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REPORT TO THE CONGRESS

UNITED STATES
GENERAL ACCOUNTING OFFICE

JUL 11 1975

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Leased-Housing Programs Need Improvements In Management And Operations

Department of Housing and Urban Development

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-118718

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses ways the Department of Housing and Urban Development can improve its leased-housing programs to more fully achieve program objectives and to serve low-income people more efficiently, effectively, and economically.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the United States Housing Act of 1937, as amended (42 U.S.C. 1401).

We are sending copies of this report to the Director, Office of Management and Budget and the Secretary of Housing and Urban Development.

A handwritten signature in black ink, reading "Thomas B. Stearns".

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

LEASED-HOUSING PROGRAMS
NEED IMPROVEMENTS IN
MANAGEMENT AND OPERATIONS
Department of Housing and
Urban Development

D I G E S T

WHY THE REVIEW WAS MADE

The Housing and Urban Development Act of 1965 added to the United States Housing Act of 1937 a leased-housing program to provide, through local housing authorities, privately owned housing to low-income people at affordable rents. Because of increasing reliance on this program, and the amount of Federal funds involved--about \$209 million in fiscal year 1974--GAO asked whether the program's objectives were being achieved and how the program was being managed.

FINDINGS AND CONCLUSIONS

The Department of Housing and Urban Development and local housing authorities need to improve their operation, management, and administration of the leased-housing programs to more fully achieve program objectives and to serve low-income people more efficiently, effectively, and economically.

GAO reviewed the activities of 14 local housing authorities in California, Delaware, Florida, Maryland, and Pennsylvania and found that two program objectives relating to the legislative objective that decent, safe, and sanitary housing be provided were not being fully achieved.

Many leased units did not comply with local standards and building code requirements and/or were in neighborhoods with high crime rates, deteriorated housing, rat infestation, or other undesirable elements.

GAO, accompanied by city inspectors or local housing authority personnel, inspected 172 leased units and found from 1 to 16 violations of local standards and building code requirements

in 113 units (66 percent). Three units were unfit for human habitation, according to a city inspector. (See pp. 7 to 14.)

Although local housing authorities are required to inspect housing units before they are leased, officials of some said they had accepted inferior or substandard housing units because

--units had not been inspected properly,

--unqualified personnel had inspected the units, or

--local housing authorities were anxious to lease all the units the Department had authorized them to lease, to achieve goals established by the Congress and emphasized by the Department.

A Department headquarters official said that because an inspection was required before housing units could be leased to be sure that the units were decent, safe, and sanitary, the Department assumed that the local authorities recognized that the units should remain in this condition as long as they were leased. However, 5 of 10 questioned did not inspect leased housing periodically nor did they have procedures to do so. (See p. 17.)

Officials of the four Department area offices reviewed said they did not inspect leased-housing units when the units were leased nor periodically afterward. (See p. 18.)

GAO interviewed 154 tenants about the condition of their housing units, and 34 were not satisfied with their housing and were concerned about getting deficiencies corrected.

Four of the tenants interviewed said they had complained to local housing authorities about defects in their units but were told that maintenance was the owner's responsibility, as recommended by the Department. Three families living in one leased building said housing authority officials told them to contact the owner who lived in another State. (See p. 15.)

Some of the housing units leased by 7 of the 14 local housing authorities were in undesirable neighborhoods. The occupants of 25 of the 172 units GAO inspected expressed dissatisfaction with their neighborhoods. (See p. 20.)

Improvements are also needed to insure that leased-housing annual contributions provided by the Department to local authorities are limited to amounts required for comparable, newly constructed, publicly owned, housing projects and that more effective use is made of authorizations to lease existing housing units.

In determining its annual contributions HUD estimates the cost of a simulated hypothetical project on the basis of three cost factors.

--Prototype dwelling construction and equipment costs.

--Up to 90 percent of prototype costs for non-dwelling construction and equipment costs.

--Interest costs. (See p. 26.)

By using the unsupported maximum 90-percent rate for the 10 projects reviewed instead of the rate actually required in comparable, newly constructed, locally owned projects (60 percent), the Department's contributions were about \$242,000 greater annually. If the 10 projects are leased for the maximum 20-year period, the estimated excess Federal annual contributions will amount to about \$4.8 million. (See pp. 26 to 30.)

The Department did not withdraw unused leasing authorizations for existing housing units which could have been reallocated to meet the needs of other local housing authorities. Thirty local authorities had not leased, within the required 12 months, about 41 percent (1,635 of 3,977) of existing Department-authorized housing units. Fourteen to 68 months had passed, at the time of GAO's review, since the Department initially authorized these units. (See pp. 32 to 38.)

Program changes

At the President's direction, the Department established a revised leasing program in early

1974 which is related more closely to the direct cash-assistance housing method.

The Housing and Community Development Act of 1974, Public Law 93-383, amended the act of 1937 and established a new leasing program (section 8) which was effective January 1, 1975. Local housing authorities, under certain circumstances, can continue entering into leases and renewing expired leases under the original and revised programs. (See p. 5.)

At the time of GAO's review, only the original leasing program was in effect, but many of the problems GAO noted in that program apply to the revised and section 8 leasing programs.

RECOMMENDATIONS OR SUGGESTIONS

GAO is making a number of recommendations for improving the

- regulations governing the housing units leased or to be leased under the original and revised programs (see pp. 22 and 23), and
- Department's management and administration of these programs (see pp. 31 and 37).

GAO also made similar suggestions for the new section 8 leased-housing program which were included in the regulations issued by the Department.

AGENCY ACTIONS AND UNRESOLVED ISSUES

In commenting on this report (see app. I) the Department agreed with GAO's suggestions relating to the section 8 program regulations and cited provisions of the regulations adopted subsequent to GAO's suggestions which it felt addressed the findings in the report. GAO believes the Department's section 8 regulations, if properly implemented, should prevent many of the problems noted in the original program.

The Department said also that many of GAO's criticisms related to the original program projects would be eliminated by converting these projects to the section 8 program. GAO believes action is still needed to improve the original

and revised programs because a number of units leased under these programs may not be converted to the section 8 program for several years.

With respect to computing leased-housing annual contributions, the Department stated its policy of having local housing authorities operate financially solvent leasing programs. GAO recognizes that there is a need for leased projects to be financially solvent. However, GAO believes the Department's general practice of approving contributions in amounts necessary for financial feasibility results in the payment of excessive annual contributions, when compared to that paid for local housing authority-owned housing.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report provides the Congress with information on how section 23 of the United States Housing Act of 1937, as amended, is being managed in relation to its objectives and the regulations which were established for the section 8 leasing program to preclude the problems GAO noted.

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CHAPTER 1

INTRODUCTION

The United States Housing Act of 1937 (42 U.S.C. 1401 et seq.) authorizes the Department of Housing and Urban Development (HUD) to conduct a program making decent, safe, and sanitary dwellings available to low-income families and individuals at rents within their financial means. Local governments are to establish independent legal entities-- local housing authorities (LHAs)--to develop and/or acquire, own, and operate low-rent, federally subsidized, public housing projects.

HUD financially and technically assists LHAs and reviews their program administration to determine whether they are conforming to statutory requirements, operating efficiently and economically, and serving the tenants. HUD makes (1) loans for developing new housing projects and (2) annual contributions, pursuant to contracts with LHAs. Annual contributions are to pay the principal and interest on bonds and notes the LHAs sell to the public or to HUD to obtain funds for developing the projects. It also pays operating subsidies, which help LHAs achieve and maintain adequate operating and maintenance services and insure housing projects' financial solvency.

HUD estimates that its annual contributions to LHAs will amount to about \$1.5 billion during fiscal year 1975. LHAs will be managing about 1.2 million housing units during the year.

LHAs use various methods to acquire public housing projects for low-income persons, including conventional and turnkey construction and the leasing of standard dwellings from private owners. Under the conventional method, the LHA usually acquires the site and acts as its own developer; employs its own design teams; and, when plans are complete, solicits competitive bids for construction. Under the turnkey method, the LHA contracts with private developers, builders, or rehabilitators (which have sites or options to purchase sites) to purchase, upon completion, housing which they have built or rehabilitated.

LEASED-HOUSING METHOD

The Housing and Urban Development Act of 1965 added to the 1937 act a new section 23 (42 U.S.C. 1421b) which allows LHAs to lease existing privately owned accommodations for eligible low-income persons. Section 23(a)(3) of the

act provides that low-rent housing in private accommodations means decent, safe, and sanitary dwelling units in an existing structure leased from a private owner. The Housing and Urban Development Act of 1970, approved December 31, 1970, revised section 23(a)(3) to include new construction as a means of obtaining dwelling units, thus greatly expanding the leasing program.

Because leased housing is privately owned, the LHAs have no bond indebtedness which could be used to compute an annual contribution. Such contributions therefore are limited to an amount equal to that established for other types of newly constructed, low-rent, public housing designed to accommodate the comparable number, sizes, and kinds of families in the same community.

Program objectives

The objectives of the leased-housing program include providing families and individuals with housing in privately owned accommodations which

- have affordable rents,
- are in good condition and comply with the local standards and building code requirements, and
- are located in neighborhoods free of characteristics seriously detrimental to family life.

Program operations

LHAs, by publication, advertisement, or notification to the owners of listed housing, are to (1) make known to the public the anticipated need for housing units to be used as low-rent housing under the leasing program and (2) invite owners to make units available for this purpose. If an LHA finds that housing units offered are decent, safe, and sanitary or can be made so by the owner and that the owner's rentals are within its financial range, an LHA may approve the units for use as low-rent leased housing.

To the extent provided for in its annual contributions contract, an LHA may contract with owners to lease from 1 to 10 years, with provisions for renewals not over 15 years and 20 years for existing and newly constructed housing, respectively. Responsibility for managing, maintaining, and operating the leased unit; selecting tenants; collecting the tenant's portion of the total rent; and assuming vacancy and collection losses may be vested in the LHA or the housing owner, depending on the area's prevailing practice.

LHAs establish the tenants' portions of the rents at rates considered to be within their financial means. LHAs and the owner negotiate the rents charged by the owner, which include utility costs. LHAs pay housing owners the difference between the negotiated rent and rent paid by tenants.

HUD administers the leased-housing program through its 10 regional and 39 area offices. The latest available HUD information shows that as of June 30, 1974, 129,700 units were being leased and LHAs had been authorized to lease another 60,600 units. Fiscal year 1974 Federal annual contributions for the leased-housing program were estimated to be about \$209 million.

REVISED LEASING PROGRAM

A revised section 23 leasing program resulted from HUD administrative actions in late 1973 and early 1974.

The President, in his September 19, 1973, housing message to the Congress, called for such actions to bring the program in line with the direct cash-assistance method of housing low-income people.

Under the revised leasing program, low-income persons are responsible for finding their own housing on the private market so they may have a greater choice. LHAs may, however, help those who, because of age, handicap, discrimination, or other reasons, are unable to locate suitable housing.

An LHA-issued Certificate of Family Participation, which evidences eligibility, is required for participation in the program. After locating housing and obtaining the certificate, an individual or family must submit to the LHA a proposed lease and a Request for Lease Approval, signed by the owner and the family.

The LHA will (1) review the request for, among other things, rental amount, lease requirements, and owner eligibility and (2) inspect the housing for compliance with all program requirements. If the LHA approves the request, the owner and the family may execute a lease for the housing, and the LHA and the owner will enter into a housing assistance payments contract for the LHA's portion of the total rent.

The revised leasing program, which differs in several other ways from the original leasing program:

- Requires the owners of the housing units, except under certain circumstances, to assume responsibility for managing, maintaining, and operating the units, including collecting the tenant's portion of the total rent, assuming vacancy and collection losses, and selecting tenants.
- Bases annual contributions on what HUD determines annually to be fair market rents for variously sized housing units and types of structures for various housing markets.
- Requires HUD to determine fair market rents that may be paid to owners for existing and newly constructed housing.
- Permits automatic annual rent adjustments based on a HUD-determined percentage change in fair market rents for each market area and special additional adjustments for increases in taxes and utility costs.
- Emphasizes use of the existing housing stock and requires LHAs to justify and document that existing housing is not available when they request new construction for leasing.
- Gives priority processing to LHA applications requesting authority to lease 20 percent or less of the units in a multifamily structure or complex, except that housing for the elderly and handicapped and projects containing 25 or fewer units may be accepted without regard to the priority.
- Requires LHAs to carry out competitive procedures for leasing units in projects to be constructed, except for the projects in which 20 percent or less of the total units will receive assistance.
- Requires LHAs to inspect leased units at least annually to insure they are decent, safe, and sanitary.
- Allows developers to use market rate HUD-insured mortgage loans, bonds, or other obligations of authorized State housing or development agencies and conventional financing used under the original program, to finance housing construction.
- Makes eligible all legally constituted local housing authorities, created pursuant to State housing

authorities laws, to participate in this program, including any State, county, municipality, or other governmental entity or public body authorized to develop or administer low-income housing.

As of July 1, 1974, HUD had authorized its regional and/or area offices to provide LHAs with authorizations to lease about 39,500 housing units under its fiscal year 1974 contract authority. HUD estimated annual contributions for these units to be about \$99 million. As of February 28, 1975, HUD had approved applications to lease about 7,800 units under the revised program. About 77 percent of the 7,800 units were for new construction.

The Housing and Community Development Act of 1974 (Public Law 93-383) amended the 1937 act and established under section 8 a new program for leasing which was effective January 1, 1975. LHAs can continue entering into leases for new construction type units under the original and revised programs. Also, leases for existing units can continue to be entered into under the revised program but not under the original program, according to a May 1, 1975, HUD policy statement. Existing housing lease renewals and extensions under the original program, however, may continue to be entered into for occupied units. Although the lease renewal terms cannot be extended beyond June 30, 1979, the HUD policy points out that the legal rights of housing owners will not be affected--owners may have the right under their leases to renew without the LHAs' concurrence.

Housing units can be leased under the section 8 program instead of leasing or renewing leases under the original or revised programs, if the LHAs and owners agree.

HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974

The section 8 leasing program established by the Housing and Community Development Act of 1974 is similar to the revised leasing program, except that it increases HUD's leasing responsibilities and makes other changes. HUD may now select developers and contract to make assistance payments directly to housing owners or prospective owners for new or substantially rehabilitated units and, under certain circumstances, existing units. Also, the LHA or any private person or entity having the legal right to lease may own the housing to be leased.

As in the revised program, any State, county, municipality, or other governmental entity or public body, or agency or instrumentality thereof, which is authorized to

develop or operate low-income housing, may participate in the program.

The Housing and Community Development Act of 1974 does not require that the annual contribution for a leased-housing project not exceed that which would have been established for a comparable conventional or turnkey project.

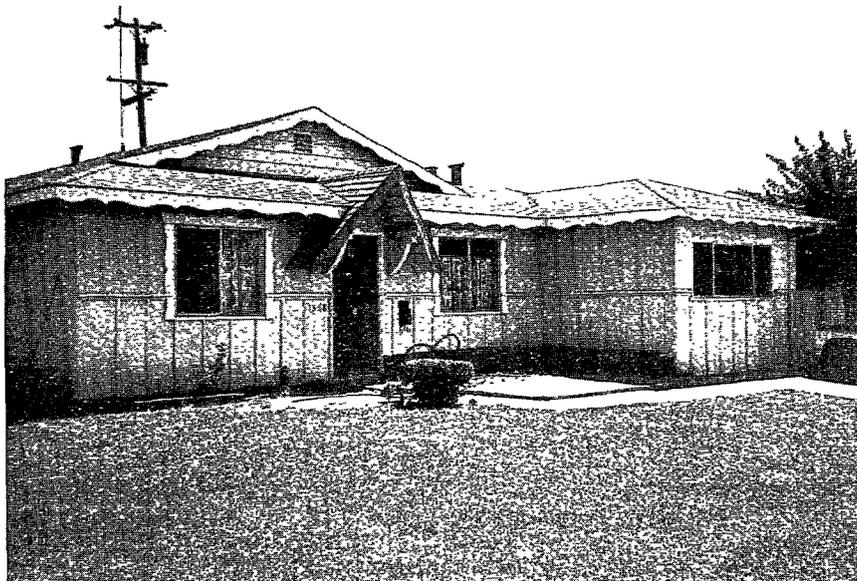
On January 30, 1975, HUD headquarters provided about \$900 million of contract authority to its field offices for leasing units under the section 8 program. As of April 30, 1975, however, no units had been leased under the program.

At the time of our review only the original leasing program was in effect. The results of our review of the original program and our observations on the revised and section 8 leasing programs are discussed in the following chapters of this report.

EXTERIOR VIEWS OF DECENT, SAFE, AND SANTIARY HOUSING



Clearwater, Florida



San Jose, California

CHAPTER 2

IMPROVEMENTS NEEDED TO MORE FULLY ACHIEVE

PROGRAM OBJECTIVES

Our review of 14 LHAs in 3 HUD regions (see ch. 4) showed that the original leased-housing program has provided many decent, safe, and sanitary housing units to low-income persons to whom such housing otherwise might not have been available. However, two program objectives relating to the legislative objective that decent, safe, and sanitary housing be provided were not being fully achieved, because many leased units (1) did not comply with local standards and building code requirements and/or (2) were in neighborhoods with high crime rates, deteriorated housing, rat infestation, or other undesirable elements.

These problems indicate a need for stronger controls over the leasing programs and a greater emphasis on developing better operational, managerial, and administrative techniques that will enable those organizations involved in the leasing programs to better serve the low-income tenants occupying those housing units leased under the original program and those to be leased under the original, revised, and section 8 programs.

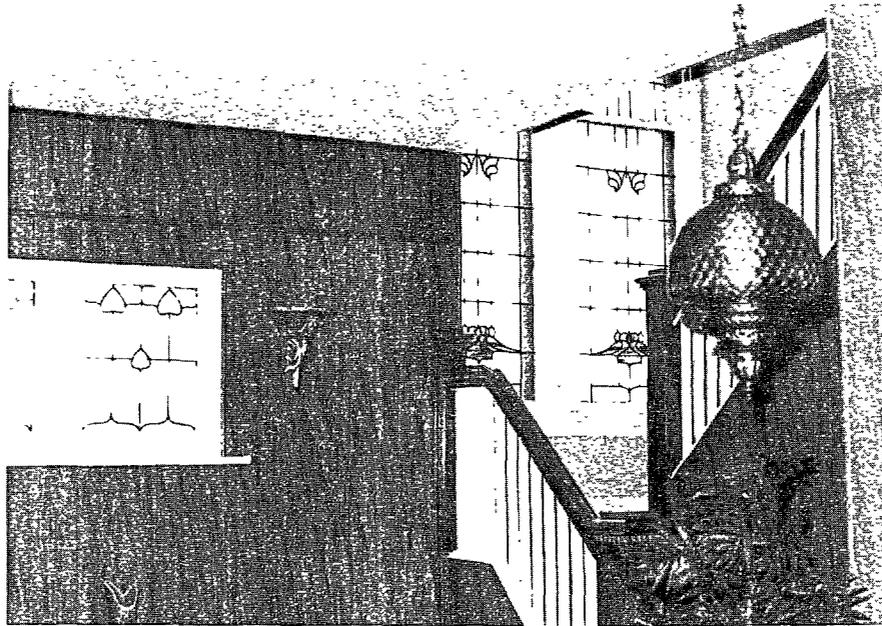
MANY LEASED UNITS NOT DECENT, SAFE, AND SANITARY

Leased units violated local standards and building codes

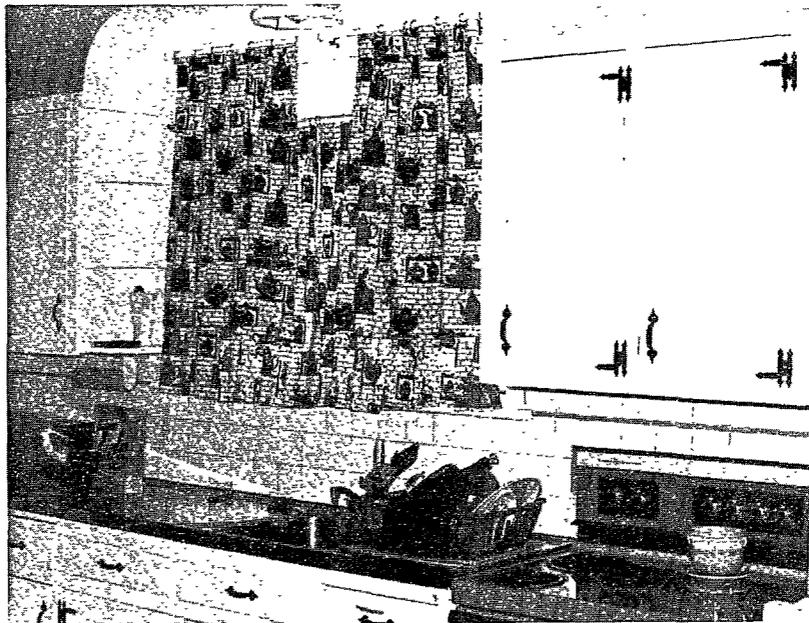
City housing inspectors or LHA personnel assisted us in inspecting 172 occupied units which were selected to include a mix of new, existing, and rehabilitated units. Of the 172 units, 113 (66 percent) were violating local standards and building code requirements. Each of 40 housing units, or 23 percent of the units inspected, had 5 or more violations. Three of the 113 units were unfit for human habitation. Photographs of units in compliance and units in violation of local standards and building codes are shown on pages 8 to 11.

The leasing of housing units violating local standards and building code requirements is attributable to lack of or inadequate LHA inspections--before and/or after the units were leased--and to HUD's failure to monitor the condition of LHA-leased housing.

INTERIOR VIEW OF DECENT, SAFE, AND SANITARY HOUSING IN
HARRISBURG, PENNSYLVANIA

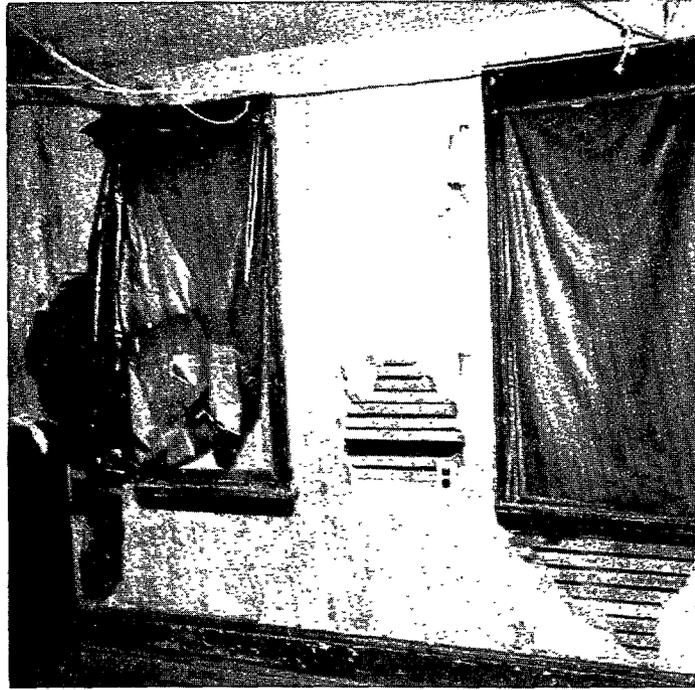


Living room



Kitchen

CODE VIOLATIONS NOTED IN A LEASED UNIT IN
PHILADELPHIA, PENNSYLVANIA

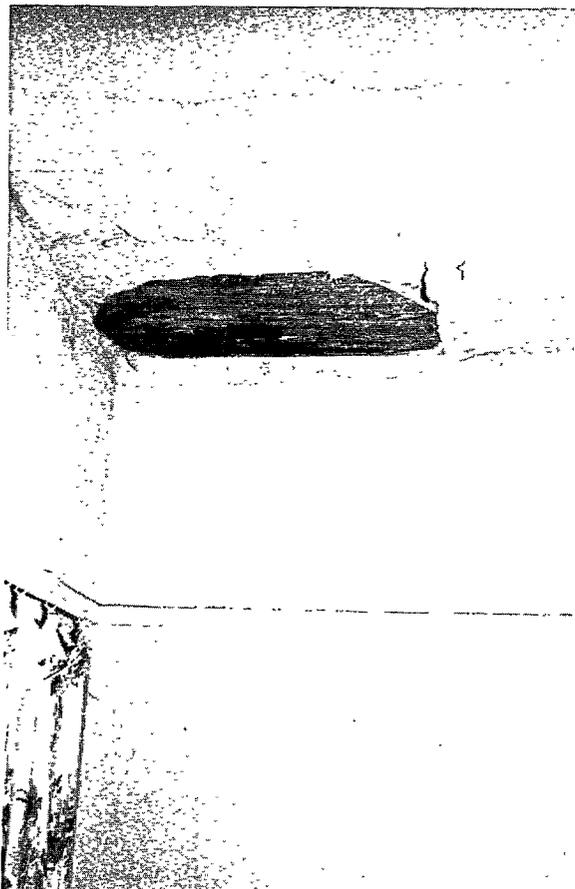


Damaged bedroom walls



Deteriorating hallway walls and ceiling

CODE VIOLATIONS IN A LEASED UNIT IN
OAKLAND, CALIFORNIA



Deteriorating ceiling and walls



Rotted second floor porch--
safety hazard

The number of local standards and building code violations found varied from one LHA to another, as shown below. Most of the housing units leased by the Florida LHAs included in our review were in good condition generally because most were new or only a few years old. In contrast, most of the units inspected which were leased by the Philadelphia LHA were relatively old and, in many instances, contained several violations.

<u>LHA location</u>	<u>Units leased</u>	<u>Units inspected</u>	<u>Units with violations</u>
Baltimore, Maryland	126	18	14
Bucks County, Pennsylvania	234	7	4
Clearwater, Florida	16	5	2
Dade County, Florida	966	16	9
Easton, Pennsylvania	100	9	6
Harrisburg, Pennsylvania	175	15	15
Oakland, California	1,286	16	13
Orlando, Florida	768	15	0
Philadelphia, Pennsylvania	563	17	17
Pinellas County, Florida	850	10	0
Reading, Pennsylvania	24	7	4
Sacramento, California	2,193	15	10
San Jose, California	1,377	15	12
Wilmington, Delaware	<u>40</u>	<u>7</u>	<u>7</u>
Total	<u>8,718</u>	<u>172</u>	<u>113</u>

The number of violations at each housing unit inspected ranged from 0 to 16, as shown below.

<u>Violations</u>	<u>Units</u>	<u>Percent of units inspected</u>
0	59	34.3
1	26	15.1
2	18	10.5
3	16	9.3
4	13	7.6
5	10	5.8
6	5	2.9
7	4	2.3
8	1	.6
9	3	1.7
10	5	2.9
11	1	.6
12	3	1.7
13	2	1.2
14	1	.6
15	3	1.7
16	<u>2</u>	<u>1.2</u>
Total	<u>172</u>	<u>100.0</u>

Some violations we noted could be corrected through proper maintenance. Others, however, were hazards to the occupants' safety and/or health. Some of the more serious violations included

- improper vented heater and no gas stove vents;
- defective electrical wiring, receptacles, and light fixtures;
- defective furnace control which caused the furnace to burn continuously, unless turned off manually;
- defective plumbing and sewer line breakage and stoppage; and
- one unit which did not have a needed furnace.

Three of 17 Philadelphia LHA leased-housing units inspected were unfit for human habitation, according to an inspector from Philadelphia's Department of Licenses and Inspections. The inspector sent violation notices to the owners of these units.

HUD's Office of Inspector General issued several reports to HUD regional administrators in 1972 which pointed out numerous substandard housing units being leased. For

example, a report on seven LHAs under the jurisdiction of three HUD area offices in its Boston region stated that, of 170 leased-housing units inspected, 70 were substandard. The report pointed out that the HUD area offices had no assurance that leased units under their jurisdiction were in standard condition.

The report cited the following reasons for the three HUD offices' leasing substandard housing units.

--Excessive workload.

--Other programs given top priority; leased housing "left to take care of itself."

--Lack of staff.

The report recommended that:

--The three HUD area office directors notify LHAs to submit certification that all leased units meet local housing standards.

--LHAs immediately inspect housing units for which LHA preleasing inspection reports were unavailable or where such inspections were not performed and, if these units were found to be substandard and landlords did not correct noted deficiencies within a designated time, the leases be terminated.

--The three HUD area offices adopt effective monitoring procedures, including periodic site visits, onsite reviews of the tenant complaint file, and selective inspections of leased units, to prevent future leasing of substandard units.

As a result of the report, the HUD regional office instructed the three area offices to (1) assure themselves by "field visits and other appropriate techniques" that all units under lease were standard and (2) foreclose leases on substandard units if landlords failed to comply within a designated time. HUD headquarters officials were unable to tell us whether the three area offices carried out these instructions.

Condition of housing units--
tenants' views

Of the 154 tenants interviewed about the condition of their housing units, 34 were not satisfied with the units

and expressed concern about getting needed deficiencies corrected. Some of the tenants' complaints concerned

- problems with roaches and mice or rats,
- lack of a fire escape,
- defective or improper plumbing causing sewage to back up into kitchen sink,
- leaking roofs causing defective ceilings,
- broken door which compromised security, and
- lack of heat or hot water.

HUD's leased-housing handbook recommends that, unless there are compelling reasons to the contrary, responsibility for repairs and maintenance, except that resulting from willful damage or negligence of the tenant, be delegated to the owner. The handbook provides that the lease agreement between the LHA and the owner should describe the participants' individual responsibilities as to management, maintenance, and custodial care of the property. Also, the LHA's obligations should be described, including its obligation to notify the owner of any defect on the premises and to repair any damage it or the tenant causes beyond normal usage.

Four tenants said they had complained to the LHA about defects in their units but were told it was the owner's responsibility under the terms of the lease to maintain the units. Three families living in a three-unit leased building in Oakland said the LHA told them to contact the owner, who lived in Alaska, about their problems. One of these units, according to the city inspector, was a very serious health and safety hazard. The inspector notified the owner of the problems by letter.

A 1972 HUD Inspector General report on the leased-housing program also pointed out that LHAs had not followed up on tenant complaints about physical deficiencies and safety hazards. Another report stated that an LHA did not require prompt repair of occupied units. The report recommended that the HUD area offices adopt procedures which included "an on site review of the tenant complaint file." HUD headquarters officials were unable to tell us whether area offices implemented the recommendation.

Revised leasing program

HUD's regulations for leasing housing under its revised program require LHAs to inspect the units whenever it has information, as a result of family complaints or otherwise, to the effect that the unit is not being maintained in accordance with the contract between the owner and the LHA. When the LHA determines that the unit is not being maintained satisfactorily, it must try to resolve the problem with the owner. If the LHA is unsuccessful, it (1) abates payment of housing assistance until the unit is brought into satisfactory condition and/or (2) gives the owner a 30-day notice of termination of the contract.

LHA inspection practices

LHAs were leasing housing units which violated local standards and building codes because, in our opinion, they were inadequately inspecting the units before acquisition and/or periodically while under lease.

Section 23 of the act requires LHAs to inspect any private unit offered for leasing in response to an LHA invitation. If an LHA finds that such a unit is or may be made decent, safe, and sanitary, the LHA may approve such a unit for use as low-rent housing.

HUD procedures require that units to be leased by LHAs be inspected to determine compliance with minimum property standards. If repairs or improvements are needed, owners should be advised of the type and extent of the work required.

HUD procedures also point out that it is important to keep a record of whether the units were previously in substandard condition and rehabilitated. However, HUD's procedures do not require LHAs to either retain copies of inspection reports or provide evidence to HUD to show that all units leased were inspected before the LHA entered into leasing arrangements.

Examination of 431 leased-housing files of 13 LHAs showed that 178 (41 percent) did not contain copies of inspection reports to show that the housing units had been inspected before being leased. Some LHA officials said that inspections had been made before the units were leased, but they could not provide evidence. These officials stated that future records would be adequately documented to show the dates of inspections and actions taken to correct any deficiencies found.

Oakland, Philadelphia, and Sacramento LHA officials said they had accepted inferior or substandard housing units because (1) the units had not been properly inspected when they entered into the leasing arrangements, (2) the units had been inspected by unqualified LHA personnel, or (3) the LHA was anxious to lease all the units HUD had authorized them to lease. Philadelphia and Sacramento LHA officials said that HUD emphasized that they obtain as many units as possible to achieve housing production goals established by the Congress. A HUD Philadelphia regional office official said HUD headquarters emphasized leasing to achieve housing production goals.

HUD procedures do not require LHAs to periodically inspect leased housing. A HUD headquarters official said that because an inspection was required before housing units could be leased to insure that the units were decent, safe, and sanitary, HUD assumed that LHAs recognized that the units should remain in this condition as long as they were leased. Officials of 5 of the 10 LHAs questioned said they did not have any procedures for and did not make periodic inspections of leased-housing units.

Although these five LHAs did not make periodic inspections, they said they did some inspecting after entering into leasing arrangements. Officials of two LHAs said they inspected units before the leases expired to determine if repairs were needed and if they would renew leases. Officials of two other LHAs said they inspected leased units if they suspected that the occupants' housekeeping practices were unsatisfactory and each time a unit was vacated. Officials at the other LHA said they inspected only when a unit was vacated.

An official of the Oakland LHA told us that the poor condition of the housing units leased by his LHA was due to previous weak management practices and lack of written guidelines or procedures. He said these weaknesses were being corrected and new procedures were being developed to require that all units be inspected annually.

Officials of the Bucks County, Easton, Reading, and Wilmington LHAs said they inspected leased-housing units periodically. Officials at three of these LHAs, however, could not provide, nor did their records contain, evidence in most cases to show that the units had been inspected. Also, the other LHA's records did not support, in many cases, the contention that leased-housing units had been periodically inspected.

Revised leasing program

HUD's regulations for its revised leasing program require that, before an eligible family occupies any unit and at least annually, the LHA must determine by inspection whether the unit is decent, safe, and sanitary. Failure to inspect housing units as required constitutes a substantial default by the LHA under the annual contributions contract.

LHAs are also required to maintain inspection reports for each unit inspected, specifying whether required certifications, if any, were issued and the results of the inspections.

Area office monitoring of the condition of LHA leased-housing units

HUD headquarters issued an instruction in September 1972 requiring regularly scheduled reviews of LHAs to insure that all leased units were standard and complied with local housing codes.

However, officials of the four HUD area offices included in our review said they neither inspected leased-housing units when they were leased nor periodically afterward.

Officials of the Baltimore, Jacksonville, and Philadelphia HUD area offices said that it was the LHAs' responsibility to inspect and evaluate the condition of leased-housing units. Baltimore and Philadelphia area office officials said also that they were managing the leased-housing program on a crisis basis and had assigned their personnel to other higher priority housing programs because of a manpower shortage and because they had not had any serious problems with the leased-housing program. A San Francisco HUD area office official said he was unable to periodically review LHAs because he lacked sufficient staff. As a result, he said such reviews were made on a crisis basis only.

Philadelphia area office officials stated that they planned to initiate a program which would require the area office to periodically inspect leased-housing units.

Revised leasing program

Housing units to be leased under HUD's revised program are required to be inspected by HUD area offices. The revised program regulations require HUD area offices,

before authorizing execution of contracts between LHAs and housing owners, to inspect and review evidence of completion of new projects within 10 working days after receiving the owner's notification of project completion. In addition, HUD area offices, no later than 6 months after execution of a contract, are required to review new project operations, including inspecting 15 to 25 percent of the units leased.

For existing housing units leased under the revised leasing program, HUD area offices are required to

- inspect 15 to 25 percent of the units leased to determine the condition of the dwellings when 30 percent of the units under annual contributions contracts have been leased but not later than 90 days after execution of annual contributions contracts and
- make subsequent reviews as necessary to determine how often and under what circumstances LHAs are inspecting units, whether inspection records are being kept, and that payments are not being made for vacant or substandard units.

Leased units in
undesirable neighborhoods

Some housing units leased by 7 of the 14 LHAs were located in neighborhoods characterized by high-crime rates, deteriorated housing, rat infestation, and/or other undesirable elements. This occurred because (1) HUD-allowed rental rates were insufficient in the opinion of some LHA and HUD area office officials, to enable LHAs to obtain housing units in better neighborhoods and (2) the policy of one LHA was to restrict leased housing generally to neighborhoods in which the low-income tenants' lifestyles would not clash with other renters'.

A HUD headquarters official said that HUD interpreted the decent, safe, and sanitary housing requirement of the act to apply not only to the physical condition of housing units but also to the neighborhoods in which the units were to be located. HUD's leased-housing handbook provides that housing units to be leased under the program be located in neighborhoods free of characteristics seriously detrimental to family life and that substandard dwellings or other undesirable elements should not predominate in leased-housing neighborhoods.

According to congressional hearings on the 1965 housing act by the Committee of the Whole House on the State of the Union, the leased-housing program was intended to provide an economic mix of federally assisted low-income tenants with moderate or higher income families, to retain the private character of the housing market and of neighborhoods in general.

Police crime statistics, interviews with LHA officials, and our inspections showed that many of the housing units leased by four of the seven LHAs were in high-crime rate, deteriorated, and/or rat-infested areas of the cities, as shown below.

<u>LHA location</u>	<u>Units leased</u>	<u>Units located in undesirable neighborhoods</u>
Harrisburg	175	63
Philadelphia	563	478
Sacramento	2,193	1,600
San Jose	<u>1,377</u>	<u>1,156</u>
Total	<u>4,308</u>	<u>3,297</u>

In addition, an Oakland LHA official said that most of the Oakland LHA's 1,286 leased-housing units were located in high-crime areas.

We noted also that a building in Orlando, Florida, which had eight leased apartments was near the intersection of two freeways and the traffic created considerable noise. We brought this matter to the attention of an LHA official who subsequently canceled the lease on the eight apartments. Also, one of the seven housing units inspected in Wilmington, Delaware, was located in a neighborhood with several boarded-up houses.

The occupants of 25 of the 172 leased units we inspected expressed dissatisfaction with their neighborhoods for reasons such as high crime rates, discrimination, teenage gangs, drugs, thievery, and breaking and entering. A Philadelphia tenant said a member of a teenage gang was killed on her doorstep. Another tenant in Oakland said two of her neighbors' apartments had been broken into a week before our visit.

LHA officials in California and some HUD field office officials attributed the leasing of units in undesirable neighborhoods primarily to funding limitations. HUD-allowed rental rates were too low to enable the LHAs to lease units in better neighborhoods, according to these officials.

A rental survey prepared by the Oakland LHA showed that, as of May 1973, HUD-allowed rental payments ranged from 17 to 29 percent below the lowest rents for units in substantial supply in that community. A San Jose LHA survey dated September 1972 showed HUD rents to be about 16 percent below the amount needed to lease available units. Rental payments for the San Jose and Oakland LHAs were last revised in 1969 and 1972, respectively.

A Sacramento LHA official said that he generally would not mix low-income people who received assistance from Federal low-income housing programs with other renters because their lifestyles were incompatible.

Revised leasing program

HUD has taken some action to insure that housing units to be leased under the revised program will be located in better neighborhoods. The revised program regulations require that HUD approve proposed sites for new construction projects. The regulations require also that sites for new and existing housing units be free from adverse environmental conditions, such as instability, flooding, septic tank backups, sewage hazards, or mud-slides; harmful air pollution, smoke, or dust; excessive noise, vibration, or vehicular traffic; rodent or vermin infestation; or fire hazards. The neighborhood must not be one which is seriously detrimental to family life and substandard dwellings or other undesirable elements should not predominate unless a program intended to upgrade the neighborhood is actively in progress.

The revised program regulations provide that when 30 percent of existing housing units have been leased, but not later than 90 days after execution of the annual contributions contract, the HUD area office must inspect 15 to 25 percent of the units leased or about to be leased to determine the condition of the dwellings and the neighborhood(s).

CONCLUSIONS

Leased housing which contains violations of local standards and building code requirements and/or is in

undesirable neighborhoods adversely affects the program's effectiveness in providing decent, safe, and sanitary housing to low-income tenants. HUD needs to improve the condition and location of housing units leased under the original program and insure that housing units to be leased under the original and section 8 leasing programs will be decent, safe, and sanitary and in neighborhoods free of detrimental characteristics.

HUD has taken steps to improve inspections of housing to be acquired under the revised leasing program. However, the original program needs improvements in:

- LHAs' inspection practices at the time leases are entered into as well as periodically during the life of the lease.
- Followup action by LHAs on tenant complaints about physical deficiencies and safety hazards in leased-housing units.
- HUD's monitoring of the condition of houses being leased.

The reasons we identified for some leased-housing units' being located in undesirable neighborhoods are not all inclusive. HUD should identify obstacles which cause LHAs to lease housing in undesirable neighborhoods and help them overcome these obstacles.

Also, the section 8 leasing program regulations should include requirements regarding these needed improvements to insure that only decent, safe, and sanitary housing located in acceptable neighborhoods will be leased under the section 8 program.

RECOMMENDATIONS

For the regulations governing the housing units leased and to be leased under the original program, we recommend that the Secretary of HUD require that:

- Documentation be submitted to HUD area offices showing that all housing units were inspected and any deficiencies found were corrected before entering into leases.
- Procedures be established requiring leasing organizations to periodically inspect leased-housing units and document such inspections, noting any deficiencies found and the corrective action taken.

--HUD area offices periodically inspect selected leased units to insure that the units are providing decent, safe, and sanitary housing.

--Tenants be assisted in getting leased-housing owners to correct deficiencies for which the owners are responsible.

We recommend also that the Secretary of HUD:

--Identify those leased-housing units in neighborhoods seriously detrimental to family life and, to the extent practicable, relocate these families.

--Emphasize to leasing organizations HUD's neighborhood requirements and the need to be more selective of neighborhoods for leased housing.

--Require HUD area offices to periodically insure that the HUD-allowed rental rates are sufficient, within statutory limits, to enable them to lease housing in acceptable neighborhoods.

--Identify problems that restrict leasing organizations from leasing in better neighborhoods and help these organizations resolve the problems.

In our report which was provided to HUD for comment on November 11, 1974, we proposed to the Secretary of HUD that provisions similar to these recommendations be included in the section 8 program regulations being prepared at that time.

AGENCY COMMENTS AND OUR EVALUATION

Section 8 program regulations for newly constructed, substantially rehabilitated, and existing units were issued on April 29, 30, and May 5, 1975, respectively.

In commenting on our report (see app. I), HUD stated that the section 8 program, by and large, responded positively to our findings and recommendations. HUD stated that all three aspects of the section 8 program--new construction, substantial rehabilitation, and existing housing--provide that HUD or public housing agencies (LHAs and other leasing organizations) inspect projects or units before acceptance into the program and annually thereafter. The public housing agency must maintain records of such inspections and any corrective actions necessary.

HUD pointed out that the section 8 regulations contain site and neighborhood standards which must be met; HUD must determine compliance with the requirements for new units and the public housing agency, for existing units.

HUD said also that the low amount of fair market rents offered to the LHA and/or the reluctance on the part of some owners to lease to low-income families under the original program were factors that often prevented LHAs from leasing in better neighborhoods. The section 8 program will allow families greater mobility to lease moderate housing in better neighborhoods, according to HUD.

We believe that the requirements HUD has included in its section 8 regulations should prevent the deficiencies noted in the original program from occurring if properly implemented.

HUD did not comment, for the most part, on our recommendations which relate to the original leasing program. HUD said its policy was to encourage converting section 23 projects (original program) to the section 8 program.

However, a May 1, 1975, HUD policy statement gives LHAs the option of converting, rather than requiring them to convert, newly constructed or authorized projects to be constructed under the original program to the section 8 program. In addition, the policy statement provides that for existing units leased under the original program, lease renewals and extensions may continue to be entered into for occupied units until June 30, 1979. A HUD official said HUD could not require such conversions if binding agreements to lease were entered into under the original program.

We believe HUD should implement our recommendations for the units leased and to be leased under the original program since many of these units may not be converted to the section 8 program in the near future. According to a HUD official, HUD does not know how many of the 129,700 units being leased and the 60,600 units authorized to be leased under the original program as of June 30, 1974, can or will be converted to the section 8 program.

With respect to documentation to be submitted to HUD area offices showing that all housing units leased were inspected and any deficiencies found were corrected before entering into leases, HUD commented that such documentation was required under the original program. HUD officials, however, could not provide us with documentation supporting this requirement.

CHAPTER 3

IMPROVEMENTS NEEDED IN HUD'S

MANAGEMENT AND ADMINISTRATION

HUD needs to improve its management and administration of the leased-housing program so that available resources are used more effectively and efficiently.

Our review showed that (1) annual contributions relating to nondwelling construction and equipment costs provided by HUD to some LHAs for leased housing exceeded the amounts required for comparable, newly constructed, publicly owned housing and (2) the maximum number of existing housing units were not made available to low-income families and individuals.

NEED TO REVISE PROCEDURES FOR DETERMINING LEASED-HOUSING ANNUAL CONTRIBUTIONS

The act of 1937 provides that annual contributions to LHAs for housing projects are to be fixed in uniform amounts and are to be paid over a fixed number of years. The act limits fixed contributions to LHAs for leased housing by stating that:

"The annual contribution * * * for a project of a public housing agency for low-rent housing in private accommodations * * * in lieu of any other guaranteed contribution authorized by section 10 shall not exceed the amount of the fixed annual contribution which would be established * * * for a newly constructed project by such public housing agency designed to accommodate the comparable number, sizes, and kinds of families."¹

HUD's procedures are to pay LHAs annual contributions for leased projects up to the amount of the debt service contribution that would be established for a newly constructed project developed under the turnkey or conventional methods designed to accommodate comparable numbers, sizes, and kinds of families.

¹ The Housing and Community Development Act of 1974 omitted this requirement for housing units to be leased under the section 8 program.

Our review showed that HUD, in determining annual contributions, allowed certain nondwelling construction and equipment costs¹ in amounts which HUD considered necessary to make the project financially feasible to operate and did not limit the nondwelling costs to those actually experienced in comparable conventional or turnkey projects. The annual contributions relating to nondwelling costs for 10 leased-housing projects included in our review exceeded that actually experienced in comparable conventional or turnkey projects by about \$242,000 annually.

HUD headquarters officials said that a greater amount for nondwelling construction and equipment costs was allowed in computing leased-housing annual contributions as compared with conventional or turnkey contributions because the owners of leased housing

- pay higher interest rates than LHAs for construction funds,
- pay real property taxes (LHAs are tax exempt, but some LHAs make payments in lieu of taxes in amounts not exceeding 10 percent of shelter rents), and
- normally require a return on investment, unlike LHAs.

In determining the amount of the annual contribution for a leased-housing project, HUD estimates the cost of a "hypothetical" project designed to simulate the project to be leased. These estimates are made up of three cost factors:

- Prototype² dwelling construction and equipment costs.
- Up to 90 percent of prototype costs for nondwelling construction and equipment costs.
- Interest costs.

HUD procedures permit its area offices to use up to 90 percent of prototype cost in computing nondwelling costs

¹These costs include the cost of the site, site improvement, nondwelling structures or spaces and equipment, architectural-engineering fees, permit fees, inspection and similar costs, relocation, and LHA administration.

²HUD estimates of the development costs of modestly designed dwelling units in various localities of the country.

without requiring any justification. As a result, the maximum 90 percent was used for the 10 projects included in our review, when actual nondwelling costs averaged only about 60 percent in comparable conventional and turnkey projects.

By using the unsupported 90-percent rate instead of the rate actually required in comparable conventional or turnkey projects, HUD's contributions for the 10 leased projects were about \$242,000 greater annually, as shown in the following schedule.

Comparison of Leased-Housing Contributions
Related To and Actual Costs Incurred in
Comparable Conventional or Turnkey Housing
for Nondwelling Construction and Equipment

<u>Area office and method of acquisition</u>	<u>Units</u>	<u>Unit dwelling cost (prototype) (note a)</u>	<u>Percent adjustment for nondwelling cost</u>	<u>Total development cost per unit</u>	<u>Amount of higher contribution provided (note b)</u>
Jacksonville:					
Leased	50	\$ 9,818	90	\$18,654	\$ 588
Turnkey	35	9,818	88	18,457	
Leased	20	13,230	90	25,137	4,739
Turnkey	10	13,230	60	21,168	
Leased	30	15,698	90	29,826	8,433
Turnkey	28	15,698	60	25,117	
Philadelphia:					
Leased	100	17,692	90	33,615	39,330
Turnkey	50	17,692	52	26,892	
Leased	100	17,692	90	33,615	39,330
Turnkey	50	17,692	52	26,892	
Leased	100	17,692	90	33,615	39,330
Turnkey	50	17,692	52	26,892	
Leased	120	16,590	90	31,521	23,292
Turnkey	176	16,590	70	28,203	

<u>Area office and method of acquisition</u>	<u>Units</u>	<u>Unit dwelling cost (prototype) (note a)</u>	<u>Percent adjustment for nondwelling cost</u>	<u>Total development cost per unit</u>	<u>Amount of higher contribution provided (note b)</u>
Philadelphia (cont.):					
Leased	88	\$14,960	90	\$28,424	\$ 35,429
Conventional	100	14,960	44	21,542	
Leased	60	17,692	90	33,615	27,946
Turnkey	50	17,692	45	25,653	
Leased	50	17,692	90	33,615	23,288
Turnkey	50	17,692	45	25,653	
Total					<u>\$241,705</u>

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^aThe conventional and turnkey costs shown are prototype costs current at the time the leased projects were acquired. The conventional and turnkey projects were constructed from 1 week to 26 months before the leased project was acquired.

^bComputed by multiplying the higher development cost per leased unit by the average debt service percentage rates experienced by LHAs in sales of bonds used to finance newly constructed housing at the time the leased projects were acquired. The rates used were 5.97 or 5.85 percent.

If the 10 projects are leased for 20 years--the maximum time new housing units can legally be leased--estimated excess Federal annual contributions of about \$4.8 million will be incurred, over that required if HUD's procedures had limited the leased-housing nondwelling costs to amounts not to exceed that actually experienced in comparable, recently constructed, conventional or turnkey housing in the area.

Our computations for these 10 leased projects were based on comparable conventional and turnkey projects located in the same geographical areas which (1) housed the same kinds of persons (elderly or families), (2) contained approximately the same number and size units, and (3) were located in the same prototype cost area.

HUD area office officials advised us that they had not adopted procedures to compare the nondwelling costs of leasing with conventional or turnkey projects in computing leased-housing annual contributions, and such comparisons were not made. These officials said that, to meet HUD financial feasibility requirements, they used the maximum allowance of 90 percent of prototype cost in computing leased-housing annual contributions.

HUD's leased-housing handbook provides that leases entered into by LHAs must be financially feasible, in that allowable expenses (rents paid to the owner and other expenses, such as LHA administrative costs) cannot exceed 90 percent of the anticipated income (annual contributions plus the estimated rents to be paid by tenants). The remaining 10 percent of income serves as operating reserves.

A HUD headquarters official said that the annual contribution for leased housing was often computed by first determining the amount of funds needed to make a project financially feasible and then adding to the prototype dwelling cost whatever amount was necessary to make the project financially feasible, up to the 90-percent limitation. HUD's Jacksonville and Philadelphia area office officials said they approve whatever nondwelling percentage rate is necessary to make leased projects financially feasible, up to the 90-percent limitation.

Conclusions

HUD's original program procedures do not insure that the leased-housing annual contributions provided to LHAs for nondwelling costs are limited to that which would be established for comparable conventional or turnkey projects, as required by Federal law. Instead, the flexibility HUD

allows in determining nondwelling costs permits leased-housing annual contributions to be made in amounts necessary, in HUD's opinion, to make a leased project financially feasible to operate.

Although we recognize the need for a project to be financially feasible as a prerequisite to approval for leasing, we question whether an annual contribution amount should be based on whatever amount is needed to make a project financially feasible. Because financial feasibility is based primarily on the amount of the annual contribution, the annual contribution would seemingly have to be computed before financial feasibility could be determined and not after, as is HUD's general practice.

Recommendations

For the 129,700 housing units under lease and the 60,600 units LHAs are authorized but have not yet leased under the original leased-housing program, we recommend that the Secretary of HUD (1) stop approving leased-housing nondwelling costs in amounts up to 90 percent of the prototype dwelling costs and (2) require nondwelling leased-housing costs to be based on the amounts that would be established for comparable, newly constructed, LHA-owned housing.

Agency comments and our evaluation

HUD stated that since the 1937 act did not require that development or acquisition value of the housing actually leased be utilized, the fixed annual contribution was derived through the use of the flexible formula. HUD said its policy was that, to the extent possible, LHAs operate financially solvent leasing programs within the already approved annual contribution contract amounts and that the amount authorized would not exceed that determined to be reasonable.

We realize that the 1937 act, as amended, did not require the development or acquisition value of the housing to be leased be used to compute annual contributions. However, it did require that leased-housing annual contributions must not exceed the amount of the fixed annual contribution for a newly constructed LHA-owned project designed to accommodate the comparable number, sizes, and kinds of families. HUD does not have procedures for comparing annual contributions of leased and LHA-owned projects to determine whether leasing exceeds LHA-owned project annual contributions nor did they make such comparisons.

HUD also pointed out that the Housing and Community Development Act of 1974 revised the formula for determining the subsidy under section 8--annual contributions will be based on HUD-established fair market rents, or gross rents which generally may not exceed the fair market rents. This method of determining annual contributions, however, is applicable only to units to be leased under the section 8 program. Because an undetermined number of the 129,700 units being leased and the 60,600 units authorized to be leased under the original leasing program at June 30, 1974, may not be converted to the section 8 program in the near future, we believe that HUD needs to revise its procedures for determining annual contributions for these units.

MAXIMUM NUMBER OF UNITS
NOT MADE AVAILABLE

The maximum number of existing housing units have not been made available to low-income families and individuals under the leased-housing program because HUD did not withdraw leasing authorizations from LHAs which did not use them within the required 12-month period. HUD could have used the withdrawn authorizations for other LHAs whose requests it had earlier denied.

Thirty LHAs--7 of which were included in the 14 LHAs reviewed--under the jurisdiction of 2 HUD area offices had not leased about 41 percent (1,635) of 3,977 authorized existing housing units within the HUD-required 12-month period. Although from 14 to 68 months had passed at the time of our review since HUD had authorized leasing the 1,635 units, the unused housing authorizations were not transferred to other LHAs whose requests had been denied because authorizations to lease were not available. HUD regional and area office officials gave various reasons for not taking action.

HUD's leased-housing handbook provides that, to minimize funds allocated when immediate occupancy is not expected, the annual contributions contract will include the following provision:

"The Local Authority shall proceed expeditiously with the Leasing of the maximum number of units authorized hereunder, for use and occupancy by Families of Low-Income. If the Local Authority does not proceed expeditiously with the Leasing of dwelling units * * * the Government, by notice to the Local Authority, may reduce its obligation hereunder with respect to the fixed annual contributions for the number and sizes of dwelling units under Lease to the Local Authority at the date of the receipt of such notices by the Local Authority."

The handbook states also that all units of leased-housing programs of 100 units or more are expected to be leased from owners within a maximum of 52 weeks after the annual contributions contracts are executed. For smaller programs, leasing should be scheduled for completion within a shorter time.

LHAs are responsible for initiating action to release authorized dwelling units and HUD's annual contribution commitments for those units which the LHAs are unable to bring under lease or are unable to continue under lease.

Section 23 of the 1937 act, as amended, requires each LHA to make a continuing survey and listing of the available dwelling units within the community or communities under its jurisdiction which provide decent, safe, and sanitary dwelling accommodations, suitable for use as low-rent housing in private accommodations.

Eighteen LHAs under the jurisdiction of HUD's San Francisco area office and 12 LHAs under the Philadelphia area office had not leased within the required 12-month period 1,635 (about 41 percent) of the 3,977 housing units authorized by HUD as of May and June 1973. All these units were for existing housing and had been authorized from 14 to 68 months before our review. Examples of the number of months housing-unit authorizations were outstanding are shown below.

Existing units as of May and June 1973

<u>Location</u>	<u>Authorized</u>	<u>Leased</u>	<u>Not leased</u>	<u>Months outstanding</u>
Philadelphia area office:				
Bucks County, Pennsylvania	200	-	200	41
Philadelphia, Pennsylvania	1,000	563	437	56 to 68
State of Delaware	200	-	200	44
Wilkes-Barre, Pennsylvania	50	10	40	44
San Francisco area office:				
San Jose City, California	150	74	76	16
Santa Clara County, California	125	44	81	15
Suisun City, California	20	-	20	40

Although authorizations of 1,635 housing units were outstanding beyond the 12-month period, the Philadelphia and San Francisco HUD area offices had not canceled the authorizations for any of these units.

HUD Philadelphia and San Francisco regional and area office officials said that authorizations for housing units which were not leased within the required time were not canceled and transferred to other LHAs because

- they had no specific policy regarding canceling and transferring authorized but unused units;
- they did not analyze the use of units authorized to be leased; and
- some LHAs, in their view, were taking adequate action to lease units authorized.

Although some LHAs under the Philadelphia area office's jurisdiction had not leased 1,042 of 1,719 existing units authorized from 36 to 68 months before our review, the area office, during the period these units were outstanding, denied other LHAs units to lease primarily on

the basis that authorizations were not available. As a result, low-income families and individuals, in the localities where HUD denied LHAs authority to lease units, may have been denied housing accommodations.

In recent years, HUD Regional Inspectors General have issued to HUD regional administrators and area office directors several reports which have commented on failure to lease units authorized. For example, a July 31, 1973, report to HUD's Chicago regional administrator and Detroit area office director questioned the need for the Detroit Housing Commission (an LHA) to retain its allocation of units because of its inability to demonstrate that a suitable supply of housing could be located. Although the number of housing units authorized was reduced from 1,109 to 664 on January 11, 1973, according to the report, the commission had not leased more than 70 units since its inception in 1967. The report recommended that consideration be given to further reducing the commission's program authorization. As of June 30, 1974, the commission's program authorization had not been reduced as recommended.

In our February 4, 1970, report to the Congress entitled "Administration of the Leased-Housing Program," we pointed out that leasing programs should be designed and adjusted in line with housing needs of low-income persons and the availability of suitable vacant housing in the area. We stated that some LHAs' applications approved by HUD contained statistical information which, in our opinion, did not sufficiently show (1) the need for the quantity of certain size dwelling units requested or (2) the availability of sufficient suitable housing of needed sizes within the rental rates that would qualify for the program. Also, in other cases, applications contained justifications that either did not materialize or subsequently became inappropriate.

As an example, the report pointed out that the total number of dwelling units authorized for two localities included in the review had not been reduced, even though the leasing programs in those localities had been operating for about 2 and 3 years and the LHAs had only leased about 50 percent of the units authorized.

We recommended to the Secretary of HUD that HUD's procedures on program adjustments be strengthened by including in each annual contributions contract a provision which would allow Federal participation only for dwelling units that are leased within a reasonable, stipulated time and which would provide that, at the end of such time, an

adjustment be made in the LHA's program in line with its current needs and the availability of housing. We stated our opinion that such a time-phased control feature would encourage better leasing progress under the program.

HUD replied that it had frequently considered including a provision in each annual contributions contract that would allow Federal participation only for dwelling units leased within a reasonable, stipulated time, as we had suggested, but had rejected the idea because HUD believed it would result in an undesirable degree of inflexibility in contract administration. HUD pointed out, however, that instructions had been issued to regional offices and LHAs in January 1969 designating times as production milestones for leasing dwelling units.

HUD further stated that an LHA's failure to adhere to its approved schedule would evidence a failure to lease expeditiously and would serve as a basis for reducing the Government's commitment of annual contributions funds for the authorized units that had not been leased. HUD pointed out that, for new programs exceeding 100 dwelling units, leasing would be required to be completed within 1 year after the program was approved and that, for smaller programs, a proportionately shorter period would be specified.

Revised leasing program

HUD's revised leasing program regulations provide that the LHA shall determine whether housing assistance for low-income families is needed and, if so, whether the supply of suitable units is sufficient to meet all or part of this need. The LHA, in determining the adequacy of the housing supply, must estimate realistically the number and size of units that may be made available. Also, in submitting an application, an LHA must describe the results of its survey of the housing market in terms of the number and sizes of the units which may be available.

HUD field offices are required by the revised program regulations to review LHA applications for both new and existing units to determine whether assistance for the number of units applied for is needed, and, if deemed appropriate, HUD will make adjustments in the number and sizes of units requested.

These regulations provide further that an LHA must proceed quickly with new construction projects. If the LHA fails to do so and no agreement with the owners has yet been entered into, the Government may terminate or reduce

its obligations for the project. This provision will be included in all annual contributions contracts with LHAs.

Also, the annual contributions contract for existing housing units is to include a provision under which HUD will provide target dates by calendar quarter endings, specifying the number of units expected to be leased during each quarter. HUD will consider an LHA's failure to demonstrate a good faith effort to adhere to the schedule as a basis for reducing the number of units and amount of HUD's annual contribution commitment.

Conclusions

HUD has not made available to low-income persons the maximum number of existing housing units under the leased-housing program. HUD has the opportunity to insure more effective use of authorizations to lease existing units and provide needed housing accommodations to the maximum number of low-income families and individuals. It can adopt procedures to analyze the progress in leasing existing units authorized and, where satisfactory progress has not been made, cancel and transfer the unused authorizations to others who have requested units to lease.

According to a HUD official, effective December 31, 1974, HUD no longer provides authorizations to lease housing units under the original or the revised leasing programs. Even so, action is needed to insure effective use of (1) 24,325 existing housing units authorized to be leased under the original program which are under annual contribution contracts but were not leased by LHAs as of June 30, 1974, (2) existing housing units authorized to be leased under the revised program, and (3) existing housing units to be authorized under the section 8 program.

Recommendations

We recommend that the Secretary of HUD establish procedures for the revised program which require HUD area offices to:

- Analyze periodically the progress of LHAs and other leasing organizations in leasing their authorized existing housing units.
- Cancel leasing authorizations for existing units if satisfactory progress has not been made and transfer these authorizations to other eligible organizations which have requested leasing authority.

We proposed similar actions to the Secretary of HUD for existing units to be authorized for leasing under the section 8 program.

Agency comments and our evaluation

HUD stated that to insure utilizing the maximum number of units authorized, the section 8 existing housing regulations provide that annual contribution contracts require public housing agencies to lease units expeditiously. Also, HUD will periodically review, and modify if necessary, housing agency schedules specifying the number of units expected to be leased by the end of each three-month period. A public housing agency's failure to demonstrate a good faith effort to adhere to the schedule could result in reducing the number of authorized units and the annual contribution commitment. If the number of authorized units is reduced, the HUD field office may request that the deobligated authority be used in the same community or elsewhere within its jurisdiction.

We believe these actions, if properly implemented, should make available to low-income persons more existing housing units and insure more effective use of authorizations to lease existing units under the section 8 program.

In commenting on our report, however, HUD did not mention what actions were planned with respect to the 24,325 existing units authorized under the original program which were not leased as of June 30, 1974, or the existing units authorized and not leased under the revised program. HUD's May 1, 1975, policy statement, however, prohibits LHAs from leasing the 24,325 existing units authorized under the original program even though these units are under annual contribution contracts. A HUD official said the policy was to encourage LHAs to convert these units to the section 8 program. The policy statement provides that the annual contributions LHAs are receiving for the original program-authorized but unleased units be used to finance increases in rents and/or operating costs for units leased under the original program, instead of HUD's funding these increases through increased annual contributions.

However, we believe that the actions we are recommending are still needed to insure effective use of the units authorized under the revised program.

CHAPTER 4

SCOPE OF REVIEW

We reviewed the leased low-rent housing program, including the operations of 14 LHAs, to evaluate the results of the LHAs' leased-housing operations and their administration. Also, we reviewed 23 other LHAs' use of authorizations to lease existing housing units at two HUD area offices.

During our review we:

- Examined applicable legislation, policies, program documents, reports, correspondence, and pertinent records of the various LHAs and HUD offices listed below.
- Inspected selected housing units at 14 LHAs.
- Interviewed HUD headquarters and field office personnel, officials of the 14 LHAs, and city or county housing inspectors who helped us inspect leased-housing units.
- Interviewed 154 leased-housing tenants to obtain their views and comments on the condition of their housing and neighborhoods.

Our review was made from May to November 1973 at HUD headquarters, Washington, D.C., and the following HUD regional and area offices and LHAs.

HUD Region III, Philadelphia, Pennsylvania:

HUD Baltimore area office
Baltimore, Maryland

Department of Housing and Community Development
Housing Authority of Baltimore City
Baltimore, Maryland

HUD Philadelphia area office
Philadelphia, Pennsylvania

Bucks County Housing Authority
Doylestown, Pennsylvania

Easton Housing Authority
Easton, Pennsylvania

Harrisburg Housing Authority
Harrisburg, Pennsylvania

Philadelphia Housing Authority
Philadelphia, Pennsylvania

Reading Housing Authority
Reading, Pennsylvania

Wilmington Housing Authority
Wilmington, Delaware

HUD Region IV, Atlanta, Georgia:

HUD Jacksonville area office
Jacksonville, Florida

Clearwater Housing Authority
Clearwater, Florida

Metropolitan Dade County,
Department of Housing and Urban Development
Miami, Florida

Housing Authority of the City of Orlando
Orlando, Florida

Pinellas County Housing Authority
Clearwater, Florida

HUD Region IX, San Francisco, California:

HUD San Francisco area office
San Francisco, California

Housing Authority of the City of Oakland
Oakland, California

Sacramento Housing and Redevelopment Agency
Sacramento, California

Housing Authority of the City of San Jose
San Jose, California

The 14 LHAs included in our review had about 8,700 leased-housing units for which the Federal annual contributions were about \$9.9 million during fiscal year 1973. The number of units under lease at these LHAs ranged from 16 to 2,193.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20413

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING MANAGEMENT

IN REPLY REFER TO:

Mr. Henry Eschwege
Director
Resources and Economic Development
Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

Your letter of November 11, 1974 addressed to the Secretary of Housing and Urban Development transmitting a draft report to the United States Congress entitled "Improvements are Needed in the Operation, Management, and Administration of the Leased Housing Program" has been referred to me for reply.

It is initially noted that the report directs its findings and recommendations to the Section 23 Leased Housing program where the LHA (Local Housing Authority) leases dwelling units from private owners for the housing of low-income families. The successor program, Section 8 of the United States Housing Act of 1937, as amended by Title II of the Housing and Community Development Act of 1974, dealing with the Housing Assistance Payments, by and large, responds positively to the GAO findings and recommendations. It is to be recognized, however, that, with the exception of the PHA (Public Housing Agency) -owner situation, the provisions of Section 8 and its accompanying HUD policies and procedures substantially lessen the role of the PHA in New Construction and Substantial Rehabilitation. In the Existing Housing Program, while the responsibilities for management and maintenance rest with the owner and not the PHA, the PHA has expanded responsibilities through assisting applicants in the "finders-keepers" and "shopping incentive" aspects of the program. On balance, though, the PHA has a lesser role than in Section 23. Further, in all three aspects of the program, the lease arrangement is between the owner and the tenant. In the Existing Housing Program, the PHA approves the owner/family lease. In the New Construction and the Substantial Rehabilitation Program, HUD approves the form of

lease to be used by the owner; it does not approve owner/family leases for specific units. While there is a greater emphasis on the HUD-owner relationship, especially for New Construction and Rehabilitation, there is no longer the situation where the PHA leases directly from the owner. There is only the contractual relationship that is provided through the Housing Assistance Payments Contract, PHA with owner, or HUD with owner, and the ACC (Annual Contributions Contract) HUD with PHA in the Existing Housing aspect of the program and where there is a private owner/PHA situation involving New Construction or Substantial Rehabilitation projects.

It is the policy of this Department to encourage conversion of Section 23 projects to the Section 8 program. In this regard, the Section 8 existing housing program regulations (as published in the Federal Register on January 23, 1975) provide that for all Section 23 existing housing projects under Annual Contributions Contracts (ACC) on January 1, 1975 (the effective date of the regulations), the LHAs shall submit by June 30, 1975, or in any event in connection with an amendment to an ACC, (i) a recommendation for continuing under Section 23 with a justification that it is in the government's interest to do so or (ii) a schedule for orderly conversion to the Section 8 program. Until such submissions have been approved by HUD: (i) no leases for additional units shall be entered into; (ii) leases for unoccupied units shall be terminated as quickly as possible consistent with the legal rights of owners; and (iii) leases for occupied units shall not be extended or modified for a term exceeding one year unless the owner has the right to renew the lease without concurrence of the PHA.

In addition, the regulations implementing the Section 8 New Construction and Substantial Rehabilitation programs, as published in the Federal Register on December 30, 1974, provide that conversions of Section 23 new construction or substantial rehabilitation projects will be permitted, where appropriate, provided that all parties (including HUD) agree to the terms and conditions.

I would like to now respond to the recommendations in the order that they were presented in the report.

Recommendation: The Secretary of HUD should, with regard to the regulations currently being prepared to implement the new leased housing program, as well as the regulations governing the housing units leased and to be leased under the original program, require that:

- Documentation be submitted to HUD Area Offices showing that all housing units including those leased by HUD were inspected and any deficiencies found were corrected before entering into leases.
- Procedures be established requiring leasing organizations to periodically inspect leased housing units and document such inspections noting any deficiencies found and the corrective action taken.
- HUD Area Office periodically inspect selected leased units to insure that the units are providing decent, safe, and sanitary housing accommodations to occupants.
- Tenants be assisted in getting leased housing owners to correct deficiencies for which the owners are responsible.

Response: Such documentation regarding inspections and the correction of deficiencies prior to leasing were required under the Section 23 program. It is to be recognized that our Area Offices have been understaffed to the detriment of some required activities. Hopefully, this situation will be remedied through the recent additional staffing of the field offices.

Further, the Regulations for all three aspects of the Section 8 Housing Assistance Payments Program, i.e., new construction, substantial rehabilitation and existing housing, provide for HUD or PHA inspection of projects or units prior to acceptance into leasing programs.

The Section 8 new construction and substantial rehabilitation regulations require HUD to inspect each project upon completion to determine whether it has been satisfactorily completed in accord with the terms and conditions of the Agreement to Enter Into Housing Assistance Payments Contract. In addition to the HUD inspection, the owner and the eligible family must inspect the unit prior to occupancy and both must certify, on a form prescribed by HUD, that they inspected the unit and determined it to be in decent, safe, and sanitary condition. HUD (or the PHA) must also inspect or cause to be inspected each dwelling unit and related facilities at least annually and at such times as it is determined to be necessary.

The Section 8 existing housing regulations require that at the time the family requests the PHA to approve a lease with an owner it must submit separate inspection reports completed by the family and the owner. These reports are to be in a format prescribed by HUD. In addition, the PHA must inspect, or cause to be inspected, each dwelling

unit for compliance with the PHA's housing quality standards prior to approving an owner-family lease. If there are defects or deficiencies which must be corrected in order for the unit to be decent, safe, and sanitary, the owner is to be advised by the PHA of the work to be done and the unit is to be reinspected by the PHA before a Housing Assistance Payments Contract may be executed. Records of such inspections, and any corrective actions necessary, must be maintained by the PHA. In addition to the initial and any follow-up inspections, the PHA will inspect or cause to be inspected each dwelling unit leased by an eligible family at least annually and at such other times as the PHA deems necessary. HUD Field Offices will also review all project operations to, among other things, determine the condition of the dwelling units leased and the manner in which the PHA is meeting its inspection responsibilities.

Recommendation: With regard to the neighborhoods in which leased housing is located the Secretary of HUD should:

- Identify those leased housing units presently located in neighborhoods seriously detrimental to family life and, to the extent practicable, relocate the families living in these housing units to other leased or low-rent public housing in better neighborhoods.
- Emphasize to leasing organizations HUD's neighborhood requirements and the need to be more selective with regard to neighborhoods in which to locate leased housing.
- Require HUD Area Offices to insure, on a periodic basis, that the rental rates HUD allows leasing organizations to pay leased housing owners, within statutory limits, are sufficient to enable them to lease housing in acceptable neighborhoods.
- Identify problems that restrict leasing organizations from leasing in better neighborhoods and assist these organizations in resolving the problems.

Response: Reference is made to our previous statement regarding the phasing out of Section 23 through conversion to Section 8. Such conversions, or through lease expirations, should eliminate the problem cited. Regarding the selectivity of neighborhoods, the Section 8 regulations contain new standards which must be met before participation in the program is permitted.

The new construction and substantial rehabilitation regulations include specific site and neighborhood standards which are applicable to all such projects developed under Section 8. HUD must determine compliance with these requirements before a proposal may be approved.

In the case of existing housing, families with Certificates of Participation may "shop" for suitable units anywhere within the operating jurisdiction of the PHA. At the time it receives its Certificate, the family is to be briefed by the PHA on such matters as how to find a suitable unit and the applicable housing quality (including site and neighborhood) standards established by the PHA in accord with the performance and acceptability criteria set forth in the Regulations.

- Prior to approving a lease between the family and the owner, the PHA must inspect the unit (or cause it to be inspected) for compliance with the PHA's housing quality standards, including site standards. A report of every inspection must be prepared and maintained in the files of the PHA. If the PHA determines that the lease cannot be approved for any reason, including noncompliance with the site and neighborhood standards, the owner and family shall be so notified and a copy of this notification along with the original inspection report must be maintained by the PHA.

The strict site and neighborhood standards imposed under the Section 8 program should alleviate the criticism regarding undesirable sites. In addition, the "finders-keepers" policy under the existing housing program, which permits families to shop for housing anywhere within the operating jurisdiction of the PHA, affords lower-income families greater selectivity in locating dwelling units suitable to their needs in a desirable location.

The Fair Market Rents in certain circumstances can be exceeded by a possible 10 to 20 percent. For instance, for new construction and substantial rehabilitation projects, the Fair Market Rents may be exceeded by up to 10 percent if the Field Office Director determines that special circumstances so warrant or by up to 20 percent where the Assistant Secretary for Housing Production and Mortgage Credit determines that special circumstances warrant such higher rents or determines that such higher rents are necessary to the implementation of a Housing Assistance Plan. In any event, the Contract Rents payable to the owner must be reasonable in relation to the quality, location, amenities, methods and terms of financing, and management and maintenance services of the project. In the case of existing housing, the Fair Market Rents may be exceeded by up to 10 percent if the PHA certifies that such higher

rent is reasonable in relation to the location, quality, amenities, facilities, and management and maintenance services of the dwelling unit; specifies the factors upon which the certification is based; and the Field Office Director approves. Fair Market Rents may be exceeded by up to 20 percent in a designated area where the Assistant Secretary for Housing Production and Mortgage Credit determines that special circumstances, such as prevailing rents for modest housing in a designated area, warrant such higher rents or determines that such higher rents are necessary to the implementation of a Housing Assistance Plan.

Factors that often prevented LHAs from leasing in better neighborhoods were the low amount of fair market rents offered to the LHA and/or the reluctance on the part of some owners to lease to low-income families under the Section 23 program. The Section 8 program will allow lower-income families greater mobility to lease moderate housing in better neighborhoods.

Recommendation: In order to improve HUD's management and administration of the leasing program, the Secretary of HUD should, (1) with respect to the 116,000 housing units under lease and the 82,000 units LHAs are authorized to but have not yet leased under the original leased housing program, discontinue the procedure of approving leased housing nondwelling costs in amounts up to 90 percent of the prototype dwelling costs and require nondwelling leased housing costs to be based on the amounts that would be established for comparable newly constructed LHA owned housing and (2) establish procedures which require HUD Area Offices to:

- analyze periodically the progress of LHAs and other leasing organizations in leasing housing units authorized them, and
- cancel authorizations to lease existing housing units if satisfactory progress has not been made in leasing units, and transfer these authorizations to other eligible organizations which have requested authority from HUD to lease housing.

Response: Under procedures which existed between enactment of Section 23 in 1965 and implementation of the revised Section 23 program in 1974, the fixed annual contribution for a leasing project was based on the estimated total development cost for a newly constructed project by the LHA designed to accommodate comparable number, sizes, and kinds of families. Since the Act did not require

that the development or acquisition value of the housing actually leased be utilized (in fact, often times the value could not be determined) the fixed annual contribution was derived through the use of the flexible formula.

It is the policy of this Department that, to the extent possible, LHAs operate financially solvent leasing programs within the already approved ACC amounts. This will be accomplished by reducing the number of units authorized under the ACC in order to increase the basic annual contribution amounts for the remaining units. To the extent that increases to the annual contributions commitment are received, the amount authorized will not exceed that which is determined to be reasonable.

The Housing and Community Development Act of 1974 revises the formula for determining the subsidy under Section 8 that may be committed to any dwelling unit or project. In the case of existing housing, the maximum annual contribution that may be contracted for will be the total of the HUD established Fair Market Rents for all units in the project. In the case of new construction and substantial rehabilitation, the maximum commitment will be based on the total of the gross rents (which, generally, may not exceed the HUD established Fair Market Rents) for all assisted units in the project (plus a fee for the costs of PHA administration in the case of private owner/PHA projects).

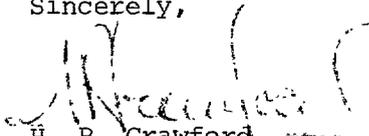
To assure utilization of the maximum number of units authorized, the Section 8 new construction and substantial rehabilitation regulations provide for a reduction of the number of units if at any time, beginning six months after the effective date of the Contract, the owner fails for a continuous period of six months to have at least 80 percent of the Contract units leased or available for leasing by eligible families. Moreover, at the end of the initial Contract term and at each renewal, the number of Contract units may be reduced to not less than the number of units under lease or available for leasing at that time or the average number under lease or available for leasing during the previous year.

To assure utilization of the maximum number of Section 8 existing units, the ACC shall include a provision relating to the expeditious leasing of units. HUD will review (and modify as appropriate) a schedule proposed by the PHA specifying the number of units

expected to be leased by the end of each three month period. Failure of the PHA to demonstrate a good faith effort to adhere to this schedule will be considered a basis for reduction in the number of units and the annual contributions commitment. Adherence to this schedule will be monitored by Field Office reviews which will occur periodically after execution of the ACC.

In the event of a reduction in the number of units, the Field Office may request authorization to use the deobligated contract authority in the same community or elsewhere within its jurisdiction.

Sincerely,



H. R. Crawford

Assistant Secretary

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
RESPONSIBLE FOR ADMINISTERING
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
George W. Romney	Jan. 1969	Feb. 1973
James T. Lynn	Feb. 1973	Feb. 1975
Carla A. Hills	Mar. 1975	Present
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT AND FEDERAL HOUSING COMMISSIONER:		
Eugene A. Gullledge	Oct. 1969	Jan. 1973
Woodward Kingman (acting)	Jan. 1973	July 1973
Sheldon B. Lubar	July 1973	Nov. 1974
David M. DeWilde (acting)	Nov. 1974	Present
ASSISTANT SECRETARY FOR HOUSING MANAGEMENT:		
Lawrence M. Cox	Mar. 1969	July 1970
Norman V. Watson	July 1970	Jan. 1973
Abner D. Silverman (acting)	Jan. 1973	Mar. 1973
H. R. Crawford	Apr. 1973	Present

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