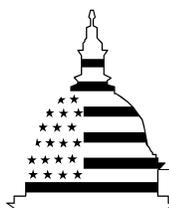


November 2005

PROJECT-BASED
RENTAL
ASSISTANCE

HUD Should
Streamline Its
Processes to Ensure
Timely Housing
Assistance Payments



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-06-57](#), a report to congressional requesters

PROJECT-BASED RENTAL ASSISTANCE

HUD Should Streamline Its Processes to Ensure Timely Housing Assistance Payments

Why GAO Did This Study

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

What GAO Recommends

GAO is making recommendations to the Secretary of HUD to improve the timeliness of housing assistance payments and mitigate the effects of delayed payments. Specifically, GAO recommends that HUD streamline and automate the contract renewal process to prevent errors and delays. GAO is also making other recommendations to improve HUD's monitoring of contract funding levels and notifying owners about late payments.

HUD agreed with our conclusions and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-57.

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

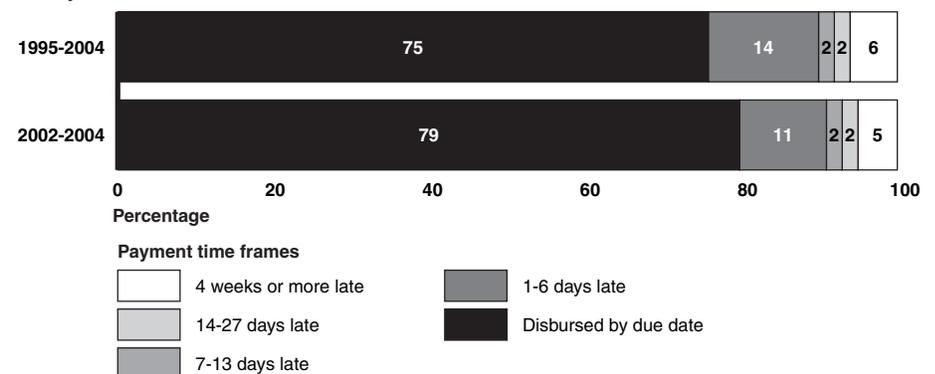
What GAO Found

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

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

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

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



Source: GAO analysis of HUD data.

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

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Abbreviations

BPR	Business Process Reengineering
HUD	Department of Housing and Urban Development
OMHAR	Office of Multifamily Housing Assistance Restructuring
MAHRA	Multifamily Assisted Housing Reform and Affordability Act of 1997
PAS	Program Accounting System
PBCA	performance-based contract administrator
TRACS	Tenant Rental Assistance Certification System

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United States Government Accountability Office
Washington, D.C. 20548

November 15, 2005

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

The Honorable Bob Ney
Chairman
The Honorable Maxine Waters
Ranking Minority Member
Subcommittee on Housing
and Community Opportunity
Committee on Financial Services
House of Representatives

The Department of Housing and Urban Development (HUD) provides rental assistance subsidies to privately owned, multifamily projects so that they are affordable to low-income households. In fiscal year 2004, HUD assisted approximately 1.6 million households through project-based rental assistance contracts, committing about \$4.4 billion to fund these contracts with property owners. Owners rely on these subsidies from HUD, often to a great extent, to pay for daily operating expenses, such as staff salaries and maintenance, as well as to make their monthly mortgage payments and set aside funds for contingencies and major repairs. Although HUD's subsidy payments to owners are not subject to a statutory or regulatory standard for timeliness, HUD's goal, with some exceptions, is to provide the payments by the 1st business day of the month.

Project owners, and various associations representing them, have expressed concern that HUD has been late in paying some owners their monthly subsidy and that late payments to owners have become a chronic problem in recent years. According to some owners, late payments can lead them to defer maintenance, miss payments on monthly utility bills, or risk default on their mortgages. Furthermore, late payments might influence owners to "opt out" of HUD's rental assistance programs when their contracts with HUD expire, potentially resulting in a reduction of affordable housing units for low-income households.

You asked us to review the effects that late housing assistance payments may have on project owners and the availability of affordable housing. Our report discusses (1) the extent to which HUD makes monthly housing assistance payments in a timely manner, (2) the factors that affect the timeliness of the payments, and (3) the effect(s) that payment delays have on project owners and their willingness to continue providing affordable housing.

To determine the extent to which HUD's housing assistance payments are timely—that is, disbursed by the 1st business day of the month for most contracts—we analyzed 10 years (fiscal years 1995 through 2004) of HUD's monthly payment data. We analyzed trends in these data to determine whether payment timeliness changed over time and whether there were differences in payment timeliness by the type of contract administrator (i.e., whether HUD staff or contractors processed monthly vouchers). To determine the factors that affect the timeliness of housing assistance payments, we analyzed the portion of HUD's monthly payment data (generally, payments made in fiscal years 2002 through 2004) that captured the reasons particular payments were delayed. We supplemented our analyses by interviewing HUD officials from headquarters and eight field offices (which were selected to represent a range of experiences by state—those with high and low percentages of late payments), contract administrators, project owners, and industry group officials. To assess the effects of payment delays on project owners and their willingness to continue providing affordable housing, we compared available HUD data on projects that opted out of HUD's programs with monthly payment timeliness data to determine whether these projects experienced more payment delays than projects that are currently receiving assistance from HUD. At the HUD field offices where we did site visits, we interviewed project owners and contract administrators to determine (1) the reasons owners opted out of HUD's programs, (2) the extent to which delayed housing assistance payments may have factored into this decision, and (3) what other effects (e.g., financial difficulties) payment delays had on project owners. We also discussed these issues with HUD and officials from eight industry associations representing property owners. We conducted our work between October 2004 and September 2005 in Baltimore, Maryland; Boston, Massachusetts; Chicago, Illinois; Des Moines, Iowa; Kansas City, Kansas; Kansas City, Missouri; Los Angeles, California; Manchester, New Hampshire; Seattle, Washington; and Washington, D.C., in accordance with generally accepted government auditing standards. Appendix I provides additional details on our scope and methodology.

Results in Brief

Most of HUD's housing assistance payments were timely—HUD disbursed by the due date 75 percent of the 3.2 million monthly payments for fiscal years 1995 through 2004; however, 25 percent of its payments were late. For this 10-year period, HUD disbursed 89 percent of these monthly payments either on time or less than 1 week late. However, 8 percent (averaging about 25,000 payments per year) were significantly late—that is, they were delayed by 2 weeks or more, a time frame in which some owners indicated the late payment could affect their ability to pay their mortgages on time. HUD made payments on an average of about 26,000 contracts per month. About one-third of these contracts experienced at least 1 payment per year that was late by 2 weeks or more. The timeliness of HUD's monthly housing assistance payments varied over the 10-year period, decreasing in 1998, shortly after HUD began implementing the Multifamily Assisted Housing Reform and Affordability Act of 1997, which contained new contract renewal and processing requirements. Timeliness gradually improved after 2001, after HUD began using performance-based contract administrators to administer a majority of the contracts. In the 3-year period of fiscal years 2002 through 2004, HUD disbursed 79 percent of payments by the due date, but 7 percent of these payments were significantly late, or delayed by 2 weeks or more. Timeliness also varied depending on the type of administrator responsible for processing the payments. In fiscal year 2004, payments administered by HUD staff were more likely to be late, while payments on contracts administered by performance-based or traditional (nonperformance-based) contract administrators were more likely to be on time. Timeliness also varied by state, based on our analysis of fiscal year 2004 data.

The primary factors affecting the timeliness of HUD's housing assistance payments were the process of renewing owners' contracts; internal HUD processes for funding contracts and monitoring how quickly each contract uses its funding; and untimely, inaccurate, or incomplete submissions of monthly vouchers by project owners. First, monthly housing assistance payments were more likely to be late when owners' contracts to participate in HUD's programs were not renewed by their expiration dates, according to HUD officials, property owners, and contract administrators. Our analysis of available HUD data on the reasons for some late payments in fiscal years 2002 through 2004 found that the most common reason for payments that were 2 weeks or more late was that the payment was being withheld pending contract renewal. HUD officials and contract administrators said that delays on HUD's part—stemming from a renewal process HUD officials agreed could be cumbersome and paper intensive—

could cause (or exacerbate) late payments that result from the failure to have in place a renewal when a contract reaches its expiration date. The timeliness, quality, and completeness of owners' renewal submissions could also cause delays in contract renewals, particularly when an owner's initial contract expires and it must be renewed for the first time. Second, various aspects of HUD's internal funding process may contribute to late payments. HUD does not know exactly how much it will pay owners each year because the amounts vary with tenant turnover, so HUD estimates how much funding it needs to obligate, or commit, to each contract and how quickly the contract will use these funds. However, HUD often underestimates how much funding a contract will need in a given year, and the agency lacks consistent processes for field office staff to monitor contracts and allocate and obligate additional funds when contracts use funds faster than anticipated. Failure to allocate and obligate additional funds to contracts promptly can cause payments to be late. Finally, according to HUD officials and contract administrators, owners' untimely, inaccurate, or incomplete monthly voucher submissions may also cause late housing assistance payments. However, the contract administrators with whom we spoke generally indicated they were able to correct errors in owners' submissions ahead of time to ensure timely payments.

According to project owners with whom we met, delays in HUD's housing assistance payments have had negative financial effects and may have compromised owners' ability to operate their properties, but the delays were unlikely to cause owners to opt out of HUD's programs or stop providing affordable housing. Some owners said they had incurred late fees on their mortgages and other bills or had experienced interruptions in services at their properties because of delayed payments. Effects of delayed payments could vary in severity, depending on the financial condition of the property owner and the extent to which the operation of the property was dependent on HUD's subsidy. For example, a nonprofit owner of a single, fully subsidized property (i.e., where all units receive a HUD subsidy) may have more difficulty paying the mortgage or other bills for maintenance of the property than would an owner with several properties that have a mix of market rate and subsidized units. HUD allows owners to withdraw funds from their replacement reserves (funds required to be set aside for future property repair and capital improvements) to help cover operating expenses when housing assistance payments are delayed. However, some properties may not have sufficient reserves to cover such expenses. Furthermore, owners said that HUD did not notify them of when or for how long payments would be delayed, which prevented them from taking steps to mitigate the effects of late payments. The owners and

industry group officials generally agreed that the negative effects of delayed payments alone would not cause owners to opt out of HUD's programs, although they could be a contributing factor. They cited market factors, such as an owner's ability to obtain higher rents outside of HUD programs, as the primary reason owners might opt out. Most of the owners with whom we spoke stated that they would not opt out of HUD's programs, because they are committed to providing affordable housing.

This report contains specific recommendations to the Secretary of HUD to reduce payment delays associated with contract renewals, to better estimate and monitor contract funding levels, and to notify owners about late payments. We provided HUD with a draft of this report for its review and comment. HUD concurred with our conclusions and recommendations.

Background

HUD operates a variety of project-based rental assistance programs through which it pays subsidies, or housing assistance payments, to private owners of multifamily housing that help make this housing affordable for lower income households. In some cases, HUD subsidized the construction of the housing (or substantial rehabilitation of existing properties) through means such as discounted mortgages insured by HUD's Federal Housing Administration; in others, such as the Section 202 Supportive Housing for the Elderly Program, HUD provided grants to construct the housing. HUD entered into long-term contracts, often 20 to 40 years, committing it and the property owners to providing long-term affordable housing. Under these contracts, tenants generally pay 30 percent of their adjusted income toward their rents, with the HUD subsidy equal to the difference between what the tenants pay and the contract rents that HUD and the owners negotiate in advance.

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

- Because of budgetary constraints, HUD shortened the terms of subsequent renewals, after the initial 20- to 40-year terms began expiring in the mid-1990s. HUD reduced the contract terms to 1 or 5 years, with the funding renewed annually subject to appropriations.¹
- Second, in 1997, Congress passed the Multifamily Assisted Housing Reform and Affordability Act (MAHRA), as amended, in an effort, among other things, to ensure that the rents HUD subsidizes remain comparable with market rents.² Over the course of the initial longer term agreements with owners, contract rents in some cases came to substantially exceed local market rents. MAHRA required an assessment of each project when it neared the end of its original contract term to determine whether the contract rents were comparable to current market rents and whether the project had sufficient cash flow to meet its debt as well as daily and long-term operating expenses. If the expiring contract rents were below market rates, HUD could increase the contract rents to market rates upon renewal (i.e., “mark up to market”). Conversely, HUD could decrease the contract rents upon renewal if they were higher than market rents (i.e., “mark down to market”).³
- Finally, in 1999, because of staffing constraints (primarily in HUD’s field offices) and the workload involved in renewing the increasing numbers of rental assistance contracts reaching the end of their initial terms,

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

²Pub. L. No. 105-65, title V, 111 Stat. 1384 (Oct. 27, 1997) (*set out at* 42 U.S.C. § 1437f note).

³Prior GAO reports on HUD’s mark-to-market efforts include the following: GAO, *Multifamily Housing: Physical and Financial Condition of Mark-to-Market At-Risk Properties*, [GAO-02-953](#) (Washington, D.C.: Sept. 6, 2002); *Multifamily Housing: Issues Related to Mark-to-Market Program Reauthorization*, [GAO-01-800](#) (Washington, D.C.: July 11, 2001); and *Multifamily Housing: HUD’s Restructuring Office’s Actions to Implement the Mark-to-Market Program*, [GAO/RCED-00-21](#) (Washington, D.C.: Jan. 20, 2000).

HUD began an initiative to contract out the oversight and administration of most of its project-based contracts. The entities that HUD hired—typically public housing authorities or state housing finance agencies—are responsible for conducting on-site management reviews of assisted properties; adjusting contract rents; reviewing, processing, and paying monthly vouchers submitted by owners; renewing contracts with property owners; and responding to health and safety issues at the properties. These performance-based contract administrators (PBCA) now administer the majority of contracts—over 13,000 of approximately 23,000 contracts in fiscal year 2004.

According to HUD officials, the department has not yet transferred all of its rental assistance contracts to the PBCAs. HUD plans to have traditional, or nonperformance-based contractors, continue to administer the approximately 5,000 contracts that they were administering until these contracts expire; at which time, these contracts will be assigned to the PBCAs. The traditional contract administrators are, often, local public housing authorities handling a very limited number of contracts. HUD itself also administers the contracts under certain programs, such as the Section 202 Supportive Housing for the Elderly Program and the Section 811 Supportive Housing for Persons with Disabilities Program. HUD announced in April 2004 that it was conducting a competitive sourcing effort to determine the most efficient and cost-effective means to administer some of these contracts. At the conclusion of this effort, HUD will seek new budget authority to pay for contract administration services. Consequently, while the PBCAs handle most of HUD's project-based housing, three types of administrators are involved in day-to-day program oversight and administration, including tasks involved in processing monthly housing assistance payments.

To receive their monthly housing assistance payments, owners must submit monthly vouchers to account for changes in occupancy and tenants' incomes that affect the actual amount of subsidy due. However, the manner in which the owners submit these vouchers and the process by which they get paid varies depending on which of the three types of contract administrators handles their contract (see fig. 1). For HUD-administered contracts, the owner submits a monthly voucher to HUD for verification, and HUD in turn pays the owner based on the amount in the voucher. For PBCA-administered contracts, the owner submits a monthly voucher to the PBCA, which verifies the voucher and forwards it to HUD for payment. HUD then transfers the amount verified on the voucher to the PBCA, which in turn pays the owner. In contrast, for traditionally administered contracts,

HUD has an ongoing effort to improve its rental assistance programs' business processes and make better use of information technology related to those programs. In 2004, HUD launched a Business Process Reengineering (BPR) initiative to, among other things, improve inefficient and redundant processes, as identified by HUD's contractor for this effort, and to integrate HUD's data systems. HUD expects its contractor to identify its recommended changes by June 2006. According to HUD officials, HUD does not currently have the funding in place to implement the BPR.

HUD Made Three-fourths of Its Housing Assistance Payments On Time in Fiscal Years 1995 Through 2004

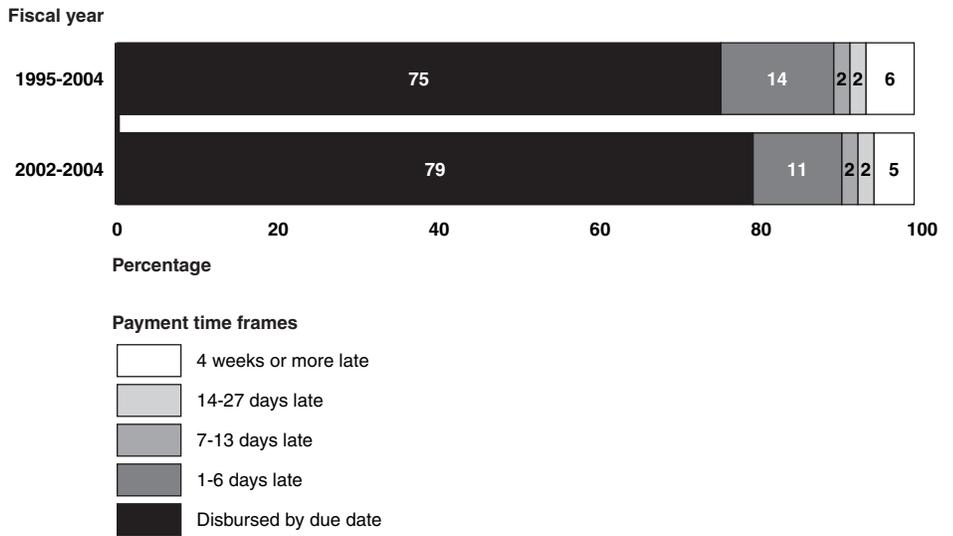
Between fiscal years 1995 and 2004, HUD disbursed three-fourths of its monthly housing assistance payments by the due date, but thousands of payments each year were late, affecting many property owners.⁴ For this 10-year period, about 8 percent of all payments were delayed by 2 weeks or more, a time frame we characterize as significant. On average, about one-third of housing assistance contracts experienced at least 1 payment per year that was delayed by 2 weeks or more. Furthermore, the timeliness of housing assistance payments has varied, with a decrease in 1998, but with a gradual improvement since 2001. Timeliness also varied by type of contract administrator, with payments for HUD-administered contracts more likely to be late, based on our analysis of fiscal year 2004 payment data. Timeliness varied considerably by state as well.

Over a 10-Year Period, 75 Percent of HUD's Payments Were On Time, but 8 Percent Were Significantly Late

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

⁴For contracts administered by the PBCAs and traditional contract administrators, HUD disburses funds to the contract administrator, rather than directly to the owner. HUD's data systems do not track the date the owner received payment under these contracts. As a result, we do not have data to reflect the exact payment date and, instead, for these contracts, we characterize timeliness based on the date the U.S. Treasury disbursed funds to the contract administrator. Based on our discussions with PBCA officials, it takes the PBCAs generally 1 to 5 days to turn around payments to owners.

Figure 2: Timeliness of Housing Assistance Payments (Fiscal Years 1995 Through 2004 Versus 2002 Through 2004)



Source: GAO analysis of HUD data.

Note: Percentages do not add to 100 percent due to rounding. Data include HUD-administered, PBCA-administered, and traditionally administered contracts.

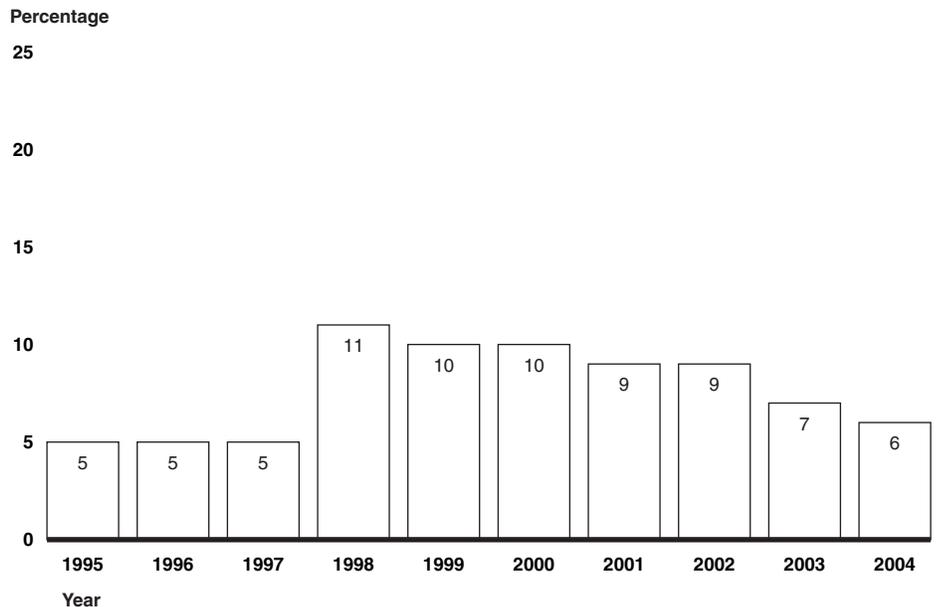
HUD does not have an overall timeliness standard by which it makes payments to owners or its contract administrators, based in statute, regulation, or HUD guidance. However, HUD contractually requires the PBCAs (which administer the majority of contracts) to pay owners no later than the 1st business day of the month. HUD officials said that they also use this standard informally to determine the timeliness of payments on HUD-administered and traditionally administered contracts.⁵ Therefore, we considered payments to be timely if they were disbursed by the 1st business day of the month. Based on our discussions with project owners who reported that they relied on HUD’s assistance to pay their mortgages before they incurred late fees (generally, after the 15th day of the month), we determined that a payment delay of 2 weeks or more was significant.

⁵We did not include payment data for contracts under the Section 236 Rental Assistance Payment and the Rent Supplement programs for which HUD does not begin processing payments until after the 1st business day of the month. These represent only 2 percent all project-based rental assistance contracts.

The Timeliness of Payments Has Varied over a 10-Year Period

The timeliness of housing assistance payments over the 10-year period (fiscal years 1995 through 2004) has shown some variation (see fig. 3). The percentage of payments that were significantly late increased in 1998, which HUD and PBCA officials indicated likely had to do with HUD's initial implementation of MAHRA and new contract renewal procedures and processing requirements for project owners. Timeliness has gradually improved since 2001, shortly after HUD first began using the PBCAs to administer contracts.

Figure 3: Percentage of Payments That Were 2 Weeks or More Late (Fiscal Years 1995 Through 2004)



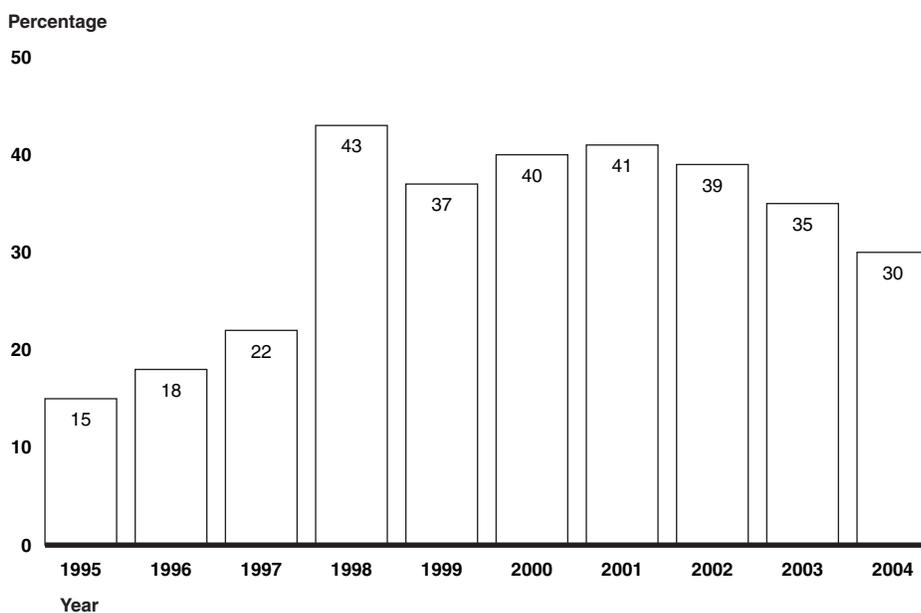
Source: GAO analysis of HUD data.

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

The percentage of contracts experiencing significantly late payments over the course of the year showed a similar variation over the 10-year period, rising to 43 percent in fiscal year 1998 and decreasing to 30 percent in fiscal year 2004 (see fig. 4). As with the percentage of late payments, the percentage of contracts with late payments increased in fiscal year 1998 when HUD implemented requirements pursuant to MAHRA. Over the

10-year period, about one-third of approximately 26,000 contracts experienced at least 1 payment per year that was delayed by 2 weeks or more.

Figure 4: Percentage of Contracts Experiencing at Least 1 Payment Delayed by 2 Weeks or More (Fiscal Years 1995 Through 2004)



Source: GAO analysis of HUD data.

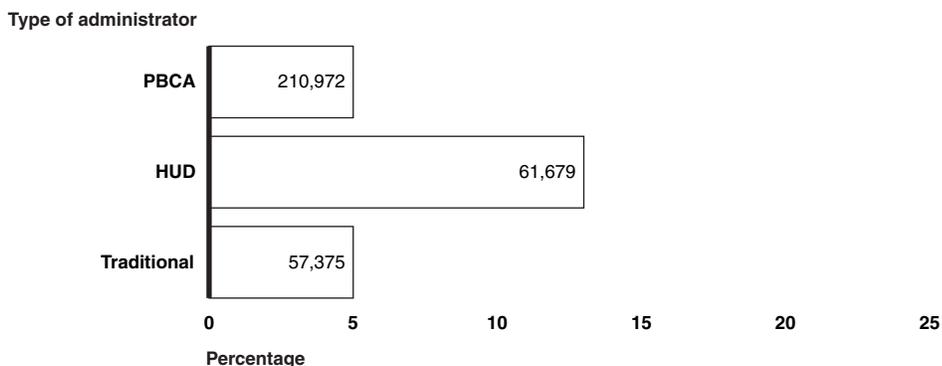
Note: Ten-year average: 32 percent.

Although HUD data showed a gradual decline in the percentage of late payments and the number of contracts affected by late payments, in the most recent 3-year period (fiscal years 2002 through 2004), the percentage of payments that were 2 weeks or more and 4 weeks or more late was nearly as high (7 percent and 5 percent) as over the 10-year period (see fig. 2).

The Timeliness of Payments Varied Based on the Type of Contract Administration

Payments on HUD-administered contracts were more likely to be delayed than those on contracts administered by the PBCAs and traditional contract administrators, based on HUD's fiscal year 2004 payment data (see fig. 5).

Figure 5: Percentage of Payments That Were 2 Weeks or More Late, by Contract Administrator (Fiscal Year 2004)



Source: GAO analysis of HUD data.

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

Payments on PBCA- and HUD-administered contracts have more elaborate monthly processing requirements than do the payments on traditionally administered contracts that HUD processes. Payments on PBCA- and HUD-administered contracts require that the monthly vouchers be reviewed and processed by a PBCA or HUD field office before a payment is approved. As previously noted, for traditionally administered contracts, HUD creates an annual budget, amortizes the budget over 12 payments for the year, disburses the set monthly payments, and makes any necessary adjustments through a year-end settlement based on voucher information submitted to the traditional contract administrators.

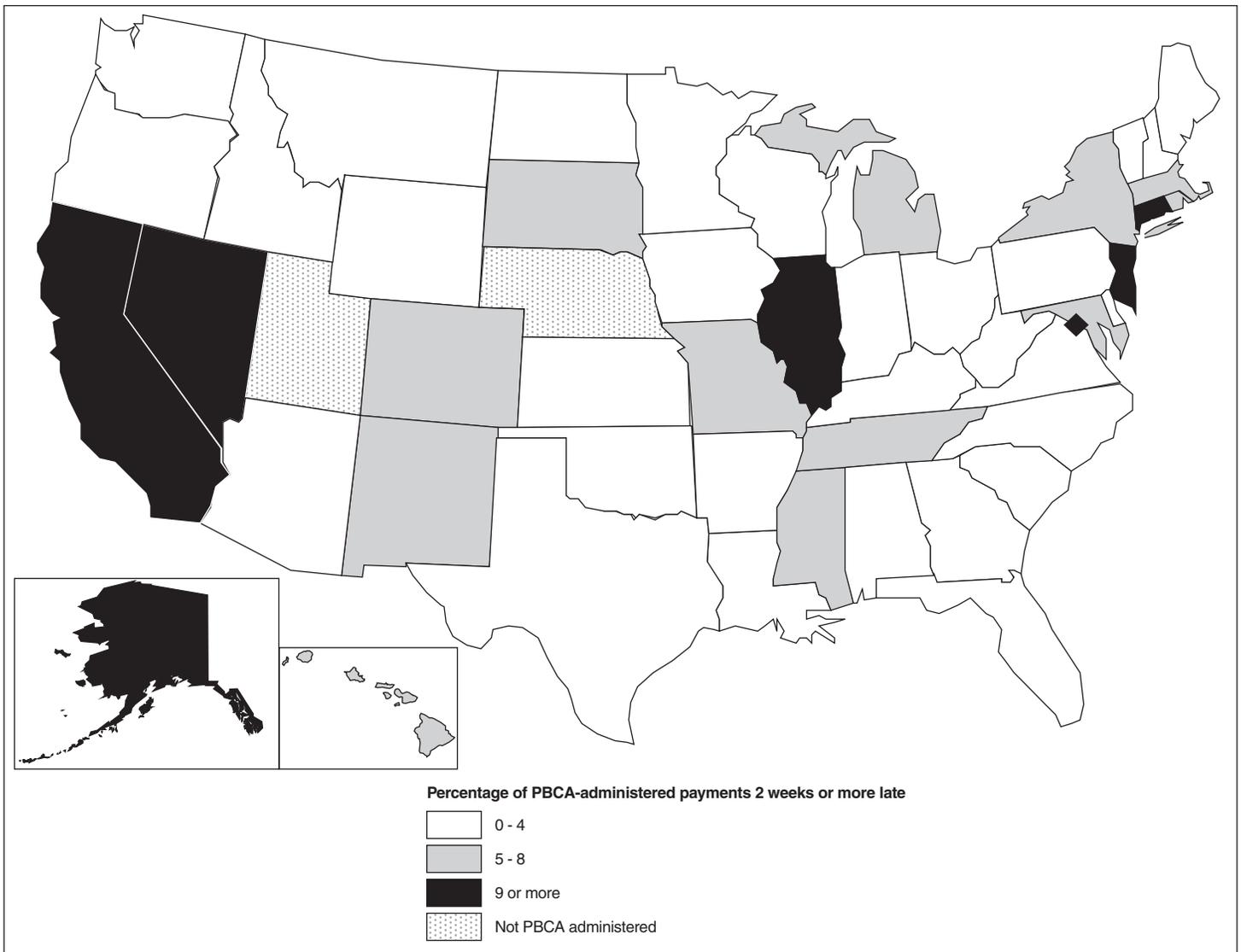
The percentage of chronically late payments also varied by contract administrator.⁶ In fiscal year 2004, 9 percent of HUD-administered contracts experienced chronic late payments, while 3 percent of PBCA-administered contracts and 1 percent of the traditionally administered contracts had chronic late payments.

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

Payment Timeliness Also Varied by State

We analyzed HUD's payment data by state and found that timeliness varied considerably for both PBCA- and HUD-administered contracts, although the reasons for this variation are not clear. The percentage of payments on PBCA-administered contracts that were 2 weeks or more late in fiscal year 2004 ranged from 1 percent in North Dakota to 13 percent in the District of Columbia (see fig. 6). With some exceptions, a single PBCA administers all of the PBCA-administered contracts for a single state. However, late payments may be attributable to a number of factors, and the HUD payment data do not provide an explanation for the variations among the states.

Figure 6: Percentage of PBCA-Administered Payments That Were 2 Weeks or More Late, by State (Fiscal Year 2004)



Sources: GAO analysis (HUD data) and Art Explosion (map).

For HUD-administered contracts, 19 states had 15 percent or more of their payments that were 2 weeks or more late in 2004. The percentage of payments 2 weeks or more late ranged from 2 percent in North Dakota to 35 percent in Wyoming. Again, the HUD payment data do not provide an explanation for the state variation in payment delays.

The percentage of contracts that experienced chronic late payments also varied by state. In fiscal years 2002 through 2004, 17 percent of the contracts in Delaware and 13 percent in Connecticut and the District of Columbia had 6 or more payments per year that were 2 weeks or more late (see fig. 7). In contrast, less than 3 percent of contracts in most states had chronic late payments.

Figure 7: Percentage of Contracts Experiencing Chronically Late Payments, by State (Fiscal Years 2002 Through 2004)

State	Percentage of contracts with chronic late payments	
	Fiscal year 2002-2004	Fiscal year 2004 only
Delaware	17	18
Connecticut	13	8
District of Columbia	13	8
Illinois	9	11
Wyoming	9	6
New Jersey	7	12
Maryland	6	9
California	4	9
Nevada	3	9
All other states	2	4

Source: GAO analysis of HUD data.

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

The contract renewal process, HUD's internal processes for funding and monitoring contracts, and owners' erroneous or untimely voucher submissions affected payment timeliness. For instance, owners were more likely to receive late monthly payments when their contracts with HUD had not been renewed by their expiration dates. Moreover, HUD's process of estimating how much funding it needs to obligate to contracts; HUD's inconsistent approach to monitoring contracts to determine when additional funding should be obligated; and lack of staff access to, and training on, HUD payment databases also may have affected the timeliness of housing assistance payments. Additionally, HUD's interpretation of legislative restrictions on its ability to use recaptured funds may have exacerbated payment delays. Finally, owners' erroneous or untimely

submissions of monthly vouchers could have caused some of the untimely payments from HUD.

Payment Delays Were More Likely When a Contract Renewal Was Pending

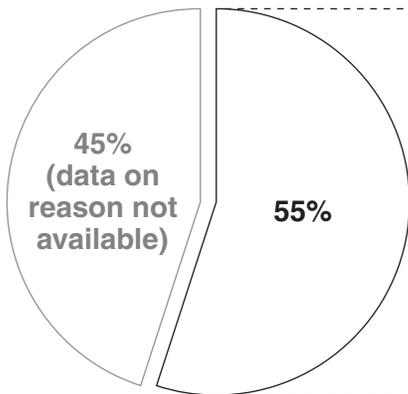
Late monthly voucher payments were more likely to occur when a contract had not been renewed by its expiration date, according to many of the HUD officials, contract administrators, and property owners with whom we spoke. HUD's accounting systems require that an active contract be in place with funding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

Our analysis of HUD data from fiscal years 2002 through 2004 shows that 60 percent of the payments that were 2 weeks or more late was associated with pending contract renewals, among late payments on PBCA- and HUD-administered contracts for which HUD recorded the reason for the delay (see fig. 8).⁷

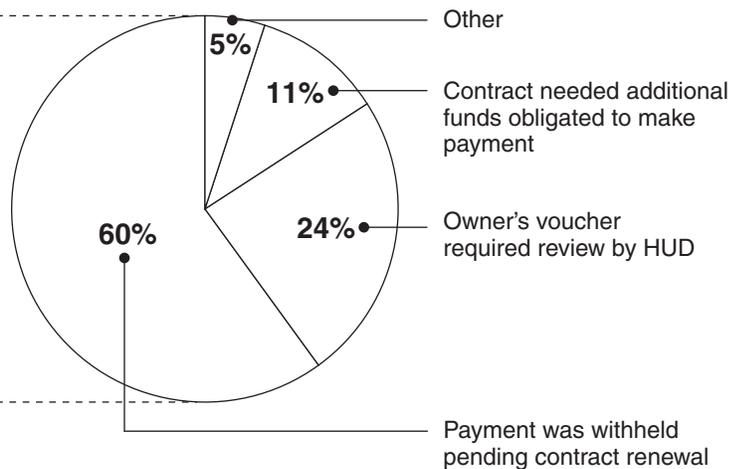
⁷HUD data recorded the reason for the delay for 55 percent of the PBCA- and HUD-administered payments that were 2 weeks or more late in fiscal years 2002 through 2004. We could not determine the reasons for the delay in the remaining 45 percent of the late payments. For almost all of the remaining 45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

Figure 8: Percentage of Payments That Were 2 Weeks or More Late, by Reason Code, Fiscal Years 2002 Through 2004, PBCA- and HUD-Administered Contracts

Percentage of late payments with data on reason for delay



Reason for delay, by percentage



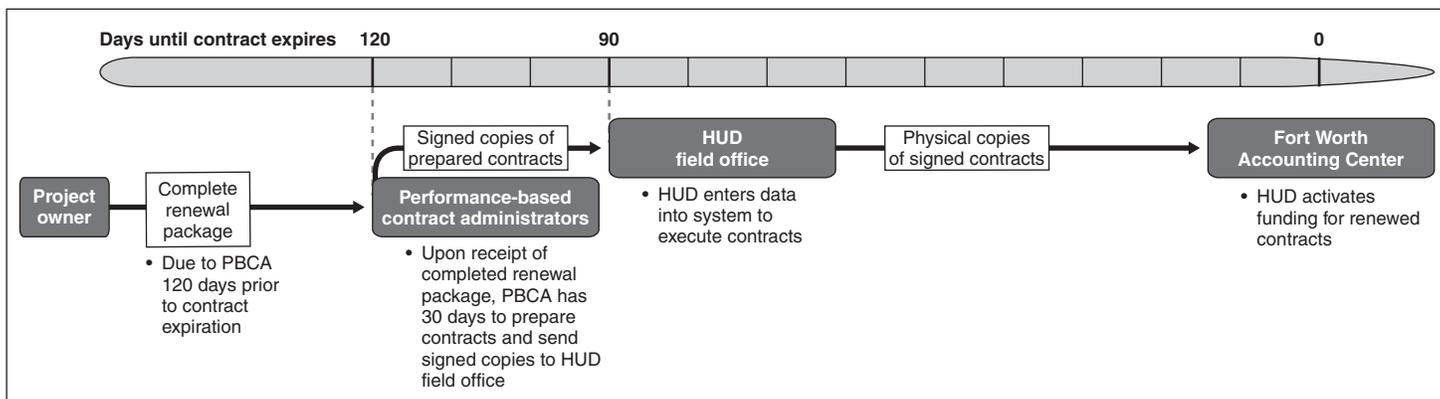
Source: GAO analysis of HUD data.

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

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

HUD’s contract renewal process itself also may take longer than expected, contributing to late housing assistance payments, because the process is largely manual and paper driven and requires multiple staff in the PBCAs and HUD to complete (see fig. 9). Upon receipt of renewal packages from owners, the PBCAs then prepare and forward signed contracts (in hard copy) to HUD field offices, which execute the contracts; in turn, the field offices send hard copies of contracts to a HUD accounting center, which activates contract funding. In order to allow sufficient time to complete the necessary processing, HUD’s policy currently requires owners to submit a renewal package to their PBCAs 120 days before a contract expires, and gives the PBCAs 30 days to forward the renewal package to HUD for completion (leaving HUD 90 days for processing). However, some of the owners with whom we spoke told us that their contract renewals had not been completed by the contract expiration dates, even though they had submitted their renewal packages on time.

Figure 9: Contract Renewal Process for PBCA-Administered Contracts

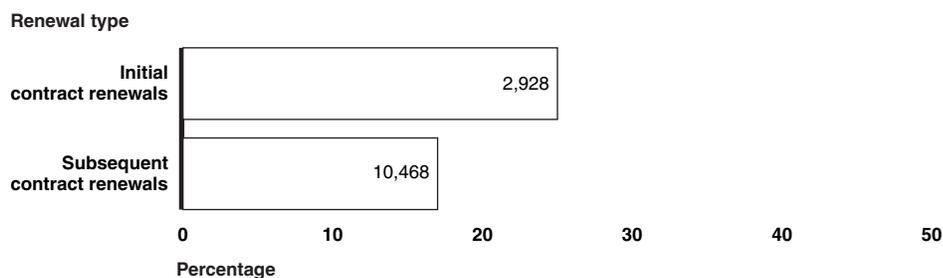


Sources: GAO and HUD.

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

most recent 3 years of HUD data (fiscal years 2002 through 2004) shows that while 25 percent of initial contract renewals exceeded the 120-day processing time frame set by HUD, 17 percent of subsequent renewals exceeded that time frame, as shown in figure 10. Increased timeliness on subsequent renewals might be explained partly by owners' gaining competency—that is, the PBCAs and owners described a “learning curve” when owners renewed their contracts for the first time.

Figure 10: Percentage of Contract Renewals Exceeding 120 Days to Process (Fiscal Years 2002 Through 2004)



Source: GAO analysis of HUD data.

Note: HUD allows 120 days to process renewals.

The processing times for contract renewals that HUD’s data show do not include some interactions between the PBCAs and owners. More specifically, HUD’s data systems capture the dates on which it receives completed renewal packages from the PBCAs, but do not capture the dates for earlier steps in the process. For instance, the data systems do not capture the dates when owners initially submit renewal packages to the PBCAs and, thus, the amount of time it may take the PBCAs and owners to go “back and forth” to assemble completed packages.

According to our analysis, the processing time for the contract renewals also was likely to exceed HUD’s 120-day standard when owners chose or were subject to one of two options at their initial renewals. First, for properties with contract rents lower than comparable market rents, owners had the option to request contract renewals under the “mark-up-to-market” option, which required (1) owners to obtain an appraiser’s determination of comparable market rents and (2) HUD to reassess the contract rents in order to raise them to applicable market level rents. For fiscal years 2002 through 2004, 60 percent of the 471 contract renewals

using the mark-up-to-market option took more than the expected 120 days. Second, for expiring contracts with rents higher than comparable market rents, contract administrators referred the owners to HUD's Office of Multifamily Housing Assistance Restructuring (OMHAR), a process that can lead to rents in renewed contracts that are lower than those in the expiring contracts (the "mark-to-market" option).⁸ For fiscal years 2002 through 2004, 56 percent of the 1,276 contract renewals referred to OMHAR to reduce rents—and, in many cases, to restructure the property owners' debt—took more than the expected 120 days to process.

Recognizing that contract renewal is lengthy and cumbersome, HUD's goal is to automate the renewal process and reduce the 120-day time frame through a BPR effort for its rental assistance programs. HUD launched this initiative in 2004 to, among other things, develop plans to improve what it characterizes as "inefficient or redundant processes" and to integrate data systems. For example, according to a senior HUD official, the department's goal is to automate the entire contract renewal process by 2007, eliminating the need for HUD and owners to physically sign the contracts. According to HUD officials, this effort would eventually include a more streamlined and automated contract renewal process. However, this effort is in its early stages, and is currently not focused on streamlining the contract renewal process or addressing the problem of late housing assistance payments. HUD does not have concrete plans regarding how it will accomplish these goals, nor does it have funding in place to implement any of the recommendations the reengineering effort might develop.

⁸Section 571 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 established OMHAR to carry out the Mark-to-Market Program to reduce rents to market levels and restructure the debt for properties with expiring long-term contracts. OMHAR's existence terminated on September 30, 2004. At that time, HUD created the Office of Affordable Housing Preservation to continue the Mark-to-Market Program.

HUD's Difficulties in Assessing Rate of Funding Use and Monitoring Funding Levels May Have Affected Timeliness of Housing Assistance Payments

The methods HUD uses to estimate the amount of funds needed for the term of each of its project-based assistance contracts and the way it monitors the funding levels on those contracts may also affect the timeliness of housing assistance payments. When HUD renews a contract, and when it obligates⁹ additional funding for each year of contracts with 5-year terms, it obligates an estimate of the actual subsidy payments to which the owner will be entitled over the course of a year. However, those estimates are often too low, according to HUD headquarters and field office officials and contract administrators. For example, an underestimate of rent increases or utility costs or a change in household demographics or incomes at a property will affect the rate at which a contract exhausts its funds, potentially causing the contract to need additional funds obligated to it before the end of the year. If HUD underestimates the subsidy payments, the department needs to allocate more funds to the contract and adjust its obligation upwards to make all of the monthly payments.

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

However, based on our analysis of available HUD data and our discussions with HUD field office officials, owners, and contract administrators, payments on some contracts were still delayed because they needed to have additional funds allocated and obligated before a payment could be made. As shown in figure 8, our analysis of HUD’s payment data shows that, where the reasons for delayed payments on PBCA- and HUD-administered contracts were available, 11 percent of delays of 2 weeks or more were due to contracts needing additional funds obligated. That is, those payments were delayed because, at the time the owners’ vouchers were processed, HUD had not allocated and obligated enough funding to the contracts to cover the payments.

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

One potential factor contributing to payment delays related to obligating contract funding is likely that staff at some HUD field offices—unlike their counterparts in other field offices and staff at some of the PBCAs—did not have access to data systems or were not trained to use them to monitor funding levels. At some of the field offices we visited, officials reported that they did not have access to the HUD data systems that would allow them to adequately monitor contract funding levels. For example, one field office official told us that he needed access to one of HUD’s accounting data systems to more accurately monitor contract funding. According to this official, he requested “read-only” access to this system, which requires a security clearance, but never received information on the status of his application from HUD headquarters. HUD field offices reported, and headquarters confirmed, that some field officials have not received training to carry out some functions critical to monitoring the burn rate. One field office official reported that none of the staff in her office had received training in a payment processing database, which is critical for monitoring the status of monthly payments. A HUD headquarters official reported that changes in the agency’s workforce demographics posed challenges because not all of the field offices have staff with an optimal mix of skill and experience.

According to a senior HUD official, HUD’s BPR is intended to provide a systematic, agencywide solution to the contract funding issues that field office officials have been trying to address on an ad hoc basis to prevent payment delays. If this effort successfully addresses contract funding monitoring agencywide through automation, as this official suggested, HUD may not have to rely solely on the intervention of its field officials.

HUD's Interpretation of Legislative Restrictions on Its Ability to Use Recaptured Funds May Have Exacerbated Payment Delays

Prior to fiscal year 2003, HUD used funds that it had recaptured from some contracts to augment other contracts that required additional funds.¹⁰ Based on HUD's interpretation of its appropriations acts for fiscal years 2003 and 2004, the agency determined that recaptured funds were not available in those years to fund contract amendments.¹¹ According to HUD officials, this made it difficult to budget for amendments in those years and could have affected the timeliness with which HUD funded some contracts and made related housing assistance payments. HUD's fiscal year 2005 appropriation specifically authorized the use of recaptured funds for contract amendments.¹²

According to HUD headquarters officials, operating under a continuing resolution rather than an appropriation should not affect the timeliness of housing assistance payments.¹³ According to HUD budget officials, under a continuing resolution, HUD has funding available to meet its contractual obligations to pay project owners and, if need be, to renew rental assistance contracts.¹⁴

¹⁰Recaptured funds are funds that an agency had previously obligated (e.g., agreed to pay in a housing assistance payment contract) but that the agency deobligated when it determined that the funds would not be needed for these contracts. In some cases, an agency may use recaptured funds for other program activities, reducing its need for new appropriations. In other cases, Congress may rescind recaptured funds.

¹¹A contract amendment is a mutually agreed-upon change (between HUD or a contract administrator and a project owner) to an obligation of funds. For example, a contract amendment may be allowed to cover increased contract rents resulting from increased costs, decreases in family incomes, or both.

¹²Consolidated Appropriations Act, 2005, Pub. L. No. 108-447, div. I, title II, 118 Stat. 2809 (Dec. 8, 2004).

¹³A continuing resolution is legislation enacted by Congress to provide budget authority for federal agencies and/or specific activities to continue in operations until the regular appropriations are enacted. Continuing resolutions are enacted when action on appropriations is not completed by the beginning of a fiscal year.

¹⁴Some PBCAs, project owners, and industry group representatives with whom we spoke were under the impression that continuing resolutions might preclude contract renewals or cause untimely housing assistance payments. Many of them indicated they had been told by HUD field officials that payment delays in the beginning of the federal fiscal year were a result of continuing resolutions.

Owners' Untimely, Inaccurate, or Incomplete Submissions May Have Affected the Timeliness of Housing Assistance Payments

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

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

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

HUD’s payment delays have had negative financial effects on project owners, but they are unlikely to result in owners opting out of HUD’s programs. Owners with whom we spoke reported that they have incurred late fees on their mortgages and other bills and have had difficulty operating their properties as a result of payment delays. The severity of the effects depended on the financial condition of the property owner and the extent to which the owner relied on HUD’s subsidy to make the mortgage payment and operate the property. HUD did not notify owners when payments would be late, and owners said that this lack of notice exacerbated the effect of late payments. However, delayed payments alone were unlikely to result in opt outs, although they could have been a contributing factor, according to owners as well as officials from industry groups and HUD. Finally, our analysis of HUD payment data indicated that

there was little difference in payment delays between properties that have opted out of, and those that still participate in, HUD's programs.

Some Owners Report Difficulties in Paying Mortgages and Other Bills and Operating Their Properties as a Result of Payment Delays

Some owners report that they have not been able to pay their mortgages or other bills on time as a result of HUD's payment delays.¹⁵ Three of the 16 owners with whom we spoke reported having to pay their mortgages or other bills late as a result of HUD's payment delays. One owner reported that he was in danger of defaulting on one of his properties as a direct result of late housing assistance payments. Another owner reported having paid \$4,000 in late fees to a utility company because she was unable to pay the bill on time. Another owner was unable to provide full payments to vendors, including utilities, telephone service, plumbers, landscapers, and pest control services during a 3-month delay in receiving housing assistance payments. According to this owner, her telephone service was interrupted during the delay and her relationship with some of her vendors suffered. For example, the pest control and plumbing vendors would continue to provide services only if they received cash in advance. This owner also expressed concern about how the late and partial payments to vendors would affect her credit rating. Industry groups with whom we spoke also raised concerns about their members' inability to pay mortgages and other bills when HUD's housing assistance payments were delayed.

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

¹⁵We did not independently assess the owners' ability to meet their financial obligations without the HUD subsidy payments that were late.

Effects of Delayed Payments on Owners Varied Based on Several Factors, Particularly the Owners' Financial Condition and Degree of Reliance on HUD's Subsidy

According to owners as well as industry group and HUD officials, owners who are heavily reliant on HUD's subsidy to operate their properties are more severely affected by payment delays than other owners. Particularly, owners who own only one or a few properties and whose operations are completely or heavily reliant on HUD's subsidies have the most difficulty weathering a delay. Two of the 16 owners with whom we spoke reported that they could not pay their bills and operate the properties during a payment delay. These owners were nonprofits, each operating a single property occupied by low-income seniors. In both cases, the amount of rent they were receiving from the residents was insufficient to pay the mortgage and other bills. Neither of these owners had additional sources of revenue.

In contrast, owners with several properties and other sources of revenue were less severely affected by HUD's payment delays. Three of the owners with whom we spoke reported that they were able to borrow funds from their other properties or find other funding sources to cover the mortgage payments and other bills. All 3 of these owners had a mix of affordable and market rate properties. According to HUD and PBCA officials, owners who receive a mix of subsidized and market rate rents from their properties would not be as severely affected by a payment delay as owners with all subsidized units. For example, representatives of 2 of the owners stated that they did not have to take any measures to address delays in housing assistance. One owner is an investment firm for a pension fund that maintains a large portfolio of mostly market rate properties. According to a representative of the firm, delayed housing assistance payments had not caused financial difficulties, but the delay had presented accounting difficulties for the firm. The other owner is a nonprofit with several properties. According to a representative of the owner, the rents paid by the residents of all of the properties were a larger part of the nonprofit's revenue than the HUD subsidy, so the nonprofit was not negatively affected by an occasional delay in housing assistance payments.

HUD allows owners to borrow from their reserve accounts to help mitigate the effects of delayed housing assistance payments, but some owners either do not have reserves or their reserves are not sufficient to cover the period of the delay. HUD requires HUD-insured properties and properties with HUD-held mortgages to set aside funds in a reserve account, which is designed primarily to help fund capital improvements on the properties. HUD also allows owners to withdraw funds from this account in the event of HUD's payment delays, so that owners are able to make their mortgage payments. However, properties that are not insured by HUD and do not have a HUD-held mortgage may not have a reserve account, and, according

to HUD and industry group officials, owners with small or newer properties may not have sufficient reserves to cover delays. Even if the reserves were sufficient, industry group officials have pointed out that owners might have to defer capital improvements during payment delays, and also lose interest that they would otherwise accrue in the reserve account. Some projects also have a residual receipts account from which owners may borrow. HUD requires nonprofits and limited dividend multifamily projects that are HUD-insured or have a HUD-held mortgage to maintain a residual receipts account for monies beyond the owner's maximum allowable distribution or profit.¹⁶

Lack of Notice about Payment Dates and Lengths of Delays Has Exacerbated Problems for Owners

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

Delayed Housing Assistance Payments Were Unlikely to Cause Owners to Opt Out of HUD's Programs or Discontinue Involvement in Providing Affordable Housing

Project owners, industry group officials, contract administrators, and HUD officials we interviewed generally agreed that market factors primarily drove an owner's decision to opt out of HUD programs. Owners generally opt out when they can receive higher market rents or when it is financially advantageous to convert their properties to condominiums. In previous work, we reported that financial and market considerations were factors likely to affect owners' decisions to opt out of HUD's programs.¹⁷ For profit-motivated owners, this decision can be influenced by the condition

¹⁶HUD requires nonprofit and limited dividend property owners to deposit surplus cash into a residual receipts account, which is an asset of the owner but held under HUD's control.

¹⁷GAO, *Multifamily Housing: More Accessible HUD Data Could Help Efforts to Preserve Housing for Low-Income Tenants*, GAO-04-20 (Washington, D.C.: Jan. 23, 2004).

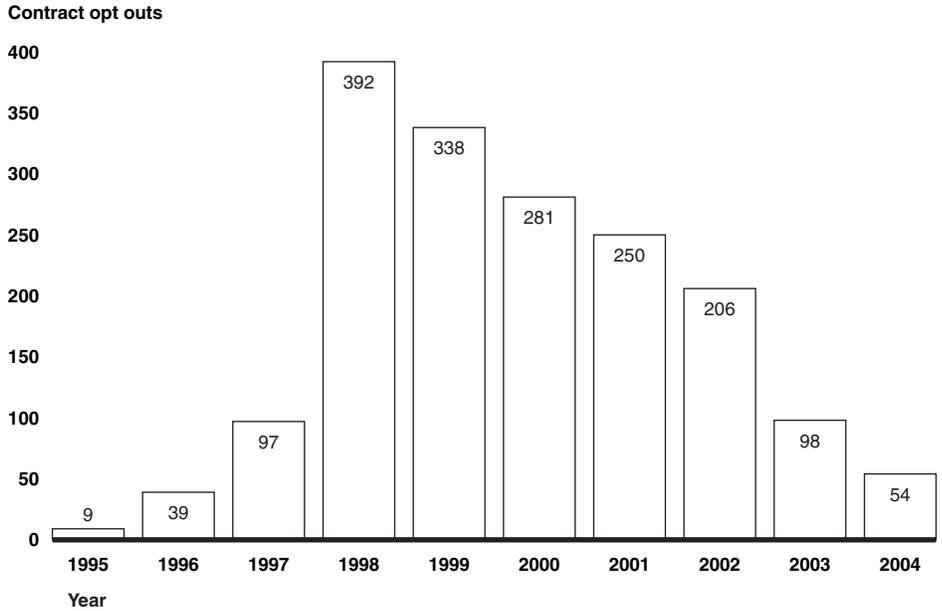
of the property and the income levels of the surrounding neighborhood. Owners were more likely to opt out if they could upgrade their properties at a reasonable cost to convert them to condominiums or rental units for higher income tenants.

Most of the owners with whom we spoke, including some profit-motivated owners, reported that they would not opt out of HUD programs because of their commitment to providing affordable housing. Industry group officials also stated that most of their members are “mission driven,” or committed to providing affordable housing.

According to some owners with whom we spoke, owners have accepted payment delays as the price of doing business with HUD. However, industry group and HUD officials stated that delayed payments could be a contributing factor in some opt outs. According to HUD officials, owners with primarily market rents in their buildings were more likely to opt out because the owners felt that the rents from subsidized units were not worth the burden of HUD’s documentation and reporting requirements. Only 1 (a real estate investment firm for a pension fund) of the 16 owners we interviewed stated that the firm would opt out of HUD programs if the payment delays were longer. According to representatives of this firm, their company has a fiduciary responsibility to the pension fund. If they began losing money on their affordable housing projects, they would have to sell them.

Our analysis of HUD’s monthly payment data for fiscal years 1995 through 2004 revealed little difference in the percentage of late payments for those contracts that opted out and those still participating in HUD’s programs (9.6 percent and 9.2 percent, respectively). In addition, we found that over the 10-year period, 1,764 housing assistance contracts out of the 13,051 that were eligible to do so opted out of HUD’s programs. These opt outs represented 1,460 affordable housing projects (a project may have more than 1 contract, hence the number of contracts exceeds the number of projects). The number of contracts opting out over this period peaked in fiscal year 1998, with 392 contracts opting out, and gradually declined to 54 in fiscal year 2004 (see fig. 11).

Figure 11: Number of Contract Opt Outs (Fiscal Years 1995 Through 2004)



Source: GAO analysis of HUD data.

Note: Ten-year total: 1,764.

The number of opt outs likely declined after the passage of MAHRA and HUD’s subsequent efforts to preserve affordable housing by allowing owners to increase the contract rents with HUD to market rates, thereby making it more financially viable for owners to continue participating in HUD’s programs.

Conclusions

HUD plays an important role in ensuring the continued availability of affordable housing by providing subsidies to owners of multifamily rental properties and encouraging owners to remain in its programs. Over the 10-year period we examined, HUD made most payments on time—that is, by the 1st business day of the month. However, a significant percentage of HUD’s payments were late. The delays, particularly those of 2 weeks or more, can cause financial hardships for property owners. For example, the subsidies not only help pay mortgages, but also the daily operating expenses of many owners. In retrospect, new requirements under MAHRA and the transition to a new system of contract administration likely increased delays, particularly in the late 1990s. The initial difficulties in

implementing MAHRA requirements have abated, and HUD largely has completed the transition to performance-based contract administration. However, while the timeliness of housing assistance payments has improved in recent years, the number of significantly late payments remains a concern.

Although HUD has made changes to improve contract administration, it has not comprehensively addressed the factors that most affect the timeliness of payments—that is, its contract renewal and contract funding and monitoring processes. HUD has recognized that its contract renewal process is cumbersome and inefficient and wants to cut contract processing time as one goal of a broader BPR effort. However, that effort has just gotten under way and currently is not closely focused on the housing assistance payment process. As a result, if HUD were to rely solely on the reengineering effort, it would miss opportunities to effect more immediate improvements to the processing of contract renewals. In addition, HUD effectively could prevent many delayed payments by better estimating the amounts it needs to obligate to contracts each year, more systematically monitoring contract funding levels on an ongoing basis, and promptly allocating and obligating additional funding to contracts when necessary. Currently, while contract funding needs can increase for unforeseen reasons, HUD often underestimates how much funding a contract will need when it obligates funds at the beginning of a year. Furthermore, HUD’s existing monitoring has not prevented payment delays associated with contracts needing additional funding obligated in order for HUD to pay the owner.

As previously noted, HUD has opportunities to improve its contract processes and avoid the often damaging disruptions late payments could cause. While project owners and industry groups have indicated that late housing payments alone would not lead them to opt out of HUD programs, late housing assistance payments have serious consequences for owners and potentially for the residents they serve. But, HUD also has opportunities to mitigate the effects of payments that it cannot make on time. More specifically, if HUD were to notify project owners of delays and their likely duration, owners could make contingency plans or otherwise address the delayed payments.

Recommendations for Executive Action

To improve the timeliness of housing assistance payments and mitigate the effects on owners when payments are delayed, we recommend that the

Secretary of Housing and Urban Development take the following three actions:

- streamline and automate the contract renewal process to prevent processing errors and delays and eliminate paper/hard-copy requirements to the extent practicable;
- develop systematic means to better estimate the amounts that should be allocated and obligated to project-based housing assistance payment contracts each year, monitor the ongoing funding needs of each contract, and ensure that additional funds are promptly obligated to contracts when necessary to prevent payment delays; and
- notify owners if their monthly housing assistance payments will be late and include in such notifications the date by which HUD expects to make the monthly payment to the owner.

Agency Comments

We provided a draft of this report to HUD for its review and comment. In a letter from the Assistant Secretary for Housing, Federal Housing Commissioner (see app. II), HUD stated that it concurred with our conclusions and agreed that the implementation of our recommendations would improve payment timeliness. Specifically, HUD agreed to review its process for renewing and amending rental assistance contracts to identify areas that can be streamlined and automated. HUD also agreed that developing a more systematic means to estimate contract funding needs would further improve payment timeliness. HUD stated that it has obtained a contractor to determine how to improve its system of estimating contract funding needs. Additionally, HUD agreed that notification to owners when payments will be late is desirable and that it will examine the feasibility of providing such notification.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies of this report to the Chairman and Ranking Minority Member, Senate Committee on Banking, Housing, and Urban Affairs, and the Chairman and Ranking Minority Member of its Subcommittee on Housing and Transportation. We will also send copies to the Secretary of Housing and Urban Development and the Director of the Office of Management and Budget. We will make copies

available to others upon request. The report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

Please contact me at (202) 512-8678 or woodd@gao.gov if you or your staff have any questions about this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

David D. Wood

David G. Wood
Director, Financial Markets and
Community Investment

Scope and Methodology

To determine the extent to which the Department of Housing and Urban Development's (HUD) housing assistance payments are timely, we obtained from HUD and analyzed 10 years of monthly payment data (fiscal years 1995 through 2004). We identified the timeliness of each payment within HUD's data systems by comparing the date that the U.S. Treasury disbursed the payment with the date that the payment was due—the 1st business day of the month. We did not look at the dollar amount of these payments. For contracts administered by performance-based and traditional (or nonperformance-based) administrators, the Treasury payment is disbursed to the administrator, which in turn makes payments to the project owners. In contrast, for HUD-administered contracts, the Treasury disburses payments directly to the owners.

We analyzed trends in timeliness over the 10-year period as well as the most recent 3-year period (fiscal years 2002 through 2004) for a more current picture of payment timeliness. We also calculated the percentage of payments that had various degrees of lateness (such as 1 to 6 days or 4 weeks or more). For fiscal year 2004, we compared timeliness for payments processed by the different types of contract administrators involved in this process (i.e., HUD field offices, performance-based contract administrators (PBCA), and traditional contract administrators, for which the HUD Financial Management Center processes payments). We limited our analysis to fiscal year 2004 because the data we obtained from HUD do not allow us to identify for prior fiscal years which type of contract administrator was responsible for each contract, and, over the course of these years, HUD was in the process of transferring contract administration responsibilities to the PBCAs. To better understand the payment process, we interviewed officials from both HUD's Office of Multifamily Housing and HUD's Financial Management Center and reviewed relevant documentation on the payment process.

We used various HUD databases to analyze the timeliness of housing assistance payments. Specifically, we used data from HUD's Program Accounting System (PAS) for payments on contracts administered by HUD and the PBCAs and data from the HUD Central Accounting and Program System for contracts administered by nonperformance-based contract administrators (traditionally administered contracts). We also used these data to determine the percentage of significantly late payments (i.e., 2 weeks or more late), including the distribution by type of contract administrator. We also used the PAS data to analyze differences in payment timeliness by state for PBCA- and HUD-administered contracts.

In order to assess the reliability of the data previously described, we reviewed related documentation and interviewed agency officials who work with these databases. In addition, we performed internal checks to determine the extent to which the data fields were populated and the reasonableness of the values contained in the fields. During our internal checks, we excluded from our analysis 7 percent of the payments recorded in PAS due to unreasonable values for the payment date. We concluded that the data we used were sufficiently reliable for the purposes of this report.

To determine the factors that affect the timeliness of HUD's housing assistance payments, we interviewed HUD headquarters officials responsible for managing and budgeting for the project-based assistance contracts and payments as well as officials from industry groups representing a variety of property owners and management agents. We also conducted site visits to eight locations that we selected by including those with high and low percentages of late payments.¹ For these site visits, we interviewed the relevant field office officials involved in processing housing assistance payments, renewing housing assistance contracts, and conducting oversight of the PBCAs. We interviewed officials of the PBCAs for each of the states we visited.² In each of the eight locations, we also interviewed 2 project owners with some experience with payment delays. We randomly selected 15 of the 16 owners we interviewed; HUD field office officials identified 1 of the project owners during the phase of our work when we were gathering initial background information. For all of our interviews for these site visits, we used a semistructured interview guide to ensure consistency. We also reviewed relevant documentation provided by HUD field officials, the PBCAs, and project owners.

We used available HUD data to characterize the reasons for some payment delays for fiscal years 2002 through 2004. We matched PAS payment data on PBCA- and HUD-administered contracts with data on reasons for payment delays from HUD's Tenant Rental Assistance Certification System

¹These were California, the District of Columbia, Illinois, Iowa, Maryland, Massachusetts, New Hampshire, and Washington.

²We chose to interview the PBCAs rather than traditional contract administrators because the PBCAs handle the bulk of HUD's housing assistance contracts—over 13,000 out of about 23,000 in fiscal year 2004—and, thus, their experiences and perspectives are applicable to more of the universe of HUD's payments. Furthermore, HUD is gradually assigning more of the traditional contract administrators' duties to the PBCAs, which, considering the time available to us to conduct these site visits, added to our judgment that focusing on the PBCAs was appropriate.

(TRACS). We could only determine the reason for delays for 55 percent of the late payments. For almost all of the remaining 45 percent of the payments, HUD's data systems did not accept the voucher—for these payments there was no error code associated with the delay. Although the data on reasons for delays are thus not representative of all late payments in these years, the testimonial evidence we obtained through our discussions with property owners, contract administrators, and HUD officials corroborated the results of our data analysis. HUD did not collect data on the reasons for delayed payments on traditionally administered contracts.

We also analyzed data to examine the timeliness of contract renewals with the various types of rent adjustments that owners may seek. To determine the extent to which HUD renewed or adjusted its contracts with property owners within the 120-day time frame that the agency has established, we used data from HUD's Real Estate Management System covering fiscal years 2002 through 2004. In order to assess the reliability of the data we used to determine reasons for late payments and delays in contract renewals, we reviewed related documentation. In addition, we performed internal checks to determine the extent to which the data fields were populated and the reasonableness of the values contained in the fields. We concluded that the data we used were sufficiently reliable for the purposes of this report.

To assess the effects of housing assistance payment delays on project owners and their willingness to continue providing affordable housing, we compared available HUD payment data on projects that have opted out of HUD's programs with those currently receiving assistance to determine if these projects had experienced more payment delays. We tested for statistically significant differences in the timeliness of payments among properties that had and had not opted out. We held meetings with a variety of industry groups to obtain their views on how late payments may affect project owners and their willingness to continue providing affordable housing. We also spoke with HUD field office officials, the PBCAs, and project owners on our eight site visits, as previously mentioned, regarding the effects of late payments on project owners.

We conducted our work between October 2004 and September 2005 in Baltimore, Maryland; Boston, Massachusetts; Chicago, Illinois; Des Moines, Iowa; Kansas City, Kansas; Kansas City, Missouri; Los Angeles, California; Manchester, New Hampshire; Seattle, Washington; and Washington, D.C., in accordance with generally accepted government auditing standards.

Comments from the Department of Housing and Urban Development



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

October 25, 2005

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Mr. David G. Wood, Director
Financial Markets and Community Investment
United States Government Accountability Office
441 G Street, NW
Washington, D. C. 20548

Dear Mr. Wood:

Thank you for the opportunity to provide comments on the Government Accountability Office (GAO) draft report: [PROJECT-BASED RENTAL ASSISTANCE: HUD Should Streamline Its Processes to Ensure Timely Housing Assistance Payments \(GAO- 06-57\)](#).

The report concludes that over the 10-year period examined, HUD made most payments on time, as defined as the first business day of the month, but that a significant percentage of payments were late and that such delays can cause financial hardship to property owners.

GAO has noted that while timeliness of payments has improved since the ramp up of the post-MAHRA (Multifamily Assisted Housing Reform and Affordability Act of 1997) requirements, and the implementation of the Performance Based Contract Administrator (PBCA) conversion, additional measures should be undertaken to address factors that most affect the timeliness of payments and to mitigate the effects of payments that cannot be made on time. HUD concurs in these conclusions. GAO has made three specific recommendations for improvement:

1. Streamline and automate the contract renewal process to prevent processing errors and delays and eliminate paper/hard copy requirements to the extent practicable.
2. Develop systematic means to better estimate the amounts that should be allocated and obligated to project-based housing assistance payment contracts each year, monitor the ongoing funding needs of each contract, and ensure additional funds are promptly obligated to contracts when necessary to prevent payment delays.
3. Notify owners if their monthly housing assistance payments will be late and include in such notifications the date by which HUD expects to make the monthly payment to the owner.

HUD agrees that the implementation of these recommendations would improve the timeliness of payments and has the following specific comments:

Appendix II
Comments from the Department of Housing
and Urban Development

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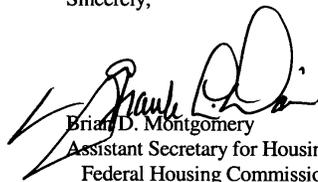
Streamlining and automating the business process for renewing and amending assistance contracts will require a comprehensive review of existing procedures and policies. This review is currently being undertaken as part of comprehensive program Business Process Reengineering (BPR). We anticipate that this initiative will identify areas where efficiencies in process can be realized, including addressing the fact that the current renewal and amendment process relies heavily on paper transactions and extensive participation of HUD, PBCAs, and project owners.

Developing more systematic means to estimate funding needs and a more efficient allocation plan would also improve the timeliness of payments. The Department plans on achieving improvements in this area through training, data quality reviews, and data systems maintenance. To determine how best to improve the current estimation/allocation system, HUD has obtained a contractor to analyze the current systems and make recommendations as to improvements that will allow us to better identify emerging funding requirements as well as improve the allocation of available resources.

Finally, HUD agrees that notification of owners if anticipated payments are delayed is desirable. HUD believes that the systemic enhancements outlined above will lead to a clearer understanding of the reasons for delayed payments and identify measures that may resolve such problems. HUD will also examine the feasibility of notifying project owners if HUD anticipates that there will be a significant delay in payment due to an issue beyond the control of the owner.

In conclusion, HUD appreciates the GAO's review and recommendations and recognizes the need for improvements identified. We look forward to working with GAO and our other partners in addressing these issues over the coming months.

Sincerely,



Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner

GAO Contact and Staff Acknowledgments

GAO Contact

David G. Wood, (202) 512-8678

**Staff
Acknowledgments**

In addition to those named above, Bill MacBlane, Assistant Director; Jackie Garza; Patty Hsieh; Jane Kim; Don Porteous; Julianne Stephens Dieterich; Alison Martin; Marc Molino; Linda Rego; Barbara Roesmann; and Stu Seman made key contributions to this report.

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