of funding in Section 1602 projects and the funding source need not be LIHTC investors.

⁴⁹HFAs may have responded to this question in two different ways. Assuming that they also included their TCAP projects, the total number of projects with Section 1602 funding would be 1710, in which case 613 of 1710 (36 percent) of projects would have had LIHTC funds. We did not collect information on the dollar amount of LIHTC investor equity in each project.

participation in all or the majority of their Section 1602 program projects, and they plan to work in coordination with investors on asset management activities.

As we previously reported, HFAs' approach to long-term asset management and the amount of prior experience varied. HFAs we interviewed reported that they had strengthened their procedures for long-term monitoring to meet the program requirements, mitigate risks, and help ensure projects' long-term physical and financial viability.⁵⁰ For example, of the nine HFAs we interviewed for our September 2010 report, four HFAs said that instead of inspecting projects every 3 years as required by the LIHTC program, they would inspect projects annually or more often, and seven said that they would require reports from projects owners on a monthly, quarterly, or as-requested basis, possibly including information such as project income statements. In response to our December 2011 survey, 23 HFAs reported that they would outsource their asset management responsibilities for the Section 1602 program and 19 HFAs reported that they would do so for the TCAP program. However, we also noted that approaches to long-term asset management varied depending on resources, workload, and asset management experience. For example, 5 of the 12 HFAs we interviewed for both our September 2010 and our current report indicated that they had no or minimal asset management experience, although they were taking steps to assume the responsibilities.

TCAP

As discussed in our September 2010 report, HUD officials reported that they had been primarily relying on existing monitoring systems to determine whether TCAP funds were spent properly and to identify projects that were not in compliance with the terms and conditions of TCAP agreements. These monitoring systems consist of HUD Office of Inspector General (OIG) audits, HUD Office of Fair Housing and Equal Opportunity (OFHEO) reviews in 10 states, and HOME reviews done by HUD field offices when projects include both TCAP and HOME funds.⁵¹ Because the Recovery Act required that all TCAP projects have some

⁵⁰ [GAO-10-966](#). We interviewed nine HFAs for this report and three additional HFAs for our current report.

⁵¹ HOME, administered by HUD, provides formula grants to states and localities that communities use—often in partnership with local nonprofit groups—to fund a wide range of activities that build, buy, or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.

amount of LIHTC equity, HUD officials stated that they also expected third-party investors to monitor TCAP projects for compliance, just as they monitored traditional LIHTC projects.

However, as we reported in September 2010, some TCAP projects had received only a nominal amount of tax credits that the project owners chose not to sell thereby limiting or precluding third-party oversight over these projects.⁵² Because the absence of third-party investors reduces the amount of overall scrutiny TCAP projects could receive, and because HUD did not know how many projects lacked third-party investors at the time of our review, our September 2010 report recommended that HUD develop a risk-based plan for its role in overseeing TCAP projects that recognizes the level of oversight provided by others.⁵³

In March 2012, HUD took steps to address this recommendation. Specifically, HUD staff developed a risk-based plan for monitoring TCAP projects with little third-party investment. To develop this risk-based plan, HUD requested that HFAs report certain data about their projects to HUD, including the dollar value of LIHTC equity and federal, state, and local funds, private funds and loans, and the project owner's cash contribution, which represents the amount of money that the developer has invested in the project. According to HUD, HFAs report this data after the units are completed. As part of its plan, HUD states that it will review these data on a quarterly basis to identify those that may be at a higher risk of noncompliance with the TCAP program. HUD identified higher-risk TCAP projects as those that have less than \$10,000 in LIHTC investment and no other federal funds, such as HOME funds. For grantees with projects meeting these criteria—according to HUD, there were two such projects as of March 2012—HUD will review the HFA's monitoring plans and contact them to discuss specific oversight and safeguards to help ensure that their projects maintain their compliance with TCAP requirements. HUD's plan also states that it will require the grantees to submit any documentation or plans of continued oversight of these projects. As additional TCAP projects become complete in the coming years,

⁵²[GAO-10-999](#). Also, the Recovery Act requires that TCAP projects to have some amount of LIHTC, but if the amount is too small, third-party investors might not have sufficient incentive to ensure that a project comply with long-term requirements.

⁵³See appendix III for the status of recommendations that GAO has made with respect to Recovery Act spending for housing programs.

consistently executing this specialized monitoring approach will be important for HUD.⁵⁴

Since our September 2010 report, HUD OIG has also made recommendations to improve HUD's monitoring of TCAP grantees and HUD has agreed to make changes. In November 2011, the HUD OIG reported that HUD was not adequately monitoring TCAP grantees or documenting their compliance with Office of Management and Budget (OMB) regulations related to single audit reports.⁵⁵ In particular, the OIG noted that HUD lacked staff, expertise, and funding to perform on-site monitoring reviews; was not ensuring that outside entities' controls were operating effectively; and did not have documented procedures for reviewing and resolving open audit findings. HUD's OIG made recommendations to address these findings. HUD program staff have submitted a response to the OIG's findings and recommendations, stating that as of March 31, 2012, the agency will develop a procedure requiring each TCAP grantee to submit its on-site monitoring procedures and a summary of its on-site monitoring of TCAP projects to its office. In addition, HUD states that by June 29, 2012, it will update its procedures for the review and resolution of single audit findings. Finally, on a quarterly basis beginning on March 31, 2012, HUD stated that it will review single audits of TCAP grantees and take immediate action, as appropriate, to act on any findings, with the goal of resolving findings within 3 months of an initial review.

The OIG has also issued eight other reports related to the TCAP program, including seven performance reviews of individual HFAs. HUD OIG officials did not consider any issues from the audits to be open and were planning no further audits.

⁵⁴For more information about this and other prior open Recovery Act recommendations and matters for Congressional consideration, see appendix IV.

⁵⁵U.S. Department of Housing and Urban Development, Office of Inspector General, *Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements*, 2012-FO-0003 (Washington, D.C.: Nov. 15, 2011), 36-37. The Single Audit Act of 1984, as amended, Pub. L. No. 98-502, 98 Stat. 2327, *codified* at 31 U.S.C. § 7501-7507, requires state and local governments and nonprofit organizations that expend \$500,000 or more in federal awards in a fiscal year to have either a single audit or a program-specific audit.

As stated previously, the Recovery Accountability and Transparency Board has also been involved in monitoring efforts. As of April 2012, the board reported receiving two complaints related to the TCAP program. As was the case with HUD's public housing programs, representatives from the board did not consider these complaints to be more significant than other complaints involving Recovery Act funds.

Section 1602 Program

As we reported in September 2010, Treasury developed a system to conduct compliance reviews to help ensure that the HFAs were following the terms and conditions of the Section 1602 Program agreement and are providing oversight of project owners. Treasury officials said at that time that they designed a risk-based system for conducting on-site and remote monitoring by the end of calendar year 2010.

Treasury used two general approaches for its initial monitoring of Section 1602 awards. First, it required HFAs to submit quarterly reports from 2009 through December 2010, the month by which HFAs were required to commit all of their subawards and by which subawardees were to pay or incur at least 30 percent of their funds on an adjusted cost basis. Second, in February 2010, Treasury developed a written monitoring plan for reviewing HFAs' implementation of the Section 1602 Program to help ensure that they followed the terms and conditions of their grant agreements and were accountable for the funds awarded, and to mitigate any identified risk. This plan also included assessing whether the HFAs were equipped to perform asset management and monitor long-term compliance. In addition, consistent with Recovery Act requirements, Treasury established Section 1602 reporting requirements for post-subaward compliance, beginning in July 2011 and continuing until all projects completed their 15-year compliance period.

We determined that Treasury's initial monitoring of HFAs, as outlined in its compliance monitoring handbook, largely incorporated key internal controls that would provide reasonable assurance that Section 1602 funds were spent as planned. However, we found that during the annual compliance period, Treasury was not planning on taking steps that would provide it with a better understanding of how HFAs were implementing the plans they had developed to undertake asset management.

As was the case with HUD's monitoring strategies for the Public Housing Capital Fund formula and competitive grant programs, we examined four key internal control activities in assessing Treasury's monitoring plan: (1) establishing policies, (2) establishing measures and indicators, (3)

implementing policies and procedures, and (4) comparing actual with planned results.

- *Establishing policies and procedures:* Treasury outlined its policies and procedures for its compliance review in a compliance monitoring handbook.⁵⁶ Treasury's monitoring plan is divided into two parts: initial monitoring of HFAs' compliance with the terms and conditions of their grant agreements and monitoring of HFAs' annual compliance with program requirements over a 15-year period beginning in July 2011. As part of its initial monitoring, Treasury's procedures include conducting on-site and remote reviews to examine supporting documentation. According to Treasury's handbook, whether monitoring is conducted on-site or remotely depended on several factors, including identified risks, size of the grants, costs, timing, and availability of Treasury staff. As part of its long-term monitoring, Treasury established two basic reporting requirements for HFAs. First, beginning in 2011 and continuing until all projects are reported on, HFAs must submit a report regarding the project's placed in service date and eligible basis. Second, beginning in July 2011 and continuing until all projects have completed their 15 year compliance period, a state agency must submit an annual report of compliance. As part of its monitoring procedures, for each HFA, Treasury officials stated that they will review one or more projects for each HFA based principally on where Section 1602 funds represent close to 85 percent of eligible basis.⁵⁷ However, Treasury was not planning on obtaining additional information, such as the amount of LIHTC equity in the project, in order to select projects for review.
- *Establish measures and indicators:* Treasury's handbook contains a checklist of measures and indicators for its reviewers to consider in determining whether awardees were meeting the terms and

⁵⁶U.S. Treasury Department, Office of the Fiscal Assistant Secretary, *Compliance Monitoring Handbook, Section 1602: Cash Assistance to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credit Allocations for 2009 under the American Recovery and Reinvestment Act of 2009*, Revised November 2011

⁵⁷ "Eligible basis" refers to a project's development costs that are chargeable to a capital account for determining depreciation expenses for tax purposes (i.e., "adjusted basis"), with certain modifications as defined in section 42 of the Internal Revenue Code. It is generally equal to the adjusted basis of the building, excluding land but including amenities and common areas.

conditions of their grant agreements with Treasury. These measures and indicators include examining HFA processes for selecting subawardees; whether the state agency has established policies for asset management; and policies for addressing indications of fraud, waste, abuse, and potential criminal activity. With respect to compliance monitoring and asset management, as required by section 42, Treasury officials stated that an HFA's asset management responsibilities were to be undertaken during application reviews, at the time of the written agreement, and when the building is placed in service. The officials noted that HFAs assess the long-term viability of Section 1602 project during this time period, including an analysis and approval of the financial aspects of the project, operating budgets, market viability, and reserves for replacement, from the time before an HFA makes an award until projection completion. In addition, Treasury's handbook requires that HFAs, for their annual compliance reports, report the date on which each project was placed in service, whether the HFA had received the project owner's certificate of compliance, if the HFA conducted an on-site visit, and if noncompliance was found. However, the annual compliance report, as outlined in Treasury's handbook, does not require additional information that would allow Treasury to further assess how HFAs are satisfying their asset management responsibilities, for example, if they analyzed financial statements, monitored use of reserve accounts, ensured that real estate taxes are paid, and ensured that proper insurance coverage remains in place after units are completed. During the fifteen year compliance period, Treasury monitors HFAs for compliance with Section 42 but not for these other asset management responsibilities that help ensure the long-term viability of the building.

- *Implement policies and procedures:* Treasury officials told us that, as planned, that they conducted 18 on-site and 36 remote reviews between May 5, 2010, and November 14, 2011, with one additional on-site review remaining to be done as of April 4, 2012. To verify that Treasury had actually implemented its procedures, we reviewed the monitoring documentation for reviews performed of seven state HFAs—California, Colorado, Georgia, Illinois, Massachusetts, Mississippi, and Pennsylvania—and identified the extent to which Treasury staff had completed a monitoring checklist for each state agency. With respect to asset management and Section 42 compliance, Treasury staff reported that they evaluated HFA's policies and procedures, interviewed staff to understand their skills and experience, and reviewed related documentation. Treasury staff said that their on-site and desk reviews included an analysis of asset management policies and procedures, as required in section 42, and

that for a sample of projects at each HFA, they examined asset management documentation available at the time of application and written agreement. While subawardee files were not available for Treasury staff review at the time of their on-site and desk reviews, Treasury officials indicated that they would assess a project's asset management documentation, for a sample of projects, at each state HFA, at the time the project is placed in service.⁵⁸ It also plans to assess, for a sample of projects, at each HFA, for the annual compliance reporting.

- *Compare planned with actual results:* For this internal control, we primarily focused on Treasury's assessment of HFAs' commitment and disbursement of Section 1602 funds because HFAs would be responsible for asset management and annual compliance monitoring in the future. We found that Treasury monitored the amount of funds committed and disbursed, completed the relevant parts of its monitoring checklist, and collected specific information about projects funded by Section 1602. In addition, Treasury established a quarterly reporting requirement, whose primary purpose was to show HFA progress in sub-awarding Section 1602 funds. For this purpose, Treasury also collected information including the names and locations of projects, brief narrative descriptions of projects, and the numbers of total housing units constructed and rehabilitated, and the number of units for low-income families and individuals.⁵⁹

We determined that Treasury had taken steps to help ensure that HFAs were in compliance with Section 1602 program requirements for activities prior to the annual compliance period. However, we did not find that Treasury had developed plans to assess HFA asset management activities to help ensure the long-term viability of the buildings after projects have been placed in service. Further, we did not find that Treasury had developed risk-based criteria that would provide reasonable assurance that they would be selecting projects least likely to benefit from the oversight of others, particularly LIHTC investors. Treasury did not collect information, such as whether any LIHTC was in the project, or other federal grant money was involved, that might help it determine the

⁵⁸Treasury's compliance handbook originally indicated that subawardee (project owner) files should be reviewed at the time of the onsite or remote review.

⁵⁹HFAs are required to report to Treasury on the final numbers of projects completed or dates of completion when they file their annual compliance reports.

extent of project oversight that entities other than HFAs or their contractors might provide. Further, collectively, HFAs are responsible for almost 1,500 projects and Treasury indicated that it generally planned to include one project for each HFA as part of its sample. However, while some states may have just a few funded projects, some states have a higher numbers of projects, for example, from 10 to 96 projects, and one state has 372 projects. Internal control standards state that federal agencies should have adequate mechanisms in place to identify program risks, including assessing the likelihood that the risk will occur and deciding how to manage it, including the actions that should be taken.⁶⁰ Without additional risk-based selection criteria, especially for states with higher numbers of projects, Treasury could overlook projects with minimal or no third-party oversight.

Further, Treasury reported that all but two HFAs (located in the U.S. territories) had asset management experience, but information we gathered from HFA officials suggests that additional ones do not.⁶¹ This difference can probably be attributed to Treasury's understanding of HFA Section 1602 asset management responsibilities, as opposed to what the industry, as well as HUD, consider these responsibilities to be. Treasury requires state HFAs to perform asset management duties similar to those performed by state HFAs under the LIHTC program prior to the project being placed in service. However, our work indicates that while the housing credit industry and HUD guidance would agree that asset management includes the activities identified by Treasury, they would also view HFA Section 1602 asset management responsibilities as extending beyond the time units are placed in service. These activities would include analyzing financial statements, monitoring use of reserve accounts, ensuring that real estate taxes are paid, and ensuring that proper insurance coverage remains in place. In LIHTC projects, these functions would typically be performed by investors.

For Section 1602, the Recovery Act requires that HFAs recapture and return it to the U.S. Treasury funding for projects that fall out of compliance and HFAs are responsible for imposing recapture conditions

⁶⁰GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999)

⁶¹Treasury officials reported that they planned to follow-up with a second stage of monitoring for these two HFAs.

and restrictions on project owners. If the state agency takes all appropriate steps to recapture the funding but is unable to collect the amount from a liable party, Treasury does not require it to return the money.⁶² In contrast, under the conventional LIHTC program, HFAs are not liable for recapturing funds if a project owner fails to comply with LIHTC requirements. Rather, their obligation is to report any noncompliance to the IRS, and IRS takes any further action with respect to recapture.

HUD Continues to Monitor Quality of Data on Jobs Funded

To meet our mandate to comment on reports made by direct recipients of Recovery Act funding, we continued to monitor data that recipients reported from February 2009 through December 31, 2011. For this report, we focused our review on the quality of FTE data reported on FederalReporting.gov by PHAs, which were the prime recipients of the Public Housing Capital Fund formula and competitive grant programs, and HFAs, which were the prime recipients of TCAP. Following Office of Management and Budget guidance, recipients reported on FTEs directly paid for with Recovery Act funding and not the employment impact on suppliers of materials (indirect jobs) or on the local communities (induced jobs). In those circumstances where Recovery Act dollars are blended with funds from other sources, Office of Management and Budget also provided instructions on how to calculate FTEs. Recipients are generally required to file reports after each quarter until they complete expenditure of Recovery Act funds, are no longer counting FTEs, and have met all of HUD's requirements.

According to information provided by HUD officials, the quality of jobs data submitted by HUD for the Public Housing Capital fund formula and competitive grants and TCAP has improved over time. Each quarter, HUD officials continue to perform quality assurance steps on the data that recipients submit to FederalReporting.gov to identify potential reporting errors, such as overcounts of FTEs, before the data are publicly posted on Recovery.gov. Officials also told us that their data quality reviews of recipient reports continued to include automated data checks to flag values in specific fields that were incorrect or that fell outside of parameters that HUD had defined as reasonable and to generate

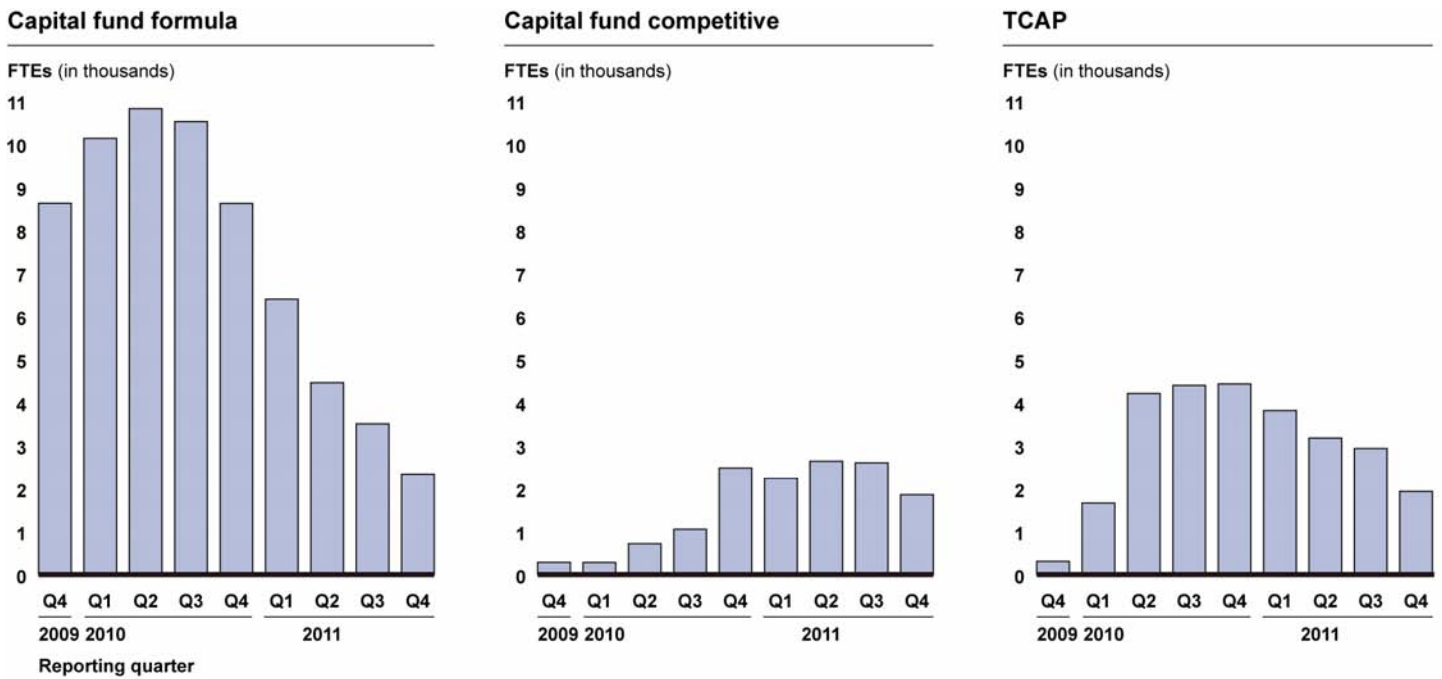
⁶²In response to our May 2010 recommendation, Treasury provided additional guidance to state HFAs to clarify what constitutes appropriate actions by HFAs to recapture funds in order to avoid liability in the event of project owner noncompliance.

comments notifying housing agencies of the potential errors and work with them to make corrections. The HUD staff member responsible for assessing TCAP data quality did note that for TCAP recipient reporting differs from that for the Public Housing Capital Fund formula and competitive programs because the grant recipients (the HFAs) rely on information submitted to them by the grant subawardees (i.e., the project developers). According to the HUD TCAP reviewer, these grant recipients have to gather data and payroll information from each subawardee, and calculate the total number of FTEs. Assessment of TCAP data quality includes quarterly reviews of over 800 subawardee reports, each of which has a varying number of projects. According to HUD staff, the time period available for agency review before the data are posted on Recovery.gov was too short to fully review the sub-awardee reporting and some errors in reporting may not have been detected in time for correction.

Based on our analyses and interviews with agency officials, we determined that the recipient reported data appeared to be sufficiently reliable for the purpose of providing summary, descriptive information about FTEs and other information submitted on grantees' recipient reports. HUD officials for the Recovery Act Public Housing Capital Fund grants also noted that their reporting rate for the tenth reporting period (from October 1, 2011, to December 31, 2011) was high and there have been no significant changes in data quality.

As shown by figure 8, the FTEs funded by the formula grant program and TCAP peaked in 2010. The number of funded FTEs by competitive grants peaked later, in 2011 because the Recovery Act required that nearly \$1 billion in funds be awarded to PHAs based on a competitive basis for priority investments. Accordingly, HUD obligated the formula grants in March 2009 and the competitive grants in September 2009. Also, HUD was able to award the formula grants quickly using the formula that it typically uses to award Public Housing Capital Funds and PHAs generally selected projects that were already in their planning documents.

Figure 8: FTEs That Recipients Reported for Recovery Act Housing Funds, October 2009 through December 2011



Source: GAO analysis of Recovery.gov data.

Note: We did not include FTE data for the quarter ending September 2009 because of concerns about comparability with subsequent quarters of FTE reporting.

All of the PHAs responding to our question on quality procedures said that they were able to describe procedures and controls that they had in place to help ensure the timely reporting, accuracy, and completeness of FTEs.⁶³ For example, several PHAs reported that they had processes in place to help ensure that contractors and subcontractors were in compliance with reporting requirements in submitting data on hours worked. In addition, 6 of the 11 PHAs we interviewed specifically said that they used HUD’s “job calculator” to help calculate FTEs. HUD made this calculator available to PHAs during the first round of Recovery Act reporting and later updated it to conform with OMB guidance. To help ensure that housing agencies used the revised jobs calculator, we

⁶³Of the 11 PHAs, we interviewed, 10 responded to this question. In addition, while we visited the site of another PHA, we did not interview its staff because staff familiar with the Recovery Act funded were no longer employed by the PHA.

recommended that HUD tell housing agencies to discontinue using the outdated jobs calculator for subsequent rounds of reporting.⁶⁴

According to HUD officials, they were not aware of any plans that the agency has to use recipient-reported data internally. However, HUD converted a system it developed to track Recovery Act accomplishments—RAMPS—into a permanent system known as the Energy and Performance Information Center (EPIC) that it deployed in March 2012. This system would allow HUD to collect, aggregate, and report results of its capital investments made through the Public Housing Capital fund program and its two largest Native American programs. According to a HUD official, EPIC essentially replicates the key RAMPS function of collecting high-level information about Public Housing Capital Fund activity (for example, the numbers of units rehabilitated or developed with capital funds) and specific data about the installation of certain energy conservation measures. In addition, to leverage HUD's investment in RAMPS, EPIC also carries over RAMPS infrastructure, such as login identification number and password, and system administration.

HUD officials recommended that any system similar to that implemented at federalreporting.gov that is required in the future should be prepopulated with existing data from agency databases to reduce errors caused when recipients enter data. A HUD official estimated that HUD already collected much of the information that recipients entered into FederalReporting.gov. For example, HUD already tracks grant identification numbers and amounts of money awarded and disbursed in its Line of Credit Control System (LOCCS). He said that asking recipients to reenter data already tracked in HUD data systems resulted in many typographical errors that HUD then had to track and correct. Early on in the program, for instance, many PHAs entered incorrect grant identification numbers, putting in a “dash” before the last two numbers of the grant that signified the grant year. HUD officials made a great effort to correct these errors because, for the first several quarters, RATB could not cross check the recipient reported data with master lists of Recovery Act awards provided by the agencies. HUD officials said that the system

⁶⁴See GAO, *One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C.: Mar. 3, 2010).

would have been more manageable if the fields had been prepopulated with data they had already collected.⁶⁵

Conclusions

HUD has developed and implemented a strategy for monitoring the distribution and use of Public Housing Capital Fund formula and competitive grants that draws on an approach already in use at the agency and that includes monitoring by field offices. This approach appears to have served HUD well. Most PHAs met their deadlines to expend Recovery Act formula grants, and PHAs with competitive grants appear to be on schedule to meet their deadlines.

HUD and Treasury also developed new programs—TCAP and Section 1602, respectively—that were designed to provide capital investment to LIHTC projects hit hard by the economic crisis. HUD and Treasury each developed a strategy for monitoring the distribution and use of funding for their respective programs. In addition, to better understand the monitoring that TCAP-funded properties would receive over the 15-year compliance period, HUD staff collected data on the involvement of other stakeholders in these projects, including LIHTC investors and the HOME program. As a result, HUD has developed useful information about monitoring that other stakeholders will conduct, allowing it to increase its own oversight efforts for TCAP-funded projects with more limited amounts of stakeholder involvement.

While Treasury has developed and largely implemented a monitoring approach with performance measures to assess HFAs' use of Section 1602 funds, some long-term monitoring issues remain. We determined that Treasury's initial monitoring, as outlined in its compliance handbook, largely incorporated key internal controls that would provide reasonable assurance that Section 1602 funds were spent as planned. But we also found that Treasury had not developed a systematic approach for evaluating HFAs' implementation of their asset management responsibilities after units had been placed in service. Treasury plans to

⁶⁵According to HUD officials, prior to implementation of FederalReporting.gov, HUD raised concerns with the Office of Management and Budget about its approach for collecting information on projects, and proposed populating the information needed to satisfy the Recovery Act's reporting requirements. The Office of Management and Budget opted to collect information directly from recipients of Recovery funds. See GAO, *Recovery Act: Opportunities Exist to Increase the Public's Understanding of Recipient Reporting on HUD Programs*, GAO-10-966 (Washington, D.C.: Sept. 30, 2010).

review the supporting documentation for at least one project for each HFA in the 15-year compliance period for the purpose of ensuring that Section 42 compliance requirements have been met. However, it does not plan to collect information that would allow its staff to assess how HFAs are implementing their asset management responsibilities with respect to helping to ensure the long-term viability of the project's buildings.

Further, Treasury has not obtained information that would allow it to determine which projects may be benefiting from the involvement of other interested parties, such as third-party investors with LIHTC equity and the federal government. Such information is particularly important because LIHTC investors typically provide additional scrutiny to ensure compliance with Section 42 and ensure projects' long-term viability. Many Section 1602 projects have no LIHTC equity at all, and some HFAs have very limited or no asset management experience. Treasury could take additional steps to collect information that would allow it to better prioritize its efforts to help ensure compliance with Section 42 and ensure that low-income residents continue to benefit from affordable housing units throughout the 15-year compliance period. Treasury has already reported that it intends to choose a sample of projects for additional review at the time of HFAs' annual compliance reviews. Obtaining data that illustrate the interests of other stakeholders would increase Treasury's ability to identify projects that could be at a relatively high risk of noncompliance with Section 42 because of a lack of stakeholder involvement and to focus its compliance reviews on those projects.

Recommendation for Executive Action

To help meet the requirements of the Recovery Act's Section 1602 provisions to help ensure the long-term viability of the buildings, we recommend that the Secretary of the Treasury assess the extent to which HFAs are utilizing information provided to them by project owners during the 15-year compliance period, taking into account the level of investor equity in projects.

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretary of Housing and Urban Development (HUD) and the Secretary of the Treasury. We received comments from HUD and Treasury that are reproduced in appendixes V and VI respectively. HUD largely expressed its satisfaction with our review. Each agency also provided technical comments, which we incorporated as appropriate.

In its response, Treasury noted that it strongly supported GAO's emphasis on promoting the success of the Section 1602 Program while limiting exposure for taxpayer funds. However, Treasury questioned the need to take additional steps to assess HFAs' capacity to undertake asset management, as we originally recommended. In technical comments accompanying the letter Treasury stated that, in accordance with Section 42 of the Internal Revenue Code (IRC), an HFA's asset management responsibilities were undertaken (1) during application reviews, (2) at the time of the written agreement, and (3) when the building was placed in service. Treasury noted that it already has reviewed or plans to review each HFA's asset management at each of these junctures. We clarified the draft report language to reflect the requirement that HFAs assess the long-term viability of Section 1602 projects and that Treasury's assessments of HFAs' capacity to ensure long-term viability ended when a project was placed in service.

In addition, in subsequent discussion, Treasury stated that the Recovery Act limits its authority to impose requirements on HFAs beyond the scope of sections 42 and 1602 but acknowledged that HFAs may choose to impose more stringent standards. However, based on our analysis we believe that a broader interpretation of the Recovery Act's asset management provisions is feasible and that Treasury can do more to better ensure that Section 1602-funded projects meet the Recovery Act's requirement that HFAs ensure the long-term viability of buildings funded with Section 1602 through its conduct of asset management after projects are placed in service. While asset management is not defined by Section 1602, the term is commonly understood by participants in both the LIHTC (sections 42) and 1602 programs to be a process that strives to assure that a project remains suitable for occupancy and continues throughout a project's useful life. Section 1602(c)(3) uses the term "asset management" to describe the functions state HFAs are to perform for Section 1602 projects. On the other hand, the purpose of the provision in Section 42 that Treasury relies on for what it describes as its asset management program under Section 1602—section 42(m)(2) of the IRC—is to ensure that a project has not been awarded too many tax credits. While that process involves an agency determination that the housing dollar credit amount does not exceed that necessary for the project to be financially feasible and viable as a qualified project, it stops when the project is placed in service since, at that point, the tax credits (or in the case of the Section 1602 program, the award) have been committed. The compliance period for both the LIHTC (section 42) and Section 1602 projects lasts for 15 years beyond that point. For standard LIHTC projects, private investors see the need to continue to provide

asset management during the 15-year compliance period. Our position is that Section 1602(c)(2), with its reference to section 42 of the IRC, must be read in conjunction with Section 1602(c)(3) which explicitly assigned state HFAs asset management responsibilities. Based on our analysis, we also believe Treasury, while ensuring state HFAs' compliance with section 42 of the IRC pursuant to Section 1602(c)(2), was also given the authority, pursuant to Section 1602(c)(3), to require the HFAs to perform asset management during the compliance period and to assess those HFAs' efforts.

Our interpretation—that Congress's use of the term "asset management" in the Recovery Act means more than the duties imposed upon state HFAs under IRC Section 42—is supported by the plain language of Section 1602(c)(3). This provision states that a state HFA "shall perform asset management functions to ensure compliance with section 42 of the Internal Revenue Code of 1986 and the long-term viability of buildings funded by any subaward under this section." As this provision indicates, under Section 1602, state HFAs' asset management responsibility has two functions: ensuring compliance with section 42, the purpose that Treasury focuses on, as well as ensuring the long-term viability of the funded projects. Thus, state HFAs are to perform asset management duties beyond what they perform under section 42 of the IRC in order to assure projects' long-term viability. We believe this additional function of asset management under Section 1602 is further evidence that the statute authorizes Treasury to direct state HFAs to perform asset management during the compliance period and to assess the HFAs' efforts.

We also realize that HFAs entered into binding written agreements with project owners at the time that Section 1602 awards were made. It would be difficult at this point for state HFAs to unilaterally perform asset management over subawardees if such oversight is not authorized by the written agreements. Nevertheless, we found that many state HFAs, recognizing the absence of third-party investors, have taken on asset management during the compliance period, although some have reported that they had no or minimal experience with this duty. All nine of the HFAs we interviewed for our September 2010 report, reported that they had strengthened their procedures for long-term monitoring to meet the program requirements, mitigate risks, and help ensure projects' long-term physical and financial viability. These procedures include increasing the number of inspection visits over the 15-year tax credit compliance period and the frequency of reporting, as well as enhancing financial monitoring of projects receiving TCAP and Section 1602 program funds beyond what

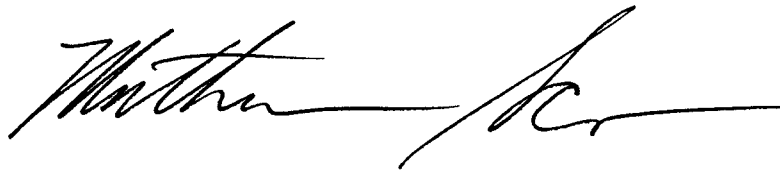
is typically done for standard LIHTC projects. In addition, 23 of the 56 respondents to our December 2011 survey question on asset management indicated that they planned to outsource these responsibilities, and another 6 reported that they planned to hire new staff.

Recognizing there may be some limits to the information available to HFAs under the binding written agreements, but noting that the HFAs have a responsibility for ensuring the long-term viability of projects after they are placed in service, we modified our draft recommendation that Treasury assess HFA capacity to conduct asset management. We recommend instead that Treasury assess the extent to which HFAs are utilizing information provided to them by project owners for the purpose of ensuring the long-term viability of the buildings during the 15-year compliance period. We also modified the title of the report to better reflect the focus of the revised recommendation.

Treasury also commented that project owners' interest in maintaining the financial viability of their investments is a factor in long-term success and statutory compliance. We recognize that project owners with significant equity investments have strong incentives to maintain their properties. However, Treasury has not collected data that show how much equity project owners have in Section 1602 projects. Data that HUD has collected for TCAP projects show that some owners have no ownership equity at all. Further, third-party investors in LIHTC projects often perform asset management activities that go beyond what project owners provide. For this reason, it is especially important for HFAs to provide oversight of Section 1602 projects with no LIHTC equity, and therefore we do not change our recommendation that Treasury oversight consider the level of third-party investment.

We are sending copies of this report to appropriate congressional committees, the Secretary of Housing and Urban Development, the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. The report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or sciremj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VII.

A handwritten signature in black ink, appearing to read "Mathew J. Sciré", with a long horizontal flourish extending to the right.

Mathew J. Sciré
Director
Financial Markets
and Community Investment

List of Congressional Committees

The Honorable Darrell Issa
Chairman
Committee on Oversight
and Government Reform
House of Representatives

The Honorable Elijah Cummings
Ranking Member
Committee on Oversight
and Government Reform
House of Representatives

The Honorable Judy Biggert
Chairman
Subcommittee on Insurance, Housing
and Community Opportunity
Committee on Financial Services
House of Representatives

The Honorable Luis V. Gutierrez
Ranking Member
Subcommittee on Insurance, Housing
and Community Opportunity
Committee on Financial Services
House of Representatives

The Honorable Joseph Lieberman
Chairman
Committee on Homeland Security
and Governmental Affairs
United States Senate

The Honorable Susan Collins
Ranking Member
Committee on Homeland Security
and Governmental Affairs
United States Senate

The Honorable Tim Johnson
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate

Appendix I: Scope and Methodology

The scope of our audit included four housing programs that received American Recovery and Reinvestment Act of 2009 (Recovery Act) funding: the Public Housing Capital Fund formula and competitive grant programs; the Tax Credit Assistance Program (TCAP), administered by the Department of Housing and Urban Development (HUD); and the Section 1602 program administered by the Department of the Treasury. For each program, our objectives were to examine (1) the progress public housing authorities (PHA) made in spending their grant funds, what is known about how funds were used, and the actions HUD and PHAs took to ensure that recipients spent their grants on time and for intended purposes; (2) the progress state housing finance agencies (HFA) made in disbursing funds, what is known about how funds were used, and the actions Treasury and others took to ensure that recipients disbursed funds on time and for intended purposes; and (3) the quality of job estimates reported by Recovery Act recipients, including housing grant recipients.

As part of our approach to addressing all objectives, while the results cannot be generalized within states or to other states, we selected states within which to conduct PHA and HFA visits that allowed us to capture a range of funding recipient experiences with each program. We selected four “primary” states—California, Illinois, Massachusetts, and Mississippi—within which to conduct PHA and HFA visits. The selection of these states provided geographic diversity and also allowed us to obtain information for PHAs with formula and competitive grants and PHAs that HUD initially designated as troubled for the purpose of monitoring fund use. We also selected these states because they received a range of funding levels. For example, California received a higher total amount of funds (about \$118 million in formula grants and \$478 million in Section 1602 funds), while Mississippi received a total lower amount of funds (about \$32 million in formula funds and \$29 million in Section 1602 funds). We selected several additional states and a locality to visit on the basis that we had visited these states as part of earlier Recovery Act work. These states were Colorado, Georgia, Pennsylvania, and the District of Columbia. Visiting PHA and HFA-sponsored projects in each of these states allowed us to identify how projects have progressed since the time of our previous visit. In addition, we contacted representatives of HUD and Treasury’s Office of Inspector General, respectively, as well as representatives of state auditors to obtain information that these organizations may have issued on the use of Recovery Act funding by PHAs or HFAs. We incorporated their comments as appropriate.

Public Housing Capital Fund Formula and Competitive Grant Program

To identify progress PHAs have made in expending public housing formula and competitive grants, we obtained expenditure data from HUD's Electronic Line of Credit Control System on the amount of Recovery Act funds that PHAs had drawn down for the program's respective deadlines. In addition to getting summary information from HUD on the number of PHA units planned and completed, we also obtained and analyzed available data in HUD's Recovery Act Management Performance System (RAMPS) to identify the types of rehabilitations (for example, installation of windows or roofs) that PHAs receiving formula funds had performed as of April 19, 2012.¹ Our objective was to determine the number of PHAs that had completed each type of energy-efficiency work activity tracked by RAMPS and to account for the number of PHAs that had undertaken other types of work activities or no activity at all. RAMPS data is entered as the number of units to be affected by a planned or actual work activity. Our data reliability assessment of RAMPS data focused on whether a PHA completed an activity rather than on the accuracy of the number of units affected by the work activity. As part of this assessment, we interviewed HUD officials, reviewed guidance manuals, and during our site visits verified that the work was actually completed. We determined that RAMPS was sufficiently reliable for our purpose of providing a high-level description of the ways in which PHAs used their funds to promote energy-efficiency. We excluded a very small percentage of projects funded by formula grants from our analyses—those involving development of new units and non-dwelling improvements (for example, sidewalk improvements). In addition, we also excluded all competitive grant projects from the RAMPS data we analyzed because the deadline for complete expenditure of these funds is not until September 2012. In addition, to verify progress that PHAs have made in spending these funds and to better understand their use, we visited 25 projects sponsored by 19 housing agencies in our seven selected states and the District of Columbia. We asked representatives from each of these agencies for information on their interactions with HUD officials and what lessons they may have learned in meeting Recovery Act requirements. In addition, in our four primary states—California, Illinois, Massachusetts, and Mississippi—we conducted extensive structured interviews with PHA staff on their

¹HUD staff reported that our analyses could result in a slight overstatement of PHA work activities performed as of April 19, 2012, since any data entered by PHAs after December 31, 2011, would not have yet gone through a "cleaning" process to address possibilities such as the double-counting of work activities completed.

Recovery Act experiences and interviewed HUD field office staff on their role in monitoring public housing agency obligations and their observations on PHA experiences with meeting Recovery Act funding milestones.

To determine whether HUD's three annual monitoring strategies for oversight of the public housing capital fund grants was likely to help ensure that Recovery Act funds were spent on time and for the intended purposes, we identified whether HUD's strategy addressed four key internal control activities that we identified as important for this type of funding.² In addition, to confirm that HUD took the actions that it planned to take for each component of its year two (March 2010 to March 2011) monitoring strategy, we obtained and reviewed supporting documentation for monitoring performed during year two. We specifically reviewed completed monitoring reviews of the 24 PHA sites we visited. We reviewed 13 monitoring review files for the formula grant program and 11 such files for the competitive grant program. These monitoring files reflected HUD staff assessment of documentation supplied to them by the PHAs. We performed this review primarily for HUD's year two strategy because the steps were completed during the time of our review.

TCAP and Section 1602 Program

To identify progress HFAs have made in disbursing Section 1602 and TCAP funds, we obtained financial data from their respective federal oversight agencies. For Section 1602, we obtained data on the amount of funds disbursed by HFAs to project developers (the subawardees) from a tracking system—an excel spreadsheet—maintained by agency staff. For TCAP, we obtained data on the amount of funds disbursed by HFAs to project developers from HUD's Integrated Disbursement and Information System (IDIS), a system that HUD uses to track other housing programs. To verify progress that a limited number of project developers have made in using Section 1602 and TCAP funds and to better understand their use, we visited 11 projects in the seven states we selected. In each of the primary selected states, we visited one project that was rehabilitated and one that was new construction and in each of the additional states, we selected projects that we had visited before. In addition, in our four primary states, we conducted structured interviews with HFA officials to

²The four key internal control activities we selected were establishing and implementing policies and procedures, establishing measures and indicators, implementing policies and procedures, and comparing planned with actual results.

obtain specific information about experiences meeting Recovery Act requirements and fund use.

To further assess state implementation of the TCAP and Section 1602 programs, we asked managers of state HFAs in all 50 states, the District of Columbia, American Samoa, Guam, Commonwealth of the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands to complete a web survey. Our survey asked about how the funds were used, items that provided information that allowed us to assess how many projects moved forward with these funds, assistance received from federal agencies, the level of challenge associated with meeting Recovery Act deadlines, asset management, and lessons learned. Data collection took place from December 2011 through February 2012. We received usable responses from all 56 agencies. In addition, when reporting on approximate average tax credit price for 2007, 2008, and 2009, we used information gathered from HFAs in response to our 2009 questionnaire.³ See appendix II for the wording of our survey questions and a summary of the results.

While all state agencies returned questionnaires, and thus our results are not subject to sampling or overall questionnaire nonresponse error, the practical difficulties of conducting any survey may introduce other errors in our findings. We took steps to minimize errors of measurement, question-specific nonresponse, and data processing. We obtained comments on a draft of our self-administered questionnaire from the National Council of State Housing Agencies, Treasury, and pretested draft questionnaires with two housing finance agencies. During the survey, we made follow-up contacts with nonrespondents to encourage participation, and to clarify answers respondents made, as necessary. In addition, GAO analysts resolved respondent difficulties in answering one question during the survey. Finally, analysis programs and other data analyses were independently verified.

To determine whether Treasury's plan for oversight of Section 1602 funds was likely to ensure that funds were spent on time and for intended purposes, we identified whether Treasury's monitoring plans for oversight addressed four internal control standards that we identified as important

³GAO, *Recovery Act: Results of GAO's Survey of State Housing Finance Agencies' Use of the Low-Income Housing Tax Credit Assistance Program (TCAP) and the Section 1602 Program*, [GAO-10-1023SP](#) (Washington, D.C.: Sept. 20, 2010), an e-supplement to [GAO-10-1022R](#).

for each program. We also reviewed completed monitoring reviews of seven state HFAs to verify that Treasury staff took the actions that they planned to take as part of their plan. These monitoring files reflected Treasury's assessment of documentation supplied to them by the HFAs. However, we did not review the underlying documentation provided by the HFAs. To better understand the implications of Treasury's future plans for the oversight of HFA and project developer compliance with long-term program requirements, we considered findings from our previous report on the capacity of HFAs to conduct asset management and information obtained from our questionnaire on HFA plan's for asset management. We did not undertake a similar review for HUD oversight of the TCAP program because HUD did not have a monitoring plan in place at the time of our review and was in the process of responding to a recommendation that we made in an earlier report concerning asset management.⁴

Recipient Reporting

The recipient reporting section of this report responds to the Recovery Act's mandate that GAO comment on the estimates of jobs created or retained by direct recipients of Recovery Act funds.⁵ For our review of the tenth submission of recipient reports (which covers the period from) October 1, 2011, through December 31, 2011, we built on findings from our nine prior reviews of these reports, which covered the period from February 2009 through September 31, 2011. To understand the quality of jobs data reported by housing program recipients, we compared the 10 quarters of recipient reporting data that were publicly available at Recovery.gov as of January 31, 2012; performed edit checks; and conducted other analyses on housing recipients' reports for the Recovery Act.⁶ Our reliability assessment included interviewing HUD program officials and funding recipients and conducting logic tests for key variables. Our matches showed a high degree of agreement between HUD's assessments of full-time equivalent (FTE) positions reported and

⁴[GAO-10-999](#).

⁵Pub. L. No. 111-5, § 1512(e), 123 Stat. 288.

⁶As with our previous reviews, we conducted these checks and analyses on all prime recipient reports to assess data logic and consistency and identify unusual or atypical data. For this 10th round of reporting, we continued to see only minor variations in the number or percentage of reports appearing atypical or showing some form of data discrepancy.

our analyses of information recipients reported directly to FederalReporting.gov. In general, the recipient data used in this report appears to be sufficiently reliable for the purposes of providing summary descriptive information about FTEs or other information submitted on grantees' recipient reports for the three housing programs—Public Housing Capital Fund formula and competitive grants, and TCAP.

We conducted this performance audit from June 2011 to June 2012 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.

Appendix II: Results from Survey of State Housing Finance Agencies

Survey of State Housing Finance Agencies on Recovery Act Funding

Background on Your State's LIHTC Market

1. Compared to 2009, considering both urban and rural areas, is **your state's** market for low income housing tax credits: *Click one button.*

(Data intentionally not reported. This material will be published in a forthcoming report.)

2. Compared to 2009, how would you characterize the current housing tax credit market in urban versus rural areas (however you may define them) in **your state**? Is it:

(Data intentionally not reported.)

Tax Credit Pricing

3. In our previous survey we asked for the approximate average tax credit price set at closing with investors in your state for 2007, 2008 and 2009. What were the approximate prices for the following years? *Enter cents using numeric digits and decimal points, if needed, in the boxes below*

2005 – cents paid per dollar tax credit

Mean	Median	Minimum	Maximum	Number of respondents
89.2	90	75	100	48

2006 – cents paid per dollar tax credit

Mean	Median	Minimum	Maximum	Number of respondents
92.4	93	80	103	48

2007 - your previous report was: _____ cents paid per dollar tax credit

2008 - your previous report was: _____ cents paid per dollar tax credit

2009 - your previous report was: _____ cents paid per dollar tax credit

2010 – cents paid per dollar tax credit

Mean	Median	Minimum	Maximum	Number of respondents
74.4	73	47	96	53

4. If you have any additional comments or would like to explain any of your answers on tax credit pricing, please provide them below.
Box will scroll to accommodate text as necessary.

(Data intentionally not reported.)

Impact of CRA on Tax Credit Pricing

5. In your opinion, does the Community Reinvestment Act (CRA) tend to increase, decrease, or have no effect on the pricing of low-income housing tax credits in **your state**?

(Data intentionally not reported. This material will be published in a forthcoming report.)

6. Are there specific geographic location(s) within your state where CRA is more influential than others?

(Data intentionally not reported. This material will be published in a forthcoming report.)

7. IF YES: In what geographic locations is CRA more influential?

(Data intentionally not reported. This material will be published in a forthcoming report.)

8. In your opinion, do each of the following project or market characteristics generally tend to increase, decrease, or have no effect on the pricing of low-income housing tax credits in your state? *Click one button in each row.*

(Data intentionally not reported. This material will be published in a forthcoming report.)

9. Are there any other factors that generally tend to increase or decrease pricing of low-income housing tax credits in **your state**? *If so, describe them in the box below.*

(Data intentionally not reported.)

10. If you have any additional comments or would like to explain any of your answers on the impact of CRA on tax credit pricing, please provide them below.

(Data intentionally not reported.)

Type of Recovery Act Funding Used

11. Of all projects receiving either TCAP or Section 1602 funds, to how many projects and tax credit housing units have you awarded **only** TCAP?

Enter whole numbers of projects and units in the boxes below. Enter zero if none.

Projects:

Mean	Median	Minimum	Maximum	Number of respondents
11.3	9	0	59	56

Units:

Mean	Median	Minimum	Maximum	Number of respondents
886.1	582	0	8,346	55

12. Of all projects receiving either TCAP or Section 1602 funds, to how many projects and tax credit housing units have you awarded **only** Section 1602 funds?

Projects:

Mean	Median	Minimum	Maximum	Number of respondents
27.5	12	0	372	55

Units:

Mean	Median	Minimum	Maximum	Number of respondents
1,156.2	461	0	7,854	55

13. And of all projects receiving either TCAP or Section 1602 funds, to how many projects and tax credit housing units have you awarded **both** TCAP and Section 1602 funds?

**Appendix II: Results from Survey of State
Housing Finance Agencies**

Projects:

Mean	Median	Minimum	Maximum	Number of respondents
4.1	1	0	31	56

Units:

Mean	Median	Minimum	Maximum	Number of respondents
249.7	49	0	1,648	55

14. How many Section 1602 projects used Low Income Housing Tax Credits (LIHTC) as part of their financing?

Not applicable: my agency did not receive Section 1602 funds

Not checked	Checked	Number of respondents
0	1	1

Projects:

Mean	Median	Minimum	Maximum	Number of respondents
11.2	5	0	64	53

Units:

Mean	Median	Minimum	Maximum	Number of respondents
785.8	239	0	5,092	52

Restarting Stalled Projects

15. How many LIHTC-eligible projects did your agency award tax credits to in 2007 through 2010? (For each year, please count only projects receiving initial awards made in that year. To avoid double-counting, do not include projects that had returned allocations made in previous years to receive new allocations.)

Total projects receiving initial awards

2007

Mean	Median	Minimum	Maximum	Number of respondents
27.7	18	0	189	55

2008

Mean	Median	Minimum	Maximum	Number of respondents
26.7	18	0	194	55

2009

Mean	Median	Minimum	Maximum	Number of respondents
22.9	16	0	144	55

2010

Mean	Median	Minimum	Maximum	Number of respondents
19.0	15	0	126	54

**Appendix II: Results from Survey of State
Housing Finance Agencies**

16. And of these total projects identified in Question 15, how many ultimately moved forward to close on financing with an investor with and without the use of TCAP and/or Section 1602 assistance (Recovery Act funds)?

Moved forward with Recovery Act funds 2007

Mean	Median	Minimum	Maximum	Number of respondents
3.9	1	0	45	51

Moved forward WITHOUT Recovery Act funds 2007

Mean	Median	Minimum	Maximum	Number of respondents
23.0	15	0	179	53

Moved forward with Recovery Act funds 2008

Mean	Median	Minimum	Maximum	Number of respondents
11.2	6	0	52	54

Moved forward WITHOUT Recovery Act funds 2008

Mean	Median	Minimum	Maximum	Number of respondents
14.5	7	0	134	52

Moved forward with Recovery Act funds 2009

Mean	Median	Minimum	Maximum	Number of respondents
16.0	11	0	80	54

**Appendix II: Results from Survey of State
Housing Finance Agencies**

Moved forward WITHOUT Recovery Act funds 2009

Mean	Median	Minimum	Maximum	Number of respondents
6.9	2	0	62	52

Moved forward with Recovery Act funds 2010

Mean	Median	Minimum	Maximum	Number of respondents
3.8	1	0	40	53

Moved forward WITHOUT Recovery Act funds 2010

Mean	Median	Minimum	Maximum	Number of respondents
15.3	9	0	124	53

17. And of these total projects identified in Question 15, how many ultimately did **not** move forward to close on financing with an investor?

Did NOT move forward

2007

Mean	Median	Minimum	Maximum	Number of respondents
2.0	0	0	17	53

2008

Mean	Median	Minimum	Maximum	Number of respondents
2.4	1	0	14	53

**Appendix II: Results from Survey of State
Housing Finance Agencies**

2009

Mean	Median	Minimum	Maximum	Number of respondents
1.2	0	0	13	54

2010

Mean	Median	Minimum	Maximum	Number of respondents
0.5	0	0	6	51

18. Of those projects identified as moving forward in Question 16, what differentiated projects that were able to move forward without Recovery Act assistance from projects that required Recovery Act assistance?

(Data intentionally not reported)

Project Type and Other Funding

19. Across all the 2007-2010 projects receiving any TCAP and/or Section 1602 assistance, approximately what percentage of your agency's subawards were for:

New construction percent

Mean	Median	Minimum	Maximum	Number of respondents
63.1	66	0	100	55

Rehabilitation percent

Mean	Median	Minimum	Maximum	Number of respondents
33.1	31	0	100	55

**Appendix II: Results from Survey of State
Housing Finance Agencies**

Combination of new construction and rehabilitation percent

Mean	Median	Minimum	Maximum	Number of respondents
3.8	0	0	45	55

20. In approximately how many of your agency's TCAP and Section 1602 projects were each of the following sources of federal, state, or private funds combined with TCAP and/or Section 1602 funds in project financing?

Click the one button in each row that most closely approximates how many projects included that source of funds.

Recovery Act Public Housing Capital Fund Formula Grants

Included in all projects	Included in most projects	Included in about half the projects	Included in only some projects	Included in none of the projects	Don't know	Number of respondents
0	0	0	8	40	6	54

Recovery Act Public Housing Capital Fund Competitive Grants

Included in all projects	Included in most projects	Included in about half the projects	Included in only some projects	Included in none of the projects	Don't know	Number of respondents
0	0	0	6	39	8	53

Funds from other federal programs - *list in box below this table*

Included in all projects	Included in most projects	Included in about half the projects	Included in only some projects	Included in none of the projects	Don't know	Number of respondents
3	8	13	23	5	2	54

State or local funds

Included in all projects	Included in most projects	Included in about half the projects	Included in only some projects	Included in none of the projects	Don't know	Number of respondents
4	13	5	23	9	0	54

**Appendix II: Results from Survey of State
Housing Finance Agencies**

Conventional loans

Included in all projects	Included in most projects	Included in about half the projects	Included in only some projects	Included in none of the projects	Don't know	Number of respondents
5	21	12	14	1	1	54

Bond financing

Included in all projects	Included in most projects	Included in about half the projects	Included in only some projects	Included in none of the projects	Don't know	Number of respondents
1	1	2	28	22	1	55

IF OTHER FEDERAL PROGRAMS: What were those programs?

(Data intentionally not reported)

Assistance with Recovery Act Requirements

21. Did your agency receive assistance from HUD with meeting any of the TCAP requirements?

Yes	No	Not applicable	Number of respondents
36	17	3	56

22. IF YES: What type of assistance did your agency receive?

(Data intentionally not reported)

23. How satisfied or dissatisfied are you with the assistance that you have received from HUD regarding the TCAP program?

Very satisfied	Somewhat satisfied	Neither	Somewhat dissatisfied	Very dissatisfied	Don't know	Number of respondents
18	9	4	3	1	0	35

**Appendix II: Results from Survey of State
Housing Finance Agencies**

24. Did your agency receive assistance from **Treasury** with meeting any of the Section 1602 requirements?

Yes	No	Not applicable	Number of respondents
43	11	1	55

25. IF YES: What type of assistance did your agency receive?

(Data intentionally not reported)

26. How satisfied or dissatisfied are you with the assistance that you have received from Treasury regarding the Section 1602 program?

Very satisfied	Somewhat satisfied	Neither	Somewhat dissatisfied	Very dissatisfied	Don't know	Number of respondents
38	4	1	0	0	0	43

27. If you have any additional comments or would like to explain any of your answers on the assistance you received with Recovery Act requirements, please provide them below.

(Data intentionally not reported)

Recovery Act Deadlines

28. All things considered, how challenging, if at all, was meeting TCAP **obligation** deadlines for your agency?

Very challenging	Moderately challenging	Slightly challenging	Not at all challenging	Don't know	Not applicable	Number of respondents
6	21	17	7	0	4	55

29. And how challenging, if at all, was meeting the TCAP **expenditure** deadlines?

Very challenging	Moderately challenging	Slightly challenging	Not at all challenging	Don't know	Number of respondents
2	17	21	11	0	51

30. All things considered, how challenging, if at all, was meeting Section 1602 **obligation** deadlines for your agency?

Very challenging	Moderately challenging	Slightly challenging	Not at all challenging	Don't know	Not applicable	Number of respondents
4	16	18	16	0	1	55

**Appendix II: Results from Survey of State
Housing Finance Agencies**

31. And how challenging, if at all, was meeting the Section 1602 **expenditure** deadlines?

Very challenging	Moderately challenging	Slightly challenging	Not at all challenging	Don't know	Number of respondents
9	16	18	11	0	54

32. If you have any additional comments or would like to explain any of your answers on meeting Recovery Act deadlines, please provide them below.

(Data intentionally not reported)

Audit and Oversight

33. Have any of the following organizations audited (or are they in the process of auditing) your agency's expenditure of TCAP and/or Section 1602 funds grants?

HUD Inspector General

Yes	No	Don't know	Number of respondents
12	41	1	54

Treasury Inspector General

Yes	No	Don't know	Number of respondents
25	30	0	55

Federal organizations other than HUD or Treasury - *list in box below this table*

Yes	No	Don't know	Number of respondents
4	49	1	54

State or local organizations - *list in box below this table*

Yes	No	Don't know	Number of respondents
19	36	0	55

IF OTHER FEDERAL OR STATE ORGANIZATIONS: What were the names of those organizations?

(Data intentionally not reported)

Asset Management

34. For TCAP, in which of the following ways do you plan to (or have already) address asset management requirements?

Not applicable: no TCAP funding - **Skip to question 35**

Not checked	Checked	Number of respondents
0	4	4

Use existing staff

Yes	No	Don't know	Number of respondents
45	3	0	48

Hire new staff

Yes	No	Don't know	Number of respondents
5	29	3	37

Outsource

Yes	No	Don't know	Number of respondents
19	22	1	42

Take other measures - *Describe in box below this table*

Yes	No	Don't know	Number of respondents
5	25	4	34

IF OTHER MEASURES: What are those other measures?

(Data intentionally not reported)

**Appendix II: Results from Survey of State
Housing Finance Agencies**

35. For Section 1602, in which of the following ways do you plan to (or have already) address asset management requirements?

Not applicable: no 1602 funding - **Skip to question 36**

Not checked	Checked	Number of respondents
0	1	1

Use existing staff

Yes	No	Don't know	Number of respondents
46	3	0	49

Hire new staff

Yes	No	Don't know	Number of respondents
6	29	5	40

Outsource

Yes	No	Don't know	Number of respondents
23	20	1	44

Take other measures - *Describe in box below this table*

Yes	No	Don't know	Number of respondents
3	28	5	36

IF OTHER MEASURES: What are those other measures?

(Data intentionally not reported)

Impacts and Outcomes

36. In your opinion, what level of positive impact, if any, do you think the TCAP and/or Section 1602 programs will have on the following in your state?

Health of affordable housing market

Great Impact	Moderate Impact	Slight impact	No impact	Don't know	Number of respondents
33	19	2	0	1	55

Job creation and preservation

Great Impact	Moderate Impact	Slight impact	No impact	Don't know	Number of respondents
20	27	8	0	0	55

Assistance to those most impacted by the recession

Great Impact	Moderate Impact	Slight impact	No impact	Don't know	Number of respondents
19	21	12	0	3	55

Infrastructure investment

Great Impact	Moderate Impact	Slight impact	No impact	Don't know	Number of respondents
13	10	15	7	10	55

Stabilization of state and local government budgets

Great Impact	Moderate Impact	Slight impact	No impact	Don't know	Number of respondents
4	9	14	15	12	54

37. To what extent did your agency's use of the TCAP and/or Section 1602 funds temporarily fill the gap left by a diminished investor demand for low-income housing tax credits and allow projects to continue where developers were unable to proceed due to a lack of investors?

Completely	Mostly	Somewhat	Not at all	Don't know	Number of respondents
27	23	4	0	1	55

Lessons Learned

38. To improve future grants programs, we would like to hear what lessons learned, if any, can be identified from your agency's experiences with the Recovery Act grants.

What made your agency's projects or expenditures successful?

(Data intentionally not reported)

39. What things did your agency do well that might be considered good practices for the future?

(Data intentionally not reported)

40. And what could have been done better by your agency?

(Data intentionally not reported)

41. What things did HUD, Treasury, or others do well that might be considered good practices for the future? *Specify entity name(s) when describing practices.*

(Data intentionally not reported)

42. And what could have been done better by HUD, Treasury, or others (e.g., state government or other organizations)? *Specify entity name(s) when describing practices.*

(Data intentionally not reported)

Complete your questionnaire

43. If you have any final comments on any of the issues in this questionnaire, please provide them below.

(Data intentionally not reported)

44. Who is the person primarily responsible for completing this questionnaire whom we can contact if we need to clarify a response?

Name: (Data intentionally not reported)

Title: (Data intentionally not reported)

Agency/Organization: (Data intentionally not reported)

Email: (Data intentionally not reported)

Phone: (Data intentionally not reported)

45. Are you done with this questionnaire?

Clicking "Yes" below tells GAO that your answers are final. We will not use your answers unless the "Yes" button is checked when you last exit the questionnaire.

Yes	No	Number of respondents
56	0	56

46. Would you like a record of your answers to this questionnaire? If so, click here to view and print a summary of your responses.

Click on the *Save & Exit Questionnaire* button below to exit the survey.

Thank you for completing this questionnaire

Appendix III: Recommendations from Prior GAO Recovery Act Reports with Sections on Housing

States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses, [GAO-09-829](#), July 8, 2009

No recommendations to the Department of Housing and Urban Development (HUD) or the Department of the Treasury (Treasury). All recommendations, such as leveraging Single Audits as an effective oversight tool for Recovery Act programs, were addressed to the Office of Management and Budget or other agencies such as the Department of Transportation.

Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed, [GAO-09-1016](#), September 23, 2009

Recommendation: To enhance HUD's ability to prevent, detect, and correct noncompliance with the use of Recovery Act funds, the Secretary of the Department of Housing and Urban Development should expand the criteria for selecting housing agencies for on-site reviews to include housing agencies with open Single Audit findings that may affect the use of and reporting on Recovery Act funds.

Agency Affected: Department of Housing and Urban Development

Status: Closed—Implemented

Comments: HUD implemented our recommendation. In a letter dated November 20, 2009, HUD told us it had expanded its criteria for selecting housing agencies for on-site reviews to include all housing agencies with open 2007 and 2008 Single Audit findings as of July 7, 2009, relevant to the administration of Recovery Act funds. HUD identified 27 such housing agencies and planned to complete these on-site reviews by February 15, 2010.

One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability, [GAO-10-437](#), March 3, 2010

Recommendation: The Secretary of Housing and Urban Development should instruct housing agencies to discontinue use of the jobs calculator provided by HUD in the first round of recipient reporting for subsequent rounds of reporting to ensure the correct job calculation is used.

Agency Affected: Department of Housing and Urban Development

Status: Closed—Implemented

Comments: HUD implemented our recommendation. HUD provided us with an e-mail dated March 26, 2010, that it had sent to public housing agencies instructing them not to use the jobs-counting calculator originally posted on HUD's Recovery Act website in October 2009. The email also provided a link to the revised jobs-counting calculator on HUD's Web site. HUD provided us with subsequent emails to housing agencies that reminded them of the new jobs-counting calculator.

Recommendation: To help HUD achieve Recovery Act objectives and address challenges with its continued administration of Recovery Act funds, the Secretary of Housing and Urban Development should develop a management plan to determine the adequate level of agency staff needed to administer both the Recovery Act funds and the existing Capital Fund program going forward, including identifying future resource needs and determining whether current resources could be better utilized to administer these funds.

Agency Affected: Department of Housing and Urban Development

Status: Closed—Implemented

Comments: In response to our recommendation, HUD developed a management plan for administration of Recovery Act funds, including the need for an additional 11 FTEs to carry out Recovery Act responsibilities. In July 2010, HUD also provided us with its management plan for the Public Housing Capital Fund program. The plan summarized the key activities HUD undertakes to monitor and facilitate the use of these funds by program area, including rule and policy development, planning, program awards, program management, technical assistance, and reporting. The plan also included the specific activities, tasks, and resources used for each of these existing program areas, identifying approximately 91 existing FTEs in its headquarters and field offices to support these activities. According to HUD's management plan, HUD's current staffing level is sufficient to manage its existing Capital Fund program, but the agency could more efficiently utilize its current resources. As a result, HUD plans to realign current staff to focus on its core missions including Recovery Act responsibilities.

States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability,
[GAO-10-604](#), May 26, 2010

Recommendation: To ensure housing agencies use the correct job calculation, the Secretary of HUD should clearly emphasize to housing agencies that they discontinue use of the outdated jobs calculator provided by HUD in the first round of recipient reporting.

Agency Affected: Department of Housing and Urban Development

Status: Closed—Implemented

Comments: In response to our recommendation, HUD sent an e-mail to housing agencies on June 30, 2010, that explicitly instructed them not to use the outdated jobs-counting calculator, as it was not correctly computing the FTE calculation per updated OMB guidance. This e-mail also included a link to HUD's new online jobs-counting calculator and instructed housing agencies to use this calculator for the July and all future reporting periods.

Recommendation: In order to increase the likelihood that housing finance agencies (HFA) will comply with Treasury's requirements for recapturing funds, the Secretary of the Treasury should define what it considers appropriate actions by HFAs to recapture funds in order to avoid liability when they are unable to collect funds from project owners that do not comply.

Agency Affected: Department of the Treasury

Status: Closed—Implemented

Comments: Treasury agreed with our recommendation and in response to our recommendation, Treasury provided additional guidance to state HFAs to clarify what constitutes appropriate actions by HFAs to recapture funds in order to avoid liability in the event of project owner noncompliance. Specifically, in August 2010, the agency developed and issued a Recapture Guidance for Recovery Act projects that receive Section 1602 Program funds that defines a recapture event, specifies the amount of funds owed in the event of recapture, describes a housing finance agency's obligation and responsibilities in avoiding project owner noncompliance, sets forth the kinds of recapture actions an HFA may take in the event of noncompliance, and directs HFAs on how to report noncompliance.

Matter for Congressional Consideration: To provide HFAs with greater tools for enforcing program compliance, in the event the Section 1602

Program is extended for another year, Congress may want to consider directing Treasury to permit HFAs the flexibility to disburse Section 1602 Program funds as interest-bearing loans that allow for repayment.

Agency Affected: Department of the Treasury

Status: Open

Comments: We continue to believe that Congress should consider directing Treasury to permit HFAs the flexibility to disburse Section 1602 Program funds as interest-bearing loans that allow for repayment.

Recommendation: Treasury should expeditiously provide HFAs with guidance on monitoring project spending and develop plans for dealing with the possibility that projects could miss the spending deadline and face further project interruptions.

Agency Affected: Department of the Treasury

Status: Closed—Implemented

Comments: Treasury officials told us that after they provided additional guidance, every state HFA and the respective property owners complied with the 30 percent spending rule by the end of calendar year 2010. We concluded that Treasury and the state HFAs have addressed the intent of this recommendation.

Opportunities Exist to Increase the Public's Understanding of Recipient Reporting on HUD Programs, [GAO-10-966](#), September 30, 2010

Recommendation: To increase public understanding of how Recovery Act funds are used and concerns over the cost of reporting, the Secretary of the Department of Housing and Urban Development, in consultation with OMB, should provide clarification of Office of Management and Budget (OMB) FederalReporting.gov guidance (1) so that it better conveys the Recovery Act requirement for recipients to report key information for the specific projects and activities funded, and (2) so that, for each program, it defines key terms (project, primary place of performance, and subrecipient primary place of performance).

Agency Affected: Department of Housing and Urban Development

Status: Open

Comments: When we confirm what actions the agency has taken in response to this recommendation, we will provide updated information.

Recommendation: To increase public understanding of how Recovery Act funds are used and concerns over the cost of reporting, the Secretary of the Department of Housing and Urban Development, in consultation with OMB, should consider options for more effectively reviewing the content of narrative descriptions submitted by recipients into FederalReporting.gov in a targeted and cost-effective manner to help ensure that recipients have entered clear and complete information about the funded projects and activities.

Agency Affected: Department of Housing and Urban Development

Status: Open

Comments: When we confirm what actions the agency has taken in response to this recommendation, we will provide updated information.

Recommendation: To increase public understanding of how Recovery Act funds are used and concerns over the cost of reporting, the Secretary of the Department of Housing and Urban Development, in consultation with OMB, should encourage recipients to leverage other sources of existing information, such as by providing links to agency or recipient websites, to further enhance the transparency of the information they enter in FederalReporting.gov.

Agency Affected: Department of Housing and Urban Development

Status: Open

Comments: When we confirm what actions the agency has taken in response to this recommendation, we will provide updated information.

Appendix IV: Status of Prior Open Recovery Act Recommendations and Matters for Congressional Consideration

In this appendix, we update the status of agencies' efforts to implement the seven recommendations that remain open and are not implemented, five newly implemented recommendations, and four newly closed recommendations that resulted from our Recovery Act mandate reports.¹ Recommendations that were listed as implemented or closed in a prior report are not repeated here. We also address the status of our matters for congressional consideration.

Table 1: Status of Prior Open Recovery Act Recommendations and Matters for Congressional Consideration

Department of Energy – Weatherization Assistance Program	
Newly implemented recommendation	Agency action
1. Given the concerns we have raised about whether weatherization program requirements were being met, we recommended that the Department of Energy (DOE), in conjunction with both state and local weatherization agencies, develop and clarify weatherization program guidance that sets time frames for development and implementation of state monitoring programs. ^a	1. DOE generally concurred with this recommendation. On December 1, 2011, DOE issued guidance that establishes DOE's monitoring expectations for state and local weatherization agencies. This guidance requires states to submit a description of their monitoring plan in their annual State Plan for the program. The guidance also sets time frames for implementation such as monitoring visits and reporting requirements.
Newly closed recommendations	Agency actions
1. Given the concerns we have raised about whether weatherization program requirements were being met, we recommended that Department of Energy (DOE), in conjunction with both state and local weatherization agencies, develop and clarify weatherization program guidance that accelerates current DOE efforts to develop national standards for weatherization training, certification, and accreditation, efforts that are currently expected to take 2 years to complete. ^a	1. Although DOE generally concurred with this recommendation, DOE does not appear to have accelerated its efforts to complete national standards, which had been expected to take about 2 years and are just now being completed, about two years later. DOE reports that it has completed certain milestones toward developing national standards for weatherization, training, certification, and accreditation. For example, DOE reports that it has completed analysis of the knowledge, skills and abilities required to perform four specific weatherization jobs (residential energy auditor, retrofit installer, crew leader, and quality control inspector). Based on this analysis, DOE states that its accreditation of energy efficiency training programs is now operational. Other components of this effort, such as the finalization of the national certification program, are not expected to be finalized until September 2012, according to DOE officials. Completion of other components of this program is not expected until 2013. We are closing this recommendation as not implemented because DOE's actions have not fully addressed our concerns.

¹For a list of our Recovery Act-related products, see <http://www.gao.gov/recovery>.

Appendix IV: Status of Prior Open Recovery Act Recommendations and Matters for Congressional Consideration

2. Given that state and local agencies have felt pressure to meet a large increase in production targets while effectively meeting program requirements and have experienced some confusion over production targets, funding obligations, and associated consequences for not meeting production and funding goals, we recommended that DOE clarify its production targets, funding deadlines, and associated consequences while providing a balanced emphasis on the importance of meeting program requirements.^a

2. Although DOE generally concurred with this recommendation, DOE did not provide evidence that it had clarified its production targets, funding deadlines, and associated consequences while providing a balanced emphasis on the importance of meeting weatherization program objectives. In January 2012, however, DOE allowed states the opportunity to extend their performance period deadline, which was originally set for March 31, 2012. We are closing this recommendation as not implemented because (1) a majority of grantees must spend their Recovery Act funds by fall 2012, (2) DOE's actions have not fully addressed our concerns, and (3) DOE officials did not indicate that they would take any additional actions to address the recommendation.

Open recommendation

1. Given the concerns we have raised about whether weatherization program requirements were being met, we recommended that the DOE, in conjunction with both state and local weatherization agencies, develop and clarify weatherization program guidance that revisits the various methodologies used in determining the weatherization work that should be performed based on the consideration of cost-effectiveness and develops standard methodologies that ensure that priority is given to the most cost-effective weatherization work. To validate any methodologies created, this effort should include the development of standards for accurately measuring the long-term energy savings resulting from weatherization work conducted.^a

Agency action

1. DOE generally concurred with this recommendation and states that it will update guidance and standard methodologies weatherization work based on findings from the national evaluation of the Weatherization Program under the Recovery Act, currently being conducted by Oak Ridge National Laboratory. They expect some results from this study to be available in September 2012. According to DOE officials, the Oak Ridge National Laboratory report will summarize the cost effectiveness and long-term energy savings resulting from weatherization work by housing type and DOE will use this report to update guidance and promote methodologies that ensure that all installed weatherization measures are prioritized based on their long-term cost effectiveness.

Department of Energy – Energy Efficiency and Conservation Block Grant Program

Newly closed recommendation

1. To better ensure that Energy Efficiency and Conservation Block Grant (EECBG) funds are used to meet Recovery Act and program goals, we recommended that DOE explore a means to capture information on the monitoring processes of all recipients to make certain that recipients have effective monitoring practices.^b

Agency action

1. DOE generally concurred with this recommendation and added additional questions to the on-site monitoring checklists related to subrecipient monitoring to help ensure that subrecipients are in compliance with the terms and conditions of the award. These changes will help improve DOE's oversight of recipients, especially larger recipients, which are more likely to be visited by DOE project officers. However, not all recipients receive on-site visits. As noted previously, we continue to believe that the program could be more effectively monitored if DOE captured information on the monitoring practices of all recipients. We are closing the recommendation as not implemented because (1) a majority of grantees' must spend their Recovery Act funds by fall 2012, (2) DOE's actions have not fully addressed our concerns, and (3) DOE officials did not indicate that they would take any additional actions to address the recommendation.

Department of Health and Human Services: Office of Head Start

Open recommendation

1. To help ensure that grantees report consistent enrollment figures, we recommended that the Director of the Department of Health and Human Services's (HHS) Office of Head Start (OHS) better communicate a consistent definition of "enrollment" to grantees for monthly and yearly reporting and begin verifying grantees' definition of "enrollment" during triennial reviews.^c

Agency action

1. OHS issued informal guidance on its website clarifying monthly reporting requirements to make them more consistent with annual enrollment reporting. This guidance directs grantees to include in enrollment counts all children and pregnant mothers who are enrolled and have received a specified minimum of services. According to officials, OHS is considering further regulatory clarification.

Appendix IV: Status of Prior Open Recovery Act Recommendations and Matters for Congressional Consideration

Department of Housing and Urban Development

Newly implemented recommendation

1. Because the absence of third-party investors reduces the amount of overall scrutiny Tax Credit Assistance Program (TCAP) projects would receive and the Department of Housing and Urban Development (HUD) is currently not aware of how many projects lacked third-party investors, we recommended that HUD develop a risk-based plan for its role in overseeing TCAP projects that recognizes the level of oversight provided by others.^d

Agency action

1. In March 2012, HUD took steps to address this recommendation. Specifically, HUD staff developed a risk-based plan for monitoring TCAP projects with little third-party investment. To develop this risk-based plan, HUD requested that housing finance agencies (HFA) report certain data about their projects to HUD, including the dollar value of Low Income Housing Tax Credit (LIHTC) equity and funds provided by public and private sources. According to HUD, HFAs report this data after the units are completed. As part of its plan, HUD states that it will review these data on completed projects on a quarterly basis and review these data to identify TCAP projects that have less than \$10,000 in LIHTC investment and no other federal funds. For grantees with projects meeting these criteria—according to HUD, two HFAs had such projects as of March 2012—HUD will review the HFA’s monitoring plans and contact them to discuss specific oversight and safeguards to ensure that their projects maintain their compliance with Section 42 of the Internal Revenue Code and TCAP requirements. HUD’s plan states that it also will require the grantees to submit any documentation or plans of continued oversight of these projects. As additional TCAP projects become complete in the coming years, consistently executing this specialized monitoring approach will be important for HUD.

Office of Management and Budget (OMB)

Newly implemented recommendation

1. We recommended that OMB provide timelier reporting on internal controls for Recovery Act programs for 2010 and beyond.^e

Agency action

1. To address this recommendation, OMB commenced two voluntary Single Audit Internal Control Projects (projects) in August 2010 and August 2011 for states that received Recovery Act funds in fiscal year 2010 and 2011, respectively. The projects’ goals were to achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action could be taken more quickly. Specifically, the projects encouraged participating auditors of states that received Recovery Act funds to identify and communicate deficiencies in internal control to management 3 months sooner than the 9-month time frame required under the Single Audit Act so that corrective action could be taken sooner. OMB initiated the projects because it lacked the authority to require that state auditors issue Single Audit reports earlier than the 9 months required under statute since the Single Audit Act would need to be amended to require state auditors to report earlier than the 9 months presently required. Given the legal constraints, OMB initiated voluntary projects to encourage earlier reporting of internal control deficiencies identified in Single Audits.

Each project had participation from 10 or more states. Auditors identified hundreds of internal control deficiencies and issued audit reports at least 3 months earlier than required under statute. The internal control reports provided program managers with more timely reporting on internal control deficiencies identified in the Single Audit so that they could develop corrective actions. As of March 9, 2012, the Department of the Treasury has paid out \$247.4 billion, approximately 86.5 percent of Recovery Act funds for use in states and localities. Thus, most of the Recovery Act funds have been expended.

**Appendix IV: Status of Prior Open Recovery
Act Recommendations and Matters for
Congressional Consideration**

Open recommendation	Agency action
<p>1. We recommended that OMB issue Single Audit guidance in a timely manner so that auditors can efficiently plan their audit work;^e and</p> <p>2. We recommended that OMB issue the OMB Circular No. A-133 Compliance Supplement no later than March 31 of each year.^f</p>	<p>1. 2. With regard to issuing Single Audit Guidance in a timely manner, and specifically the OMB Circular A-133 Compliance Supplement, OMB officials have stated that they intended to issue the fiscal year 2012 compliance supplement by March 31, 2012. The team of federal officials who assisted in the development of the OMB Circular A-133 Compliance Supplement met in August 2011, developed a timeline for issuing the 2012 Circular A-133 Compliance Supplement by March 31, 2012, and began working with the federal agencies and others involved in drafting the supplement. In January 2012, OMB provided to the American Institute of Certified Public Accountants (AICPA) a draft of the 2012 Compliance Supplement which the AICPA published on its website. However, OMB did not issue the 2012 Compliance Supplement by the scheduled due date of March 31, 2012, and as of May 30, 2012, it had yet to be issued. We will continue to monitor OMB's efforts in this area.</p>
<p>3. We recommended that OMB shorten the timeframes required for issuing management decisions by federal agencies to grant recipients.^f</p>	<p>3. OMB officials previously acknowledged that providing timely management decisions has been a challenge. We previously reported that while OMB officials have identified alternatives for helping to ensure that federal awarding agencies provide their management decisions on the corrective action plans in a timely manner, including possibly shortening the time frames required for federal agencies to provide their management decisions, they have yet to decide on the course of action that they will pursue to implement this recommendation. In 2011, most of the federal awarding agencies that had grantees with audit deficiencies, identified as a result of the Single Audit Internal Control Project, did not submit all of their management decisions for corrective actions by the specified due date. We will continue to monitor OMB's efforts in this area</p> <p>In fiscal year 2011, most of the federal awarding agencies that had grantees with audit deficiencies, identified as a result of the Single Audit Internal Control Project, did not submit all of their management decisions for corrective actions by the specified due date. We will continue to monitor OMB's efforts in this area.</p>
<p>4. We recommended that OMB evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act.^g</p>	<p>On February 28, 2012, OMB published an advance notice of proposed guidance, which proposed for public comment a number of reforms relating to concentrating audit resolution and oversight resources on higher dollar, higher risk grant awards.^h These reforms, if implemented, would be integrated into the Single Audit Act's implementing guidance, OMB Circular No. A-133 on Audits of States, Local Governments, and Non-Profit Organizations and the guidance in OMB Circular A-50 on Single Audit Act follow-up. The reforms are intended to revise the requirements of the Single Audit framework such that larger expenditures of federally funded grants would be required to undergo increased levels of audit oversight as compared with smaller expenditures of federally funded grants. The proposed guidance is a result of various OMB working groups, at least one of which was initiated as a result of the President's February 28, 2011, memorandum entitled Administrative Flexibility, Lower Costs, and Better Results for State, Local, and Tribal Governments. To develop their suggestions for improving Single Audit requirements, the working groups obtained input from federal, state, local, and Native</p>

Appendix IV: Status of Prior Open Recovery Act Recommendations and Matters for Congressional Consideration

American tribal officials involved in varying capacities with federal grants and provide a report of their findings to OMB. OMB considered the report of the working groups and incorporated information from the working groups into their proposed reforms. OMB officials stated that they estimate that the reforms will be finalized by the end of fiscal year 2013. We will continue to monitor OMB's efforts towards implementing this recommendation.

5. We recommended that OMB explore alternatives to help ensure that federal awarding agencies provide management decisions in a timely manner.¹

In OMB's Advance Notice of Proposed Guidance, OMB provided reforms for strengthening the guidance on audit follow-up for federal awarding agencies. We have previously reported that an essential aspect of audit follow-up entails federal awarding agencies issuing timely management decisions about the corrective actions that grantees plan to take to correct deficiencies identified in the Single Audit. OMB's working group, initiated as a result of the President's February 28, 2011, memorandum entitled Administrative Flexibility, Lower Costs, and Better Results for State, Local, and Tribal Governments, considered and reported on various measures relating to improvements in audit follow-up. After considering the working group's report, OMB included some of these measures in the proposed reforms, which among other things, would require agencies to designate a senior accountable agency official to oversee the audit resolution process, encourage agencies to engage in cooperative audit resolution with recipients, take a proactive approach to resolving weaknesses and deficiencies, and digitize Single Audit reports into a searchable database to support the analysis of audit results by federal agencies. We believe that if implemented, these reforms could assist agency officials in providing timelier management decisions. We will continue to monitor OMB's efforts towards implementing this recommendation.

Department of Transportation

Newly implemented recommendation

Agency action

1. To ensure that Congress and the public have accurate information on the extent to which the goals of the Recovery Act are being met, we recommended that the Secretary of Transportation direct the Department of Transportation's (DOT) Federal Highway Administration (FHWA) to develop additional rules and data checks in the Recovery Act Data System, so that these data will accurately identify contract milestones such as award dates and amounts, and provide guidance to states to revise existing contract data.¹

1. DOT implemented measures to improve the data in the Recovery Act Data System, including incorporating additional data checks and enhancing the system by taking steps to minimize redundant data fields and requiring monthly updates by funding recipients. In addition, DOT also issued guidance to improve the quality of data entered into the system.

2. We recommended that the Secretary of Transportation direct FHWA to make publicly available—within 60 days after the September 30, 2010, obligation deadline—an accurate accounting and analysis of the extent to which states directed funds to economically distressed areas, including corrections to the data initially provided to Congress in December 2009.¹

2. DOT completed a comprehensive review of projects in economically distressed areas, and it posted an accounting of the extent to which states directed Recovery Act transportation funds to projects located in economically distressed areas on its website. We requested documentation of the underlying data from DOT to verify this accounting, which DOT provided. This underlying data showed that around 52 percent of Recovery Act transportation funding was directed to economically distressed areas—a decrease of about 5 percent over the 57 percent figure that DOT provided to Congress in December 2009.

Appendix IV: Status of Prior Open Recovery Act Recommendations and Matters for Congressional Consideration

Newly closed recommendation

1. To better understand the impact of Recovery Act investments in transportation, we believe that the Secretary of Transportation should ensure that the results of these projects are assessed and a determination is made about whether these investments produced long-term benefits. Specifically, in the near term, we recommended that the Secretary direct FHWA and Federal Transit Authority to determine the types of data and performance measures they would need to assess the impact of the Recovery Act and the specific authority they may need to collect data and report on these measures.^k

Agency action

1. In its response, DOT concurred in part and noted that it expected to be able to report on Recovery Act outputs, such as the miles of road paved, bridges repaired, and transit vehicles purchased, but not on outcomes, such as reductions in travel time, nor did it commit to assessing whether transportation investments produced long-term benefits. DOT further explained that limitations in its data systems, coupled with separating Recovery Act funds from overall federal spending in transportation, would make assessing the benefits of Recovery Act funds difficult. DOT officials noted that, to prepare for possible Congressional action establishing a more performance-based approach to the transportation program as a whole, DOT has initiated activities such as training staff, promoting best practices, and partnering with states. However, DOT has not determined the types of data and performance measures needed to assess impacts, nor has it committed to assessing the long-term benefits of Recovery Act investments in transportation infrastructure. We are therefore closing this recommendation as not implemented.

Matters for Congressional Consideration – Office of Management of Budget

Matter

Status

1. To the extent that appropriate adjustments to the Single Audit process are not accomplished under the current Single Audit structure, Congress should consider amending the Single Audit Act or enacting new legislation that provides for more timely internal control reporting, as well as audit coverage for smaller Recovery Act programs with high risk.^l

1. Congress has not enacted any such legislation.

2. To the extent that additional coverage is needed to achieve accountability over Recovery Act programs, Congress should consider mechanisms to provide additional resources to support those charged with carrying out the Single Audit Act and related audits.^l

2. Congress has not enacted any such legislation.

Source: GAO analysis.

^aRecovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability, [GAO-10-604](#) (Washington, D.C.: May 26, 2010), 246.

^bRecovery Act: Energy Efficiency and Conservation Block Grant Recipients Face Challenges Meeting Legislative and Program Goals and Requirements, [GAO-11-379](#) (Washington, D.C.: Apr. 7, 2011), 36.

^cRecovery Act: Head Start Grantees Expand Services, but More Consistent Communication Could Improve Accountability and Decisions about Spending, [GAO-11-166](#) (Washington, D.C.: Dec. 15, 2010), 39.

^dRecovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds, [GAO-10-999](#) (Washington, D.C.: Sept. 20, 2010), 189.

^e[GAO-10-604](#), 247.

^f[GAO-10-999](#), 194.

^gRecovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses, [GAO-09-829](#) (Washington, D.C.: July 8, 2009), 127.

^h77 Fed. Reg. 11778 (Feb, 28, 2012).

ⁱ[GAO-10-604](#), 247-248.

^j[GAO-10-999](#), 187-188.

^k[GAO-10-604](#), 241-242.

^l[GAO-09-829](#), 128.

Appendix V: Comments from the Department of Housing and Urban Development



U. S. Department of Housing and Urban Development
Washington, D.C. 20410-0003

OFFICE OF DEPARTMENTAL OPERATIONS
AND COORDINATION

MAY 22 2012

Mr. Mathew Sciré
Director, Financial Markets and
Community Investment
U.S. Government Accountability Office
Washington, DC 20548

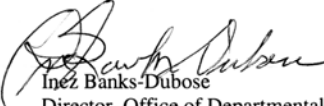
Dear Mr. Sciré:

Thank you for the opportunity to comment on the Government Accountability Office (GAO) draft report entitled "*Recovery Act: Housing Programs Met Spending Milestones, but Asset Management Capabilities Need Evaluation (GAO-12-634)*."

Our edits to the draft report are enclosed. General Comments were provided by individual program offices (CPD, HO and PIH) that identify areas in the draft report which HUD provided clarifying language and/or suggested revisions.

HUD would like to express its appreciation for the opportunity to participate in GAO's Recovery Act review. HUD recognizes the professional and courteous manner in which GAO staff worked with HUD staff to obtain the information and data needed to complete its review and issue its draft report.

Sincerely,


Inez Banks-Dubose
Director, Office of Departmental
Operations and Coordination

Enclosure

Appendix VI: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON

May 23, 2012

Paul Schmidt
Assistant Director
United States Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Schmidt,

Thank you for the opportunity to review and respond to your draft Report to the Congress (Report), entitled *Recovery Act Housing Programs Met Spending Milestones, but Asset Management Capabilities Need Evaluation*, dated May 2012. The Office of the Fiscal Assistant Secretary appreciates the Government Accountability Office's (GAO) review of the Department of the Treasury's (Treasury) role in the provision of payments in lieu of tax credits for low-income housing projects under Section 1602 the American Recovery and Reinvestment Act of 2009. This letter provides our official response to the Report. We previously provided comments and technical corrections to GAO staff.

We strongly support GAO's emphasis on promoting the success of the Section 1602 Program while limiting exposure of taxpayer funds. Indeed, Treasury and the state housing finance agencies (HFAs) have taken numerous steps to maintain the long-term viability and compliance of Section 1602 projects. State HFAs assess Section 1602 projects in two stages. First, the HFAs assess the long-term viability of Section 1602 projects from the time before an HFA makes an award until project completion. This assessment includes, among other things, an analysis and approval of the financial aspects of the project, covering the adequacy of construction financing, operating budgets, market viability, and reserves for replacement.

Second, for the duration of the 15-year recapture period, the HFAs confirm that the funded project is in continuous compliance with program eligibility criteria, as set forth in Internal Revenue Code (IRC) Section 42. Such criteria include whether tenants continue to qualify as low-income, whether the housing units remain suitable for occupancy, and whether appropriate rents continue to be charged. Under Section 1602, state HFAs require recoupment of any award should the awardee fail to meet eligibility criteria during this recapture period.

As your Report notes, Treasury has established an annual reporting requirement, whereby it is able to assess the HFAs' capacity to confirm Section 1602 projects' continued compliance with IRC Section 42. We believe that Treasury and the HFAs' current approach to evaluating continued compliance provides reasonable assurance that the funded projects remain habitable and in compliance with IRC Section 42. It is this continued monitoring of project eligibility and the threat of recoupment of funds, in addition to project owners' respective interests in

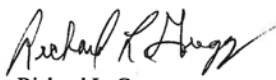
maintaining the financial viability of their own investments, which drive the projects' long-term success and statutory compliance.

GAO's draft Report includes one recommendation – that, during the recapture period, "Treasury should take additional steps to assess HFAs' capacity to undertake asset management, taking into account the shortage of investor equity in projects and specifying the information needed for such evaluations." GAO considers "asset management" in this context to constitute activity related to monitoring the financial viability of projects throughout the 15-year recapture period following project completion. We support GAO's desire for HFAs to be able to provide additional assurances of long-term project viability. At the same time, however, we believe additional consideration is necessary regarding the issue of whether there is legal and contractual authority for the HFAs to undertake such financial "asset management" activities.

It is our view that the government's interests are well protected by the role the state HFAs play in tracking compliance of the Section 1602 projects with the requirements of IRC Section 42. Nonetheless, we will encourage state HFAs to consider taking additional steps, consistent with their statutory and contractual authorities, to promote and strengthen the Section 1602 Program. We will also distribute a copy of GAO's final Report to all of the state HFAs.

Thank you again for the opportunity to review the draft Report. We value the role of strong oversight and appreciate GAO's important work over the course of the audit. We are providing under separate cover additional comments and technical corrections to the draft Report. We look forward to working with you in the future.

Sincerely,



Richard L. Gregg
Fiscal Assistant Secretary

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

Mathew J. Sciré, (202) 512-8678 or sciremj@gao.gov

Staff Acknowledgments

In addition to the individual named above, other key contributors to this report were Paul J. Schmidt, Assistant Director; Sonja J. Bensen; Richard D. Brown; Emily R. Chalmers; William R. Chatlos; Andrew E. Finkel; Ronald Y. Ito; Yvonne D. Jones; Camille A. Keith; Kimberly A. McGatlin; John T. McGrail; Marc W. Molino; Carol L. Patey; Carl M. Ramirez; Marylynn Sergent; Jonathan R. Stehle; and James J. Ungvarsky.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#). Subscribe to our [RSS Feeds](#) or [E-mail Updates](#). Listen to our [Podcasts](#). Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

