United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, October 17, 2007

PROJECT-BASED RENTAL ASSISTANCE

HUD Should Streamline Its Processes to Ensure Timely Housing Assistance Payments

Statement of David G. Wood, Director
Financial Markets and Community Investment

Accountability * Integrity * Reliability

October 2007

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GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-08-199T, a testimony to the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The Department of Housing and Urban Development (HUD) provides subsidies, known as housing assistance payments, under contracts with privately owned, multifamily projects so that they are affordable to low-income households. Project owners have expressed concern that HUD has chronically made late housing assistance payments in recent years, potentially compromising owners' ability to pay operating expenses, make mortgage payments, or set aside funds for repairs. This testimony, based primarily on a report issued in 2005, discusses the timeliness of HUD's monthly housing assistance payments, the factors that affected payment timeliness, and the effects of delayed payments on project owners.

What GAO Recommends

In the 2005 report discussed in this testimony, GAO made recommendations to the Secretary of HUD to improve the timeliness of housing assistance payments and mitigate the effects of delayed payments. Specifically, GAO recommended that HUD streamline and automate the contract renewal process, better estimate and monitor contract funding levels, and notify owners about late payments.

HUD agreed with our conclusions and recommendations but has not fully implemented them.

To view the full product, including the scope and methodology, click on GAO-08-199T. For more information, contact David G. Wood at (202) 512-8678 or woodd@gao.gov.

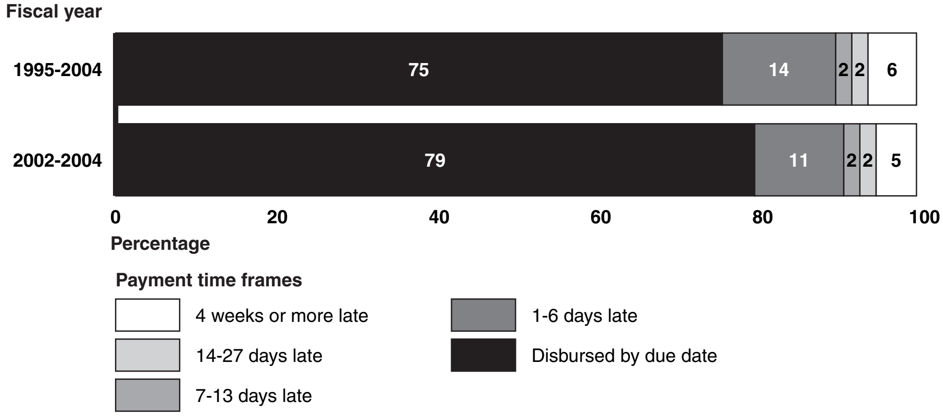
What GAO Found

From fiscal years 1995 through 2004, HUD disbursed three-fourths of its monthly housing assistance payments on time, but thousands of payments were late each year, affecting many property owners. Over the 10-year period, 8 percent of payments were delayed by 2 weeks or more. Payments were somewhat more likely to be timely in more recent years (see figure).

The process for renewing HUD's subsidy contracts with owners can affect the timeliness of housing assistance payments, according to many owners, HUD officials, and contract administrators that HUD hires to work with owners. HUD's renewal process is largely a manual, hard-copy paper process that requires multiple staff to complete. Problems with this cumbersome, paper-intensive process may delay contract renewals and cause late payments. Also, a lack of systematic internal processes for HUD staff to better estimate the amounts that HUD needed to obligate to contracts each year and monitor contract funding levels on an ongoing basis can contribute to delays in housing assistance payments.

Although HUD allows owners to borrow from reserve accounts to lessen the effect of delayed housing assistance payments, 3 of 16 project owners told GAO that they had to make late payments on their mortgages or other bills—such as utilities, telephone service, or pest control—as a result of HUD's payment delays. Owners who are heavily reliant on HUD's subsidy to operate their properties are likely to be more severely affected by payment delays than other, more financially independent, owners. Owners reported receiving no warning from HUD when payments would be delayed, and several told GAO that such notification would allow them to mitigate a delay. Nonetheless, project owners, industry group officials, and HUD officials generally agreed that late housing assistance payments by themselves would be unlikely to cause an owner to leave HUD's housing assistance programs, because such a decision is generally driven primarily by local market factors.

Timeliness of Housing Assistance Payments (Fiscal Years 1995-2004 versus 2002-2004)



Source: GAO analysis of HUD data.

Note: Percentages do not add to 100 percent due to rounding.

Madam Chairwoman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss the timeliness of subsidies paid by the Department of Housing and Urban Development (HUD) to owners of multifamily properties. Under contracts with HUD, project owners provide affordable rental housing to approximately 1.6 million low-income households. Owners rely on these subsidies from HUD, often to a great extent, to pay for operating expenses, such as staff salaries and maintenance, as well as to make their monthly mortgage payments and set aside funds for contingencies and major repairs. Although HUD's subsidy payments to owners are not subject to a statutory or regulatory standard for timeliness, HUD's goal, with some exceptions, is to provide the payments by the first business day of the month.

My statement today is based primarily on our 2005 report concerning the timeliness of HUD's subsidy payments, along with relevant portions of our 2007 report on HUD's efforts to encourage project owners' continued participation in the subsidy programs.[1] Specifically, my statement discusses (1) the extent to which HUD made monthly housing assistance payments in a timely manner during the 10-year period from 1995 through 2004, (2) the factors that affected the timeliness of those payments, and (3) the effects of payment delays on project owners and their willingness to continue providing affordable housing.

In preparing the 2005 report, we analyzed trends in HUD's monthly payment data to determine whether payment timeliness had changed over time and whether there were differences in payment timeliness depending upon the type of contract administrator (i.e., whether HUD staff or contractors processed monthly payment vouchers). To determine the factors that affect the timeliness of housing assistance payments, we analyzed the portion of HUD's monthly payment data (generally, payments made from fiscal years 2002 through 2004) that captured the reasons particular payments were delayed, and supplemented our analyses by interviewing HUD officials from headquarters and eight field offices,

[1]GAO, *Project-Based Rental Assistance: HUD Should Streamline Its Processes to Ensure Timely Housing Assistance Payments*, GAO-06-57 (Washington D.C.: Nov. 15, 2005) and GAO, *Project-Based Rental Assistance: HUD Should Update Its Policies and Procedures to Keep Pace With the Changing Housing Market*, GAO-07-290, (Washington, D.C.: April 11, 2007).

contract administrators, project owners, and industry group officials. To assess the effects of payment delays on project owners and their willingness to continue providing affordable housing, we compared available HUD data on projects that opted out of HUD's programs with monthly payment timeliness data to determine whether these projects experienced more payment delays than projects that were currently receiving assistance from HUD at the time of our review. We also interviewed project owners and contract administrators at HUD field office locations we visited, and we met with officials from eight industry associations representing property owners. In preparing the 2007 report, among other things we conducted standardized interviews with both for-profit and nonprofit owners of subsidized properties, housing industry organizations, state housing finance agencies, and other stakeholders in five localities. Collectively, we conducted this work between October 2004 and April 2007 in Baltimore, Maryland; Boston, Massachusetts; Chicago, Illinois; Columbus, Ohio; Des Moines, Iowa; Houston, Texas; Kansas City, Kansas; Kansas City, Missouri; Los Angeles, California; New York, New York; Manchester, New Hampshire; Seattle, Washington; and Washington, D.C. in accordance with generally accepted government auditing standards.

In Brief

Most of HUD's housing assistance payments were timely—HUD disbursed by the due date 75 percent of the 3.2 million monthly payments for fiscal years 1995 through 2004. However, 25 percent of its payments were late, and 8 percent (averaging about 25,000 payments per year) were significantly late—that is, they were delayed by 2 weeks or more, a time frame in which some owners indicated the late payment could affect their ability to pay their mortgages on time. HUD made payments on an average of about 26,000 contracts per month. About one-third of these contracts experienced at least one payment per year that was late by 2 weeks or more. The timeliness of HUD's monthly housing assistance payments varied over the 10-year period, decreasing in 1998 shortly after HUD began implementing the Multifamily Assisted Housing Reform and Affordability Act of 1997, which contained new contract renewal and processing requirements. Timeliness gradually improved after 2001, after HUD began using performance-based contract administrators to administer a majority of the contracts. In the 3-year period of fiscal years 2002 through 2004, HUD disbursed 79 percent of payments by the due date, but 7 percent of these payments were significantly late.

The primary factors affecting the timeliness of HUD's housing assistance payments were the process of renewing owners' contracts; internal HUD processes for funding contracts and monitoring how quickly each contract uses its funding; and untimely, inaccurate, or incomplete submissions of monthly vouchers by project owners. More specifically:

- Monthly housing assistance payments were more likely to be late when owners' contracts to participate in HUD's programs were not renewed by their expiration dates. For example, our analysis of available HUD data on the reasons that payments were 2 weeks or more late from fiscal years 2002 through 2004 found that the most common reason was the payment being withheld pending contract renewal. HUD officials and contract administrators said that delays on HUD's part—stemming from a renewal process HUD officials agreed could be cumbersome and paper intensive—could cause (or exacerbate) late payments that resulted from the lack of a renewed contract. The timeliness, quality, and completeness of owners' renewal submissions also could cause delays in contract renewals, particularly when an owner's initial contract expired and it had to be renewed for the first time.

- HUD did not know exactly how much it would pay owners each year because the amounts varied with tenant turnover, so HUD estimated how much funding it would need to obligate, or commit, to each contract and how quickly the contract would use these funds. However, HUD often underestimated how much funding a contract would need in a given year, and the agency lacked consistent processes for field office staff to monitor contracts and allocate and obligate additional funds when contracts used funds faster than anticipated. Failure to allocate and obligate additional funds to contracts promptly could cause payments to be late.

- According to HUD officials and contract administrators, owners' untimely, inaccurate, or incomplete monthly voucher submissions also might cause late housing assistance payments. However, the contract administrators with whom we spoke generally indicated they were able to correct errors in owners' submissions ahead of time to ensure timely payments.

According to project owners with whom we met, delays in HUD's housing assistance payments had negative financial effects and may have compromised owners' ability to operate their properties, but the delays were unlikely to cause owners to opt out of HUD's programs or stop providing affordable housing. Some owners said they incurred late fees on their mortgages and other bills or experienced interruptions in services at their properties because of delayed payments. Effects of delayed payments could vary in severity, depending on the financial condition of the property owner and the extent to which the operation of the property was dependent on HUD's subsidy. Further, owners said that HUD did not notify them of when or for how long payments would be delayed, which prevented them from taking steps to mitigate the effects of late payments. The owners and industry group officials generally agreed that the negative effects of delayed payments alone would not cause owners to opt out of HUD's programs, although they could be a contributing factor.

We made several recommendations to HUD designed to improve the timeliness of these subsidy payments, with which the agency concurred. My statement incorporates information on the status of HUD's actions in response to these recommendations.

Background

HUD operates a variety of project-based rental assistance programs through which it pays subsidies, or housing assistance payments, to private owners of multifamily housing that help make this housing affordable for lower-income households. HUD entered into long-term contracts, often 20 to 40 years, committing it and the property owners to providing long-term affordable housing. Under these contracts, tenants generally pay 30 percent of their adjusted income toward their rents, with the HUD subsidy equal to the difference between what the tenants pay and the contract rents that HUD and the owners negotiate in advance.

In the mid- to late-1990s, Congress and HUD made several important changes to the duration of housing assistance contract terms (and the budgeting for them), the contract rents owners would receive relative to local market conditions, and the manner in which HUD administers its ongoing project-based housing assistance contracts. Specifically:

- Because of budgetary constraints, HUD shortened the terms of subsequent renewals, after the initial 20- to 40-year terms began expiring in the mid-1990s. HUD reduced the contract terms to 1 or 5 years, with the funding renewed annually subject to appropriations.[2]

- Second, in 1997, Congress passed the Multifamily Assisted Housing Reform and Affordability Act (MAHRA), as amended, in an effort to ensure that the rents HUD subsidizes remained comparable with

[2]Contracts with terms for greater than 1 year include language noting that they are "subject to annual appropriations," meaning that the terms apply only if HUD gets an appropriation sufficient to fund the contracts beyond the first year.

market rents.[3] Over the course of the initial longer-term agreements with owners, contract rents in some cases came to substantially exceed local market rents. MAHRA required an assessment of each project when it neared the end of its original contract term to determine whether the contract rents were comparable to current market rents and whether the project had sufficient cash flow to meet its debt as well as daily and long-term operating expenses. If the expiring contract rents were below market rates, HUD could increase the contract rents to market rates upon renewal (i.e., “mark up to market”). Conversely, HUD could decrease the contract rents upon renewal if they were higher than market rents (i.e., “mark down to market”).[4]

- Finally, in 1999, because of staffing constraints (primarily in HUD’s field offices) and the workload involved in renewing the increasing numbers of rental assistance contracts reaching the end of their initial terms, HUD began an initiative to contract out the oversight and administration of most of its project-based contracts. The entities that HUD hired—typically public housing authorities or state housing finance agencies—are responsible for conducting on-site management reviews of assisted properties; adjusting contract rents; reviewing, processing, and paying monthly vouchers submitted by owners; renewing contracts with property owners; and responding to health and safety issues at the properties. As of fiscal year 2004, these performance-based contract administrators (PBCA) administered the majority of contracts—more than 13,000 of approximately 23,000 contracts. HUD also has two other types of contract administrators. “Traditional” contract administrators (typically local public housing authorities) were responsible for administering approximately 5,000 contracts until they expired; at which time, these contracts would be assigned to the PBCAs. Finally, HUD itself also administered a small number of contracts under specific types of project-based programs.

To receive their monthly housing assistance payments, owners must submit monthly vouchers to account for changes in occupancy and tenants’ incomes that affect the actual amount of subsidy due. However,

[3]Pub. L. No. 105-65, title V, 111 Stat. 1384 (Oct. 27, 1997) (*set out at* 42 U.S.C. § 1437f note).

[4]Prior GAO reports on HUD’s mark-to-market efforts include the following: *Multifamily Housing: Physical and Financial Condition of Mark-to-Market At-Risk Properties*, GAO-02-953 (Washington, D.C.: Sept. 6, 2002); *Multifamily Housing: Issues Related to Mark-to-Market Program Reauthorization*, GAO-01-800 (Washington, D.C.: July 11, 2001); and *Multifamily Housing: HUD’s Restructuring Office’s Actions to Implement the Mark-to-Market Program*, GAO/RCED-00-21 (Washington, D.C.: Jan. 20, 2000).

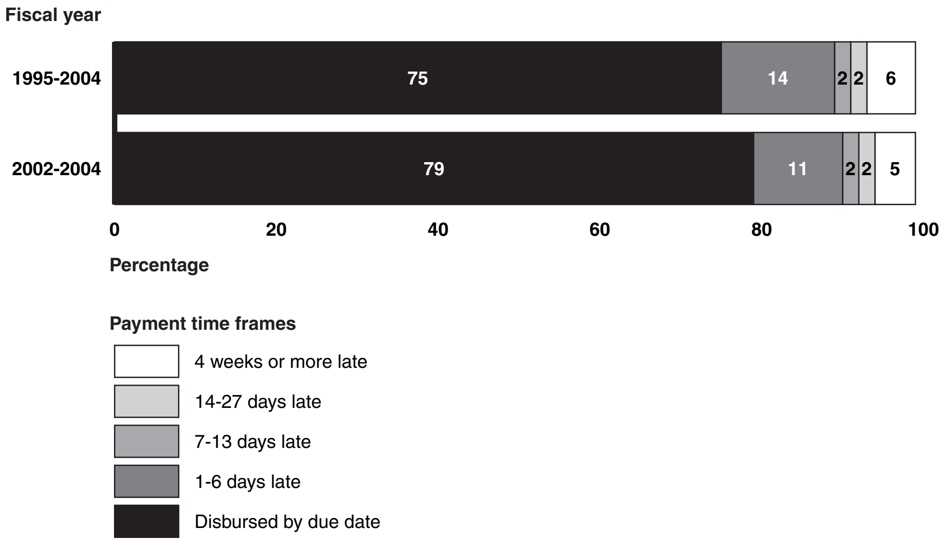
the manner in which the owners submit these vouchers and the process by which they get paid varies depending on which of the three types of contract administrators handles their contract. For HUD-administered contracts, the owner submits a monthly voucher to HUD for verification, and HUD in turn pays the owner based on the amount in the voucher. For PBCA-administered contracts, the owner submits a monthly voucher to the PBCA, which verifies the voucher and forwards it to HUD for payment. HUD then transfers the amount verified on the voucher to the PBCA, which in turn pays the owner. In contrast, for traditionally administered contracts, HUD and the contract administrator develop a yearly budget, and HUD pays the contract administrator set monthly payments. The owner submits monthly vouchers to the contract administrator for verification, and the contract administrator pays the amount approved on the voucher. At the end of the year, HUD and the contract administrator reconcile the payments HUD made to the contract administrator with the amounts the contract administrator paid to the owner, exchanging payment as necessary to settle any difference.

From Fiscal Years 1995 through 2004, HUD Made Three-fourths of Its Housing Assistance Payments on Time

Overall, from fiscal years 1995 through 2004, HUD disbursed by the due date 75 percent of the 3.2 million monthly housing assistance payments on all types of contracts (see fig. 1).[5] However, 8 percent of payments, averaging 25,000 per year, were significantly late—that is, they were delayed by 2 weeks or more and therefore could have had negative effects on owners who relied on HUD's subsidy to pay their mortgages. During this period, 6 percent of the total payments (averaging 18,000 per year) were 4 weeks or more late, including about 10,000 payments per year that were 8 weeks or more late.

[5]For contracts administered by the PBCAs and traditional contract administrators, HUD disburses funds to the contract administrator, rather than directly to the owner. HUD's data systems do not track the date the owner received payment under these contracts. As a result, we did not have data to reflect the exact payment date and, instead, for these contracts, we characterize timeliness based on the date the U.S. Treasury disbursed funds to the contract administrator. Based on our discussions with PBCA officials, it generally took the PBCAs from 1 to 5 days to turn around payments to owners.

Figure 1: Timeliness of Housing Assistance Payments, Fiscal Years 1995 Through 2004 Versus 2002 Through 2004



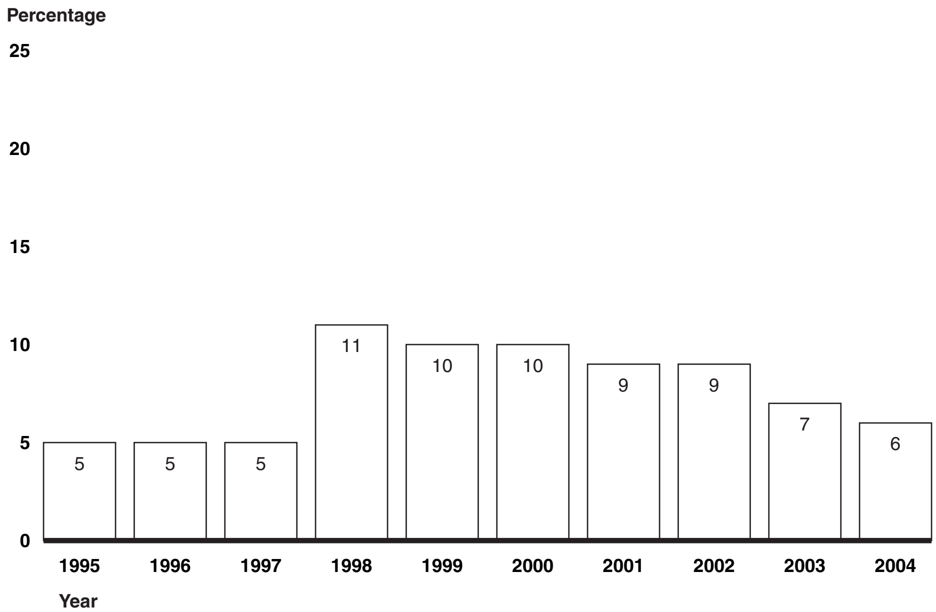
Source: GAO analysis of HUD data.

Note: Percentages do not add to 100 percent due to rounding.

HUD does not have an overall timeliness standard, by which it makes payments to owners or its contract administrators, that is based in statute, regulation, or HUD guidance. However, HUD contractually requires the PBCAs (which administer the majority of contracts) to pay owners no later than the first business day of the month. HUD officials said that they also used this standard informally to determine the timeliness of payments on HUD-administered and traditionally administered contracts. Therefore, we considered payments to be timely if they were disbursed by the first business day of the month. Based on our discussions with project owners who reported that they relied on HUD's assistance to pay their mortgages before they incurred late fees (generally, after the 15th day of the month), we determined that a payment delay of 2 weeks or more was significant.

The timeliness of housing assistance payments varied over the 10-year period (see fig. 2). The percentage of payments that were significantly late increased in 1998, which HUD and PBCA officials indicated likely had to do with HUD's initial implementation of MAHRA and new contract renewal procedures and processing requirements for project owners. Timeliness gradually improved after 2001, shortly after HUD first began using the PBCAs to administer contracts.

Figure 2: Percentage of Payments That Were 2 Weeks or More Late, Fiscal Years 1995 Through 2004

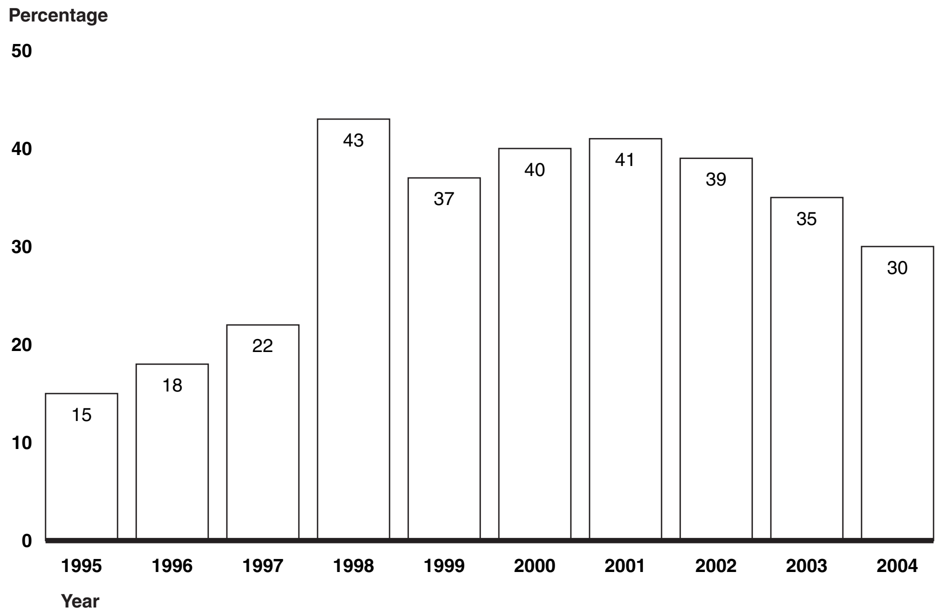


Source: GAO analysis of HUD data.

Note: Ten-year total number of payments: 3,212,982.

The percentage of contracts experiencing at least one significantly late payment over the course of the year showed a similar variation over the 10-year period, rising to 43 percent in fiscal year 1998 and decreasing to 30 percent in fiscal year 2004 (see fig. 3). As with the percentage of late payments, the percentage of contracts with late payments increased in fiscal year 1998 when HUD implemented requirements pursuant to MAHRA. Over the 10-year period, about one-third of approximately 26,000 contracts experienced at least one payment per year that was delayed by 2 weeks or more.

Figure 3: Percentage of Contracts Experiencing at Least One Payment Delayed by 2 Weeks or More, Fiscal Years 1995 Through 2004



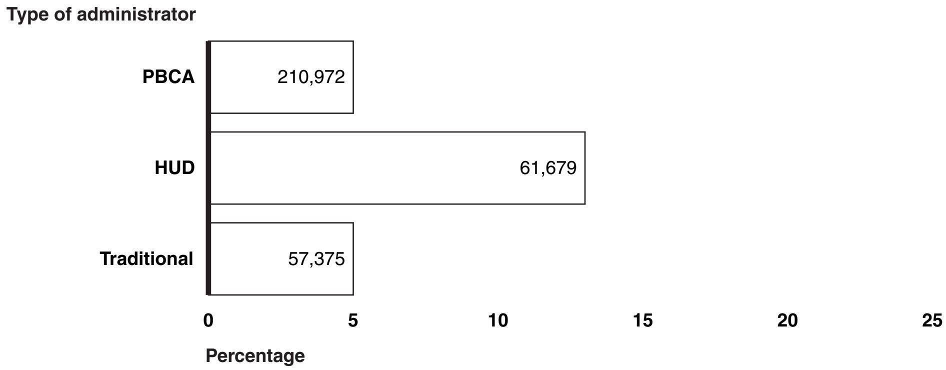
Source: GAO analysis of HUD data.

Note: Ten-year average: 32 percent.

Payments on HUD-administered contracts were more likely to be delayed than those on contracts administered by the PBCAs and traditional contract administrators, based on HUD's fiscal year 2004 payment data (see fig. 4). Further, HUD-administered contracts were more likely to have chronically late payments.[6] In fiscal year 2004, 9 percent of HUD-administered contracts experienced chronic late payments, while 3 percent of PBCA-administered contracts and 1 percent of the traditionally administered contracts had chronic late payments.

[6]We defined chronically late payments as contracts with six or more payments per year that were 2 weeks or more late.

Figure 4: Percentage of Payments That Were 2 Weeks or More Late, by Contract Administrator, Fiscal Year 2004



Source: GAO analysis of HUD data.

Note: Categorization by type of administrator is based on HUD contract administration data as of February 2005. We limited our analysis to 2004 because the data from HUD did not allow us to identify for prior fiscal years which type of contract administrator was responsible for each contract and because, over the course of these years, HUD was in the process of transferring contract administration responsibilities. For a small number of the payments characterized as PBCA-administered in this figure, HUD may have transferred processing to the PBCA during the fiscal year.

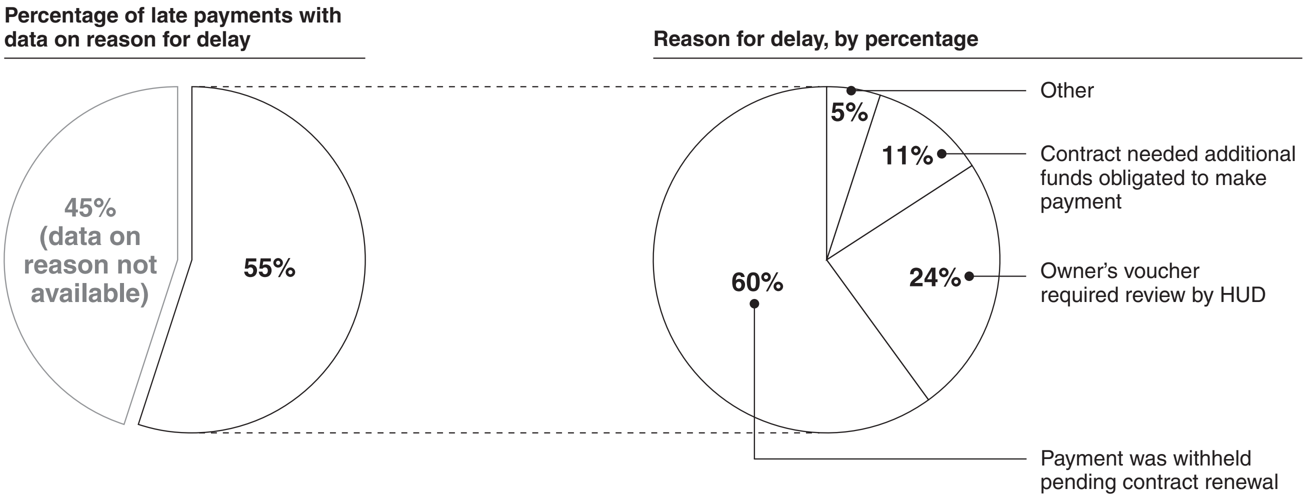
Contract Renewals, HUD Funding and Monitoring Issues, and Problems with Some Owners' Vouchers Contributed to Payment Delays

Late monthly voucher payments were more likely to occur when a contract had not been renewed by its expiration date, according to many of the HUD officials, contract administrators, and property owners with whom we spoke. HUD's accounting systems require that an active contract be in place with funding obligated to it before it can release payments for that contract. Therefore, an owner cannot receive a monthly voucher payment on a contract that HUD has not renewed.

Our analysis of HUD data from fiscal years 2002 through 2004 showed that 60 percent of the payments that were 2 weeks or more late was associated with pending contract renewals, among late payments on PBCA-and HUD-administered contracts for which HUD recorded the reason for the delay (see fig. 5).[7]

[7]HUD data recorded the reason for the delay for 55 percent of the PBCA-and HUD-administered payments that were 2 weeks or more late from fiscal years 2002 through 2004. We could not determine the reasons for the delay in the remaining 45 percent of the late payments. For almost all of the remaining 45 percent of payments, HUD's data systems did not accept the voucher in time for a timely payment. According to HUD officials, late acceptance of the voucher could be the result of a problem with the voucher or late submission by the owner or the PBCA. HUD did not collect data that would include the reasons for delayed payments on traditionally administered contracts.

Figure 5: Percentage of Payments That Were 2 Weeks or More Late, by Reason Code, Fiscal Years 2002 Through 2004, PBCA- and HUD-Administered Contracts



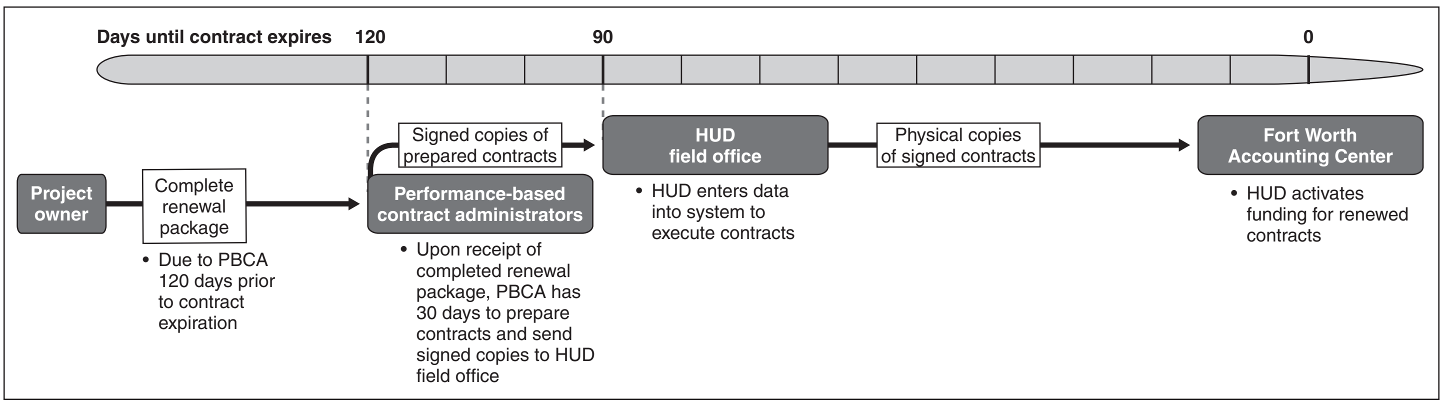
Source: GAO analysis of HUD data.

Note: Of the 62,851 PBCA-and HUD-administered payments that were 2 weeks or more late during this 3-year period, HUD's database included a reason code for 34,828, or 55 percent. The "other" category included pending verification of bank information, pending HUD review of a rent increase, insufficient tenant data, or other missing data on owners' payment vouchers. We excluded payments on traditionally administered contracts because HUD did not collect data on the reasons for delays.

A contract renewal might be "pending" when one or more parties involved in the process—HUD, the PBCA, or the owner—had not completed the necessary steps to finalize the renewal. Based on our interviews with HUD officials, contract administrators, and owners, pending contract renewals might result from owners' failing to submit their renewal packages on time. Often the delay occurred when owners had to submit a study of market rents, completed by a certified appraiser, to determine the market rent levels. However, late payments associated with contract renewals also might occur because HUD had not completed its required processing. For example, according to a HUD official, at one field office we visited, contract renewals were delayed because HUD field staff were behind in updating necessary information, such as the new rent schedules associated with the renewals and the contract execution dates in HUD payment systems.

HUD's contract renewal process was largely manual and paper driven and required multiple staff in the PBCAs and HUD to complete (see fig. 6). Upon receipt of renewal packages from owners, the PBCAs then prepared and forwarded signed contracts (in hard copy) to HUD field offices, which executed the contracts; in turn, the field offices sent hard copies of contracts to a HUD accounting center, which activated contract funding. To allow sufficient time to complete the necessary processing, HUD's policy required owners to submit a renewal package to their PBCAs 120 days before a contract expires, and gives the PBCAs 30 days to forward the renewal package to HUD for completion (leaving HUD 90 days for processing). However, some owners told us that their contract renewals had not been completed by the contract expiration dates, even though they had submitted their renewal packages on time.

Figure 6: Contract Renewal Process for PBCA-Administered Contracts



Sources: GAO and HUD.

While initial contract renewals (upon expiration of the owner's initial long-term contract) often exceeded the 120-day processing time, subsequent renewals were less time-consuming and resulted in fewer delays, according to HUD officials, the PBCAs, and owners. Initial renewals could be challenging for owners because they often involved HUD's reassessment of whether the contract rents were in line with market rents. Additionally, the initial renewal represented the first time that owners had to provide HUD with the extensive documentation required for contract renewals to continue receiving housing assistance payments.

Further, in preparing our 2007 report, some property owners we contacted raised concerns about the renewal process, particularly on the clarity of the HUD policies and procedures and the way the policies were applied.[8] Specifically, these owners were concerned that the contract renewal guide that was published in 1999 had not been updated despite many changes to

[8] GAO-07-290.

HUD's policies and procedures, which has led to confusion among some owners.

To improve the timeliness of housing assistance payments, we recommended in our 2005 report that HUD streamline and automate the contract renewal process to prevent processing errors and delays and eliminate paper/hard-copy requirements to the extent practicable. In its response, HUD agreed with our recommendation and commented that streamlining and automating the renewal process would be accomplished through its Business Process Reengineering (BPR) effort. As we noted in our 2005 report, HUD launched this initiative in 2004 to develop plans to improve what it characterized as "inefficient or redundant processes" and integrate data systems. However, according to HUD, the agency has not received funding sufficient to implement the BPR initiative. As a result, HUD has been pursuing other solutions aimed at streamlining and simplifying the contract renewal process. According to HUD, the agency is planning to implement a Web-based contract renewal process that would be paperless, which it expects to complete in fiscal year 2010. HUD also told us that although it does not have funding in place to fully develop this automated renewal process, it has been implementing this new process in phases, as funding becomes available.

HUD's Difficulties in Assessing Rate of Funding Use and Monitoring Funding Levels

The methods HUD used to estimate the amount of funds needed for the term of each of its project-based assistance contracts and the way it monitored the funding levels on those contracts also affected the timeliness of housing assistance payments. When HUD renews a contract, and when it obligates additional funding for each year of contracts with 5-year terms, it obligates an estimate of the actual subsidy payments to which the owner will be entitled over the course of a year.[9] However, those estimates were often too low, according to HUD headquarters and field office officials and contract administrators. For example, an underestimate of rent increases or utility costs or a change in household demographics or incomes at a property would affect the rate at which a contract exhausted its funds, potentially causing the contract to need additional funds obligated to it before the end of the year. If HUD

[9]An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future. An agency incurs an obligation, for example, when it places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the government to make payments to the public or from one government account to another.

underestimated the subsidy payments, the department needed to allocate more funds to the contract and adjust its obligation upwards to make all of the monthly payments.

Throughout the year, HUD headquarters used a “burn-rate calculation” to monitor the rate at which a contract exhausted or “burned” the obligated funds and identify those contracts that may have had too little (or too much) funding. According to some HUD field office and PBCA officials, they also proactively monitored contract fund levels. Based on the rate at which a contract exhausted its funds, HUD obligated more funds if needed.

However, based on our analysis of available HUD data and our discussions with HUD field office officials, owners, and contract administrators, payments on some contracts were still delayed because they needed to have additional funds allocated and obligated before a payment could be made. As shown in figure 5, our analysis of HUD’s payment data showed that, where the reasons for delayed payments on PBCA-and HUD-administered contracts were available, 11 percent of delays of 2 weeks or more were due to contracts needing additional funds obligated. That is, those payments were delayed because, at the time the owners’ vouchers were processed, HUD had not allocated and obligated enough funding to the contracts to cover the payments.

One potential factor that likely contributed to payment delays related to obligating contract funding was staff at some HUD field offices—unlike their counterparts in other field offices and staff at some of the PBCAs—lacking access to data systems or not being trained to use them to monitor funding levels. At some of the field offices we visited, officials reported that they did not have access to the HUD data systems that would allow them to adequately monitor contract funding levels. HUD field offices reported, and headquarters confirmed, that some field officials had not received training to carry out some functions critical to monitoring the burn rate. A HUD headquarters official reported that changes in the agency’s workforce demographics posed challenges because not all of the field offices had staff with an optimal mix of skill and experience.

We recommended in our 2005 report that HUD develop systematic means to better estimate the amounts that should be allocated and obligated to project-based housing assistance payment contracts each year, monitor the ongoing funding needs of each contract, and ensure that additional funds were promptly obligated to contracts when necessary to prevent payment delays. HUD agreed that this recommendation would improve the timeliness of payments, noting that it planned on achieving improvements through training, data quality reviews, and data systems maintenance. To determine how best to improve the current estimation/allocation system, HUD stated that it had obtained a contractor to analyze current data systems and make recommendations on improvements that would allow better identification of emerging funding requirements as well as improved allocation of available resources. As of October 2007, HUD reported that it was in the process of verifying and correcting data critical to renewing project-based rental assistance contracts in its data systems to produce a "clean universe of contracts." Based on its preliminary results, HUD officials told us that the data appeared to be reasonably accurate for the purposes of estimating renewal funding amounts. In addition, HUD has evaluated the current methodology for estimating its budget requirements for the project-based programs and developed a "budget calculator" to estimate renewal funding amounts. HUD has been pursuing contracting services to implement this "calculator" using the recently verified contract data; however, HUD could not provide a specific date by which it expected to complete these improvements.

Owners' Untimely, Inaccurate, or Incomplete Submissions

The PBCAs with which we met estimated that 10 to 20 percent of owners submitted late vouchers each month. For example, one PBCA reported that about 20 percent of the payments it processed in 2004 were delayed due to late owner submissions. However, the PBCAs also reported that they generally could process vouchers in less than the allowable time—20 days—agreed to in their contracts with HUD and resolve any errors with owners to prevent a payment delay. According to PBCA officials, they often participated in several "back-and-forth" interactions with owners to resolve errors or inaccuracies. Typical owner submission errors included failing to account correctly for changes in the number of tenants or tenant income levels, or failing to provide required documentation. Because HUD's data systems did not capture the back-and-forth interactions PBCA officials described to us, we could not directly measure the extent to which owners' original voucher submissions may have been late, inaccurate, or incomplete.

HUD officials and the PBCAs reported that owners had a learning curve when contracts were transferred to the PBCAs because the PBCAs reviewed monthly voucher submissions with greater scrutiny than HUD had in the past. The timeliness of payments also might be affected by a PBCA's internal policies for addressing owner errors. For example, to prevent payment delays, some of the PBCA officials with whom we spoke told us that they often processed vouchers in advance of receiving complete information on the owners' vouchers. In contrast, at one of the PBCAs we visited, officials told us that they would not process an owner's voucher for payment unless it fully met all of HUD's requirements.

HUD's Payment Delays Caused Difficulties for Project Owners, but Were Unlikely to Be a Significant Factor in Owners Opting Out of HUD Contracts

In preparing our 2005 report, some owners reported that they had not been able to pay their mortgages or other bills on time as a result of HUD's payment delays.[10] Three of the 16 owners with whom we spoke reported having to pay their mortgages or other bills late as a result of HUD's payment delays. One owner reported that he was in danger of defaulting on one of his properties as a direct result of late housing assistance payments. Another owner was unable to provide full payments to vendors (including utilities, telephone service, plumbers, landscapers, and pest control services) during a 3-month delay in receiving housing assistance payments. According to this owner, her telephone service was interrupted during the delay and her relationship with some of her vendors suffered. This owner also expressed concern about how the late and partial payments to vendors would affect her credit rating.

If owners were unable to pay their vendors or their staff, services to the property and the condition of the property could suffer. At one affordable housing property for seniors that we visited, the utility services had been interrupted because of the owner's inability to make the payments. At the same property, the owner told us that she could not purchase cleaning supplies and had to borrow supplies from another property. One of the 16 owners with whom we spoke told us that they were getting ready to furlough staff during the time that they were not receiving payments from HUD. According to one HUD field office official, owners have complained about not being able to pay for needed repairs or garbage removal while they were waiting to receive a housing assistance payment. According to one industry group official, payment delays could result in the gradual decline of the condition of the properties in instances where owners were unable to pay for needed repairs.

According to owners as well as industry group and HUD officials, owners who were heavily reliant on HUD's subsidy to operate their properties were more severely affected by payment delays than other owners. Particularly, owners who owned only one or a few properties and whose

[10]We did not independently assess the owners' ability to meet their financial obligations without the HUD subsidy payments that were late.

operations were completely or heavily reliant on HUD's subsidies had the most difficulty weathering a delay. For example:

- Two of the 16 owners with whom we spoke reported that they could not pay their bills and operate the properties during a payment delay. These owners were nonprofits, each operating a single property occupied by low-income seniors. In both cases, the amount of rent they were receiving from the residents was insufficient to pay the mortgage and other bills. Neither of these owners had additional sources of revenue.
- In contrast, owners with several properties and other sources of revenue were less severely affected by HUD's payment delays. Three of the owners with whom we spoke reported that they were able to borrow funds from their other properties or find other funding sources to cover the mortgage payments and other bills. All three of these owners had a mix of affordable and market-rate properties. According to HUD and PBCA officials, owners who receive a mix of subsidized and market rate rents from their properties would not be as severely affected by a payment delay as owners with all subsidized units.

While HUD's payment delays had negative financial effects on project owners, the delays appeared unlikely to result in owners opting out of HUD's programs. Project owners, industry group officials, contract administrators, and HUD officials we interviewed generally agreed that market factors, not late payments, primarily drove an owner's decision to opt out of HUD programs. Owners generally opt out when they can receive higher market rents or when it is financially advantageous to convert their properties to condominiums. For profit-motivated owners, this decision can be influenced by the condition of the property and the income levels of the surrounding neighborhood. Owners were more likely to opt out if they could upgrade their properties at a reasonable cost to convert them to condominiums or rental units for higher-income tenants. In preparing our 2007 report, we also found that although the majority of the owners who opted out of the program did so for economic or market factors, growing owner frustration over a variety of administrative issues, including late payments, could upset the balance causing more owners to consider opting out even when economic conditions could be overcome or mitigated.[11] However, most of the owners with whom we spoke, including some profit-motivated owners, reported that they would not opt out of HUD programs because of their commitment to providing affordable

[11] GAO-07-290.

housing. Industry group officials also stated that most of their members were “mission driven,” or committed to providing affordable housing.

HUD had no system for notifying owners when a payment delay would occur or when it would be resolved, which industry associations representing many owners as well as the owners with whom we met indicated impeded their ability to adequately plan to cover expenses until receiving the late payment. Most of the owners with whom we spoke reported that they received no warning from HUD that their payments would be delayed. Several of the owners told us that notification of the delay and the length of the delay would give them the ability to decide how to mitigate the effects of a late payment. For example, owners could then immediately request access to reserve accounts if the delay were long enough to prevent them from paying their mortgages or other bills on time. Industry group officials with whom we met agreed that a notification of a delayed payment would benefit their members.

To mitigate the effects on owners when payments were delayed, we recommended in our 2005 report that HUD notify owners if their monthly housing assistance payments would be late and include in such notifications the date by which HUD expected to make the monthly payment to the owner. HUD agreed with the recommendation and noted it would examine the feasibility of notifying project owners if HUD anticipated that there would be a significant delay in payment due to an issue beyond the control of the owner.

Based on discussions with HUD, the agency does not appear to have made significant progress in implementing this recommendation. HUD stated that it had begun notifying owners regarding the amount of funding available under their contracts, which would allow owners to judge when their contracts are likely to experience shortfalls (and thus possibly experience late payments). However, the notification would not warn owners that their payments would be delayed or advise them on the length of the delay. Without this information, it would be difficult for owners to plan for such a contingency.

Madam Chairwoman, this concludes my prepared statement. I would be happy to answer any questions at this time.

Contact and Acknowledgments

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