



Testimony
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Services, U.S. Senate

MILITARY HOUSING PRIVATIZATION

Preliminary Observations on DOD's Oversight of the Condition of Privatized Military Housing

Accessible Version

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GAO Highlights

Highlights of [GAO-20-280T](#), a testimony before the Committee on Armed Services, U.S. Senate

Why GAO Did This Study

In 1996, Congress enacted the Military Housing Privatization Initiative in response to DOD concerns about inadequate and poor quality housing for servicemembers. Today, private partners are responsible for the ownership, construction, renovation, maintenance, and repair of about 99 percent of housing units on military bases in the continental United States.

DOD's policy requires that the department ensure eligible personnel and their families have access to affordable, quality housing facilities. The Office of the Secretary of Defense is responsible for providing guidance and general procedures related to military housing privatization. The military departments are responsible for executing and managing privatized housing projects.

Drawing from ongoing work, GAO discusses (1) DOD's oversight of privatized military housing for servicemembers and their families, (2) efforts of the military departments to communicate their roles and responsibilities to servicemembers and their families, and (3) DOD and private partner development and implementation of initiatives to improve privatized housing.

GAO reviewed relevant policies, guidance, and legal documents; visited 10 installations; conducted 15 focus groups; analyzed maintenance work order data; and interviewed relevant DOD and private partner officials. GAO will continue its ongoing work and make recommendations as appropriate in the final report.

View [GAO-20-280T](#). For more information, contact Elizabeth A. Field at (202) 512-2775 or field1@gao.gov.

December 3, 2019

MILITARY HOUSING PRIVATIZATION

Preliminary Observations on DOD's Oversight of the Condition of Privatized Military Housing

What GAO Found

Each military department conducts a range of oversight activities—some more extensive than others—for its privatized housing projects, but these efforts have been limited in key areas. Specifically, based on GAO's ongoing work:

- The Department of Defense (DOD) conducts oversight of the physical condition of housing, but some efforts have been limited in scope. Military departments have guidance for conducting oversight of the condition of privatized housing. This oversight generally consists of reviewing a sample of work order requests, visually inspecting housing during change of occupancy, and conducting other point in time assessments. However, GAO found that these efforts are limited in scope. For example, interior walk-throughs may have been limited to just a few homes at each installation.
- DOD uses performance metrics to assess private partners, but metrics may not provide meaningful information on the condition of housing. The Office of the Secretary of Defense (OSD) has recently issued guidance to ensure consistency in the framework used to measure project performance. However, the specific indicators used to determine if the metrics are being met may not fully reflect private partner performance. For example, a common measure is how quickly the private partner responded to a work order, not whether the issue was actually addressed.
- DOD and private partners collect maintenance data on homes, but these data are not captured reliably or consistently. DOD is expanding its use of work order data to monitor and track the condition of privatized housing. However, based on GAO's analysis of data provided by all 14 private partners, these data cannot reliably be used for ongoing monitoring of privatized housing because of data anomalies and inconsistent business practices in how these data are collected.
- DOD provides reports to Congress on the status of privatized housing, but some data in these reports are unreliable and may be misleading. DOD provides periodic reports to Congress on the status of privatized housing, but reported results on resident satisfaction are unreliable due to variances in the data military departments provide to OSD and in how OSD has calculated and reported these data.

Military housing offices located at each installation are available to provide resources to servicemembers experiencing challenges with their privatized housing, but GAO's ongoing work showed these offices have not always effectively communicated this role to residents. For example, residents in GAO's focus groups noted confusion over the roles and responsibilities of these offices, and military housing officials have found that residents could not readily differentiate between military and private housing officials.

DOD, working with the private partners, has made progress in developing and implementing a series of initiatives. However, both DOD and private partner officials have noted several challenges that could affect implementation, including limitations to DOD's legal authority to unilaterally make changes to the terms of the projects and limited resources to implement increased oversight.

Chairman Inhofe, Ranking Member Reed, and Members of the Committee:

Thank you for the opportunity to be here today to discuss our preliminary observations related to the condition of privatized military housing. In 1996, Congress enacted the Military Housing Privatization Initiative (MHPI) in response to Department of Defense (DOD) concerns about the effect of inadequate and poor quality housing on servicemembers and their families.¹ Since then, private-sector developers and property management companies, hereafter referred to as private partners, have assumed primary responsibility for military family housing in the United States. They are currently responsible for the construction, renovation, maintenance, and repair of about 99 percent of domestic military family housing in the continental United States, Alaska, and Hawaii. Over the last few years, reports of the presence of lead-based paint and other hazards, such as mold and pest infestations, have raised questions about DOD's management and oversight of privatized housing.

My testimony today summarizes preliminary observations from our ongoing review assessing (1) DOD's oversight of privatized military housing for servicemembers and their families, (2) efforts of the military departments to communicate their roles and responsibilities to servicemembers and their families, and (3) DOD and private partner development and implementation of initiatives to improve privatized housing.

For our ongoing work, we reviewed DOD policies and guidance related to the administration of the MHPI program; analyzed available private partner data on work orders from October 2016 through April 2019 from each of the 79 MHPI family housing projects;² visited a non-generalizable sample of 10 installations selected to represent each of the military departments, six private partners—including the five largest who own the majority of privatized military housing—and geographic and climate

¹National Defense Authorization Act for Fiscal Year 1996, Pub. L. No. 104-106, §§ 2801-2802 (1996), codified as amended at 10 U.S.C. §§ 2871-2885.

²We discuss issues regarding the reliability of this data later in the statement.

diversity; and conducted 15 focus groups with residents at the 10 installations we visited. We also reviewed a non-generalizable sample of ground leases³ and other MHPI project documents,⁴ including leases and project documents for the installations we visited, as well as a sample of leases from other locations not included in our site visits. We reviewed the implementation and results of various resident satisfaction surveys conducted by the military departments and private partners. To understand roles and responsibilities and the management of privatized housing, we interviewed Office of the Secretary of Defense (OSD) and military department officials, and contacted representatives from each of the 14 private partners. We provided information in this statement to DOD for technical comment and made changes where appropriate. We are continuing our broader review of DOD's efforts and plan to conclude that work in early 2020.

We are conducting the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

DOD's policy is to ensure that eligible personnel and their families have access to affordable, quality housing facilities and services consistent with grade and dependent status, and that the housing generally reflects contemporary community living standards.⁵ From the inception of MHPI, the military departments were provided with various authorities to obtain

³For a typical project, a military department leases land to a developer for a 50-year term and conveys existing housing units located on the leased land to the developer for the duration of the lease.

⁴Each privatized housing project is a separate and distinct entity governed by a series of legal agreements that are specific to that project. These agreements include, among others, an operating agreement, a property management agreement, and an agreement that describes the management of funds in the project, including the order in which funds are allocated within the project.

⁵Department of Defense (DOD) Instruction 4165.63, *DOD Housing* (July 21, 2008) (incorporating Change 2, Aug. 31, 2018).

private-sector financing and management to repair, renovate, construct, and operate military housing in the United States and its territories. Through these authorities, the military departments have entered into a series of agreements with private partners to provide housing to servicemembers and their families. The military departments have flexibility in how they structure their privatized housing projects, but typically the military departments lease land to private developers for 50-year terms and convey existing housing located on the leased land to the developer for the duration of the lease. The developer then becomes responsible for renovating and constructing new housing and for the daily management of these housing units. At the end of fiscal year 2017, 14 private partners were responsible for 79 privatized military family housing projects—34 for the Army, 32 for the Air Force, and 13 for the Navy and Marine Corps—in the United States, each of which includes housing at one or more military installation.⁶

The Deputy Assistant Secretary of Defense for Facilities Management, under the authority, direction, and control of the Assistant Secretary of Defense for Sustainment, is responsible for all matters related to MHPI and is the program manager for all DOD housing, whether DOD-owned, DOD-leased, or privatized.⁷ In this capacity, the Deputy Assistant Secretary is to provide both guidance and general procedures related to military housing privatization, as well as required annual reports to Congress on the status of privatized military housing projects.⁸ However, it is the responsibility of the military departments to execute and manage privatized housing projects, including conducting financial management and monitoring their portfolio of projects. Each military department has issued guidance that outlines its responsibilities for privatized housing,

⁶For the purpose of this statement, we focused on privatized family housing projects and not housing for unaccompanied military personnel. As of November 2019, these projects were owned by the same 14 private partners.

⁷Almost all DOD family housing in the United States has been privatized; however, DOD is still responsible for overseas family housing and most housing for unaccompanied military personnel in the United States.

⁸Section 2884(c) of Title 10 of the United States Code requires the Secretary of Defense to report semiannually an evaluation of the status of oversight and accountability measures for military housing privatization projects, including, among other things, information about financial health and performance and the backlog of maintenance and repair. According to DOD officials, although the statute requires semiannual reporting, due to the effort involved DOD aims to produce one report each fiscal year, rather than two.

such as which offices are responsible for overseeing privatized housing projects.⁹

We have previously reported on DOD’s privatized housing program. Table 1 provides a summary of key findings and recommendations from our prior reports and the implementation status of the recommendations.

Table 1: Summary of Key GAO Findings and Recommendations on Privatized Housing and Implementation Status

Year	Findings, recommendations, and status of implementation
2002 ^a	<ul style="list-style-type: none"> • Finding: We reported that although military installation officials were participating with developers in making improvement decisions for selected privatized housing projects, Department of Defense (DOD) and service headquarters oversight of those decisions appeared limited. • Recommendation: We recommended, among other things, that DOD implement several changes to enhance government protections in the privatization program, such as requiring military service headquarters and the Office of the Secretary of Defense (OSD) to review and approve privatization project reinvestment account expenditures over an established threshold. • Status of implementation: DOD generally agreed with our recommendations and took steps to implement them. Specifically, DOD revised guidance to establish new rules and thresholds for review and approval of project reinvestment expenditures, among other things.
2006 ^b	<ul style="list-style-type: none"> ▪ Finding: We reported that although DOD and the individual services implemented program oversight policies and procedures to monitor the execution and performance of privatized housing projects, opportunities existed for improvement. Specifically, we reported that the value of DOD’s semiannual report to Congress was limited because it lacked a focus on key project performance metrics to help highlight any operational concerns. We also reported that data collected on servicemember satisfaction with housing, important for tracking satisfaction over time, were inconsistent and incomplete because DOD had not issued guidance for standardized collection and reporting of such information. ▪ Recommendation: We recommended, among other things, that DOD streamline its report to Congress to focus on key project performance metrics and to provide guidance to the services to help ensure consistent collection and reporting of housing satisfaction information from all servicemembers. ▪ Status of implementation: DOD generally agreed with our recommendations and took steps to implement them. For example, DOD took steps to streamline its report to Congress and update its guidance directing the services to ensure consistent reporting using a numerical rating system to rank housing satisfaction information.

⁹Air Force Instruction 32-6007, *Privatized Housing Management* (Sept. 19, 2012) (Revised by AFGM 2019-01); Department of the Army, *Portfolio and Asset Management Handbook* (Version 5.0) (Sept. 11, 2014); Commander, Navy Installations Command, Instruction 11103.7A, *Navy Housing Roles and Responsibilities for Program Management and Finance* (Jan. 16, 2014); and Marine Corps Order 11000.22, *Marine Corps Bachelor and Family Housing Management* (July 14, 2014) (incorporating Change 1, Jan. 22, 2018).

Year	Findings, recommendations, and status of implementation
2018 ^c	<ul style="list-style-type: none"> <li data-bbox="228 464 1520 520">• Finding: We reviewed the financial condition of DOD’s privatized housing projects and found that DOD should take steps to improve monitoring, reporting, and risk assessment. <li data-bbox="228 527 1520 632">• Recommendation: We recommended that DOD revise guidance to improve the consistency and comparability in terms of the time periods of the information reported on the financial condition of its privatized housing projects, fully assess the effects of reductions in the basic allowance for housing^d on the projects, clarify when project changes require notice, and define tolerances for project risks. <li data-bbox="228 638 1520 743">• Status of implementation: DOD concurred with our recommendations and as of May 2019 was taking steps to address them. Specifically, DOD revised its reporting guidance to the military departments to ensure that financial data was consistent and comparable. In addition, DOD planned to update guidance to include a requirement to report on the risk of changes in the basic allowance for housing and to provide notification of project changes.

Source: Analysis of GAO published reports and DOD’s response. | GAO-20-280T

^aGAO, *Military Housing: Management Improvements Needed as the Pace of Privatization Quickens*, [GAO-02-624](#) (Washington, D.C.: June 21, 2002).

^bGAO, *Military Housing: Management Issues Require Attention as the Privatization Program Matures*, [GAO-06-438](#) (Washington, D.C.: Apr. 28, 2006).

^cGAO, *Military Housing Privatization: DOD Should Take Steps to Improve Monitoring, Reporting, and Risk Assessment*, [GAO-18-218](#) (Washington, D.C.: Mar. 13, 2018).

^dDOD’s Defense Travel Management Office annually calculates rent and utility rates for locations across the United States based on estimates of local market conditions, which are then adjusted for an individual’s pay grade and dependency status. These calculations, which can fluctuate from year to year, are then used to determine individual servicemembers’ monthly basic allowance for housing payments. Servicemembers pay their rent—whether living on the installation or off—with their basic allowance for housing payments.

DOD Conducts Some Oversight of the Condition of Privatized Housing, but Efforts Are Limited in Key Areas

Each military department conducts a range of oversight activities—some more extensive than others—for its privatized housing projects. For example, among other things, military departments review sample work order requests and inspect housing during the change of occupancy process. DOD guidance requires that the military departments ensure eligible personnel have access to quality housing facilities and services that generally reflect contemporary living standards.¹⁰ Further, DOD’s housing manual states that because privatization creates a long-term governmental interest in privatized housing, it is essential that projects be attentively monitored.¹¹ Through its guidance, DOD delegates oversight

¹⁰DOD Instruction 4165.63 (July 21, 2008) (incorporating Change 2, Aug. 31, 2018).

¹¹DOD Manual 4165.63, *DOD Housing Management* (Oct. 28, 2010) (incorporating Change 2, Aug. 31, 2018).

responsibility of the individual privatized housing projects to each of the military departments.¹² In addition, according to documents we reviewed, individual project business agreements set guidelines that convey the management, operation, and maintenance duties to the private partner, with the caveat that the military departments still have the right to access the premises or private partner records to ensure compliance with applicable laws.¹³ We determined that OSD and the military departments' oversight has been limited in key areas. Specifically, our ongoing review showed (1) the scope of oversight of the physical condition of privatized housing has been limited; (2) performance metrics focused on quality of maintenance and resident satisfaction may not provide meaningful information on the condition of privatized housing; (3) there is a lack of reliable or consistent data on the condition of privatized housing; and (4) past DOD reports to Congress on resident satisfaction are unreliable due to inconsistent handling and calculation of the data, and therefore may be misleading.

Military Departments Conduct Some Oversight of the Physical Condition of Privatized Housing, but Scope of Efforts Is Limited

DOD delegates oversight responsibilities of the individual privatized housing projects to each of the military departments, and each military department has subsequently issued guidance outlining oversight roles and responsibilities. Military department oversight activities generally fall into two categories—(1) daily oversight of management and operations and (2) reviews of compliance with each project's business agreements.

Daily oversight of management and operations. Daily oversight of a project's management and operations is to be conducted by each installation's military housing office. Military housing officials told us activities to monitor the physical condition of housing units generally include reviewing sample work order requests, following up with a sample of residents to check on their experience with recently completed work, and inspecting housing units during the change of occupancy process.

¹²DOD Manual 4165.63, *DOD Housing Management* (Oct. 28, 2010) (incorporating Change 2, Aug. 31, 2018).

¹³For the purpose of this statement, we refer to the series of legal agreements specific to each project as business agreements. Business agreements are alternately referred to as transaction documents or closing documents.

Based on our preliminary observations, the implementation and scope of these activities varies and can be limited. For example, during our site visits conducted from June through August 2019, we identified the following installation-specific practices:

- Military housing office officials at one Army installation told us that they inspect 100 percent of housing units that have completed change of occupancy maintenance. In contrast, officials from an Air Force installation told us that they inspect 10 to 20 percent of housing units that have completed change of occupancy maintenance.¹⁴
- Military housing officials at one Marine Corps installation told us that for one of the two partners that own housing on the base, they had access to only 3 percent of completed work order tickets from the previous month, as reported to them by the private partner.¹⁵ Officials from a Navy installation told us that they had access to the private partner's maintenance record system and would pull reports on new resident housing occupants who had made 6 or more maintenance calls in a 30-day period.
- Military housing officials at half of the sites we visited stated that staffing levels limited their ability to carry out oversight duties, such as work order data analysis and housing inspections.

Reviews of compliance with each project's business agreements.

Reviews of compliance with a project's business agreements are a joint effort between the local military housing office, the private partners, military department installation commands, and other echelons of command.¹⁶ These reviews can include neighborhood tours to view project amenities such as community centers, playgrounds, and pools, all of which are owned, maintained, and operated by the private partner companies, as well as exteriors of housing units. However, our preliminary work showed these reviews have been limited in the scope of

¹⁴Air Force officials told us that they are moving to a 100 percent inspection policy.

¹⁵According to OSD officials, the Navy's business agreements stipulate that Navy and Marine Corps installations have access to all work order information.

¹⁶In addition to installation-level chain of command, higher echelon commands from each service involved in privatized housing projects include: Air Force Civil Engineer Center (AFCEC); Air Force Materiel Command (AFMC); Department of the Army (HQDA); Army Materiel Command (AMC); Army Installation Management Command (IMCOM); U.S. Army Corps of Engineers (USACE); Commander, Navy Installations Command (CNIC); Naval Facilities Engineering Command (NAVFAC); and Marine Corps Installations Command (MCICOM).

their assessment of the physical condition of the housing units, as interior walk-throughs may have been limited to just a few housing units at each installation.¹⁷

According to military department officials, each department is currently taking steps to revise guidance and standardize daily oversight activities in an effort to provide consistent oversight across projects and installations, and to increase the focus of oversight on the physical condition of housing. The military departments are taking additional steps, such as increasing staffing levels, improving training for military housing office officials, and ensuring that housing officials have independent access to data. However, each military department is working to implement service-specific initiatives with only limited guidance from OSD on the level of oversight expected of the services as it relates to the condition of the housing. While existing OSD guidance provides objectives to the military departments for oversight of the condition of DOD-owned housing, guidance for privatized housing is focused on the implementation of projects, construction of new housing units, and financial management. The guidance does not include objectives for monitoring the condition of privatized housing projects, such as objectives focused on both ensuring the operation and maintenance of privatized housing to standards that provide safe living conditions for servicemembers and providing authorities to installation commanders to oversee those standards. We will continue to assess any implications of the lack of OSD guidance as part of our ongoing review.

DOD Uses Several Metrics to Monitor Private Partner Performance, but the Metrics May Not Provide Meaningful Information on the Condition of Privatized Housing

The military departments each use a range of project-specific performance metrics to monitor private partner performance, but our ongoing work showed that the metrics designed to focus on resident satisfaction and on the quality of maintenance conducted on housing units may not provide meaningful information or reflect the actual condition of the housing units. Most but not all of the private partners are eligible to receive performance incentive fees based on generally meeting

¹⁷In spring 2019, according to OSD officials, each military department undertook a significant visual inspection of privatized housing, in many cases completing such an inspection of every privatized housing unit at an installation.

the performance metrics established in each individual project's business agreement.¹⁸ Private partner performance is measured through a variety of metrics, such as resident satisfaction, maintenance management, project safety, and financial management. To determine how well the private partners are performing under the metrics, military housing office officials told us that they rely on a range of specific indicators established in the project business agreements. However, the indicators themselves may not provide meaningful information on the private partner's performance in maintaining quality housing units. For example, our preliminary work identified the following:

- **Maintenance management.** One indicator of performance of maintenance management that is regularly included in project business agreements measures how often the property manager's response time to work orders meets required time frames established in the project's business agreements.¹⁹ While this indicator measures the timeliness of the private partner's response, it does not measure or take into account the quality of the work that was conducted or whether the resident's issue was fully addressed. Some projects include indicators that aim to more directly measure quality, such as the number of work orders placed during the first 5 business days of residency, which may indicate the extent to which change of occupancy maintenance was completed.
- **Resident satisfaction.** One example of an indicator of resident satisfaction is whether a project has met the target occupancy rates established in the business agreements. An OSD official we spoke with and private partner officials told us they use occupancy as an indicator of satisfaction based on the assumption that residents would move if they

¹⁸These fees are intended to incentivize private partner performance. The incentive fees can be paid to private partners on an annual or quarterly basis and can be withheld in part or in total if the private partner fails to meet the metric. The weight each performance metric and underlying indicator carries toward the incentive fee varies by project, so incentive fees for some projects may be heavily dependent on financial performance, while others may be more heavily weighted toward resident satisfaction.

¹⁹Work orders may be categorized as "emergency," "urgent," or "routine" and have pre-established required timeframes against which the private partner's response is evaluated, as outlined in the project's business agreement. For example, the performance incentive fee plan for the project at Camp Lejeune, North Carolina, stipulates that the private partner is required to respond to work orders classified as emergency within one half hour during normal working hours and within 1 hour after business hours, to urgent work orders within 4 hours, and to routine work orders within 3 days.

were dissatisfied with their housing unit.²⁰ However, based on our focus groups, this may not be a reliable assumption. Although most residents are not required to live in military housing, residents in each of our 15 focus groups indicated a variety of reasons for choosing to live in privatized housing, many of which did not have to do with their satisfaction with the quality or condition of their homes. For example, residents cited factors influencing their decision to live in privatized housing, such as living in close proximity to military medical or educational services for children or other family members who receive benefits through the military's Exceptional Family Member Program,²¹ access to quality schools, and a lack of safe and affordable housing in the surrounding community.

OSD and military department officials we spoke with recognized that the current metrics do not consistently focus on or prioritize the private partners' performance with maintaining housing units and ensuring resident satisfaction. In October 2019 OSD issued new guidance standardizing the performance incentive fee framework across the military departments.²² According to OSD and the private partners with whom we spoke, this guidance was developed through a joint effort with the military departments and the private partners; it provides a framework where the metrics for resident satisfaction and maintenance management will account for a majority of the fee, with project safety and financial performance weighted less heavily. However, according to officials from OSD and officials we spoke with from each of the military departments, the specific indicators used to drive the metrics will need to be negotiated with each of the private partners for each project. Performance indicators designed to more directly measure the quality of maintenance conducted on housing units and resident satisfaction will provide military departments more transparency into private partner performance with regard to these two important metrics—metrics that are often directly tied to the performance incentive fees provided to the private partners.

²⁰U.S. Army, *Portfolio and Asset Management Handbook: Residential Communities Initiative Privatized Army Lodging* (Version 5.0) (Sept. 11, 2014). The Army's Portfolio and Asset Management Handbook recommends that occupancy not be used as a metric; however, currently a number of Army projects still use occupancy as a metric to monitor private partner performance.

²¹The Exceptional Family Member Program provides services for servicemembers and their dependents with special medical and educational needs.

²²Assistant Secretary of Defense for Sustainment Memorandum, *Common Incentive Fee Framework for Military Housing Privatization Initiative Projects* (Oct. 28, 2019).

DOD and Private Partners Collect Maintenance Data on Privatized Housing, but These Data Are Not Captured Reliably or Consistently for Use in the Ongoing Monitoring of Housing Units

The housing projects' business agreements typically include a requirement for the private partner to maintain a records management system to record, among other things, maintenance work requested and conducted on each housing unit.²³ According to private partner officials, each company uses commercial property management software platforms that are used for activities such as initiating maintenance work orders and dispatching maintenance technicians.²⁴ Some private partner officials also stated that data from the work order tracking systems were intended to prioritize and triage maintenance work, not to monitor the overall condition of privatized housing units. While data from these work order tracking systems may be useful for point-in-time assessments of work order volume at a given installation, military department officials told us that efforts are underway to monitor work order data to increase the military departments' oversight and the accountability of the private partners for providing quality housing.²⁵ However, in our ongoing work we observed that these data are not captured reliably or consistently for use in the ongoing monitoring of the condition of privatized housing units.

We received and reviewed data from each of the 14 private partners' work order tracking systems covering each of the 79 privatized family housing projects. Based on our preliminary analysis of the initial data provided by the private partners, we noted the following:

²³For the purpose of this statement, we refer to these records management systems as "work order tracking systems." Data in these work order tracking systems include information such as records of resident requests for service, history of work conducted on specific housing units, change of occupancy maintenance performed, and work completed on common areas.

²⁴As of February 2019, according to private partner officials, they primarily use commercial property management software platforms from two companies. For the purpose of this statement, we will refer to these software platforms as "work order tracking systems" and data from these systems as "work orders."

²⁵Work orders may include an associated priority level, such as "emergency," "urgent," or "routine"; a status, such as "open," "completed," "in-progress," or "canceled"; and a category, such as "electrical" or "plumbing."

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- **Data anomalies.** We identified anomalies in work order data from each of the 14 partners. For example, we identified instances of, among other things, duplicate work orders, work orders with completion dates prior to the dates that a resident had submitted the work order, and work orders still listed as in-progress for more than 18 months.
 - **Inconsistent use of terminology.** Based on our preliminary review of the data provided by the private partners and discussions with private partner officials, we noted cases where work orders were inconsistently entered into the work order tracking systems with respect to two primary factors—(1) how the request is described by the resident or interpreted by the official entering the data, which can differ for each work order, and (2) the existing range of pre-established service category options in the private partner’s work order tracking system, which differ among the partners.²⁶
 - **Differing practices for opening and closing work orders.** At some installations we visited, private partners noted changes in practices for opening and closing work orders, limiting the usefulness of the data in monitoring the status of work orders over time and thus the condition of privatized housing.

According to military department officials, efforts to review data from the private partners’ work order tracking systems has increased, and military department officials told us that they have found similar limitations. However, there are no standard practices currently in place for assessing the accuracy and reliability of the work order data or for setting standard terminology and practices for opening and closing work orders.

DOD Provides Reports to Congress on Resident Satisfaction with Privatized Housing, but Data in These Reports Are Unreliable and May Be Misleading

DOD is statutorily required to provide reports to Congress that include, among other things, information about military housing privatization projects’ financial health and performance and backlog, if any, of maintenance and repairs.²⁷ These reports have included information on

²⁶According to private partner officials, the individual responsible for entering the work order into the system—property management office staff, maintenance technicians, call center representatives, or residents—make a judgment on how to categorize the work order.

²⁷See 10 U.S.C. § 2884(c).

resident satisfaction with privatized housing based on results of the annual military department satisfaction surveys.

Based on our preliminary work, we have determined that information on resident satisfaction in these reports to Congress on privatized housing has been unreliable and may be misleading due to variances in the data the military departments collect and provide to OSD and in OSD's calculation and presentation of these data. In May 2019, OSD issued its report for fiscal year 2017, which stated that overall resident satisfaction for calendar year 2017 was 87 percent.²⁸ For OSD's fiscal year 2017 report, the military departments provided data on resident satisfaction based on information from the annual resident satisfaction surveys. Specifically, OSD's instructions to the military departments required the military departments to report satisfaction based on resident responses to the question that asks: "Would you recommend privatized housing," with results indicating how many tenants responded "yes," "no," or "don't know."

However, the military departments' approaches for collecting data in their annual resident satisfaction surveys varies, which limits their ability to assess whether residents would recommend privatized housing. Instead of asking whether residents would recommend privatized housing, the military departments' annual resident satisfaction survey asks residents the following: "How much do you agree or disagree with the following statement, 'I would recommend this community to others.'" A resident's satisfaction with his or her community and inclination to recommend it to others may not be reflective of satisfaction with either the privatized housing unit or privatized housing in general.²⁹

²⁸U.S. Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Evaluation Report Reporting Period: October 1, 2016-September 30, 2017* (May 2019). While the reporting period for this report was fiscal year 2017, with respect to reporting data on resident satisfaction, DOD reported information for calendar year 2017.

²⁹A resident might recommend his or her community to others for factors other than the condition of their privatized housing unit, such as proximity to base services, commute time, access to DOD schools, neighborhood amenities, childcare, safety, community support, affordability, and services for Exceptional Family Member Program family members. In 2019, according to the company that developed the annual satisfaction survey, a question was added that asks resident how they would rate the satisfaction with the condition of their housing unit.

Residents are then provided the following response categories on a scale of 5 to 0: (5) strongly agree, (4) agree, (3) neither agree nor disagree, (2) disagree, (1) strongly disagree, and (0) not applicable, no opinion, don't know, or no answer. Through our analysis, we have identified variances in the methods the military departments use to translate the residents' responses into the "yes," "no," or "don't know" categories. The variances in how the military departments calculate "yes," "no," or "don't know" result in inconsistencies in how resident satisfaction is ultimately reported to Congress. Specifically:

- For the fiscal years 2015 through 2017 reports, Navy officials told us that they counted responses reported in categories 5 and 4 as "yes," responses in categories 2 and 1 as "no," and responses in categories 0 and 3 as "don't know."
- For the same time period, Air Force officials told us that they counted responses in categories 5, 4, and 3 as "yes," responses in categories 2 and 1 as "no," and responses in category 0 as "don't know."

The Army calculated responses differently for the fiscal years 2015, 2016, and 2017 reports. Specifically:

- For the fiscal year 2015 report, the Army counted responses in categories 5, 4, and 3 as "yes," responses in categories 2 and 1 as "no," and responses in category 0 as "don't know."
- For the fiscal year 2016 report, the Army counted responses in categories 5 and 4 as "yes," responses in categories 2, 1, and 0 as "no," and responses in category 3 as "don't know."
- For the fiscal year 2017 report, the Army counted responses in categories 5 and 4 as "yes," responses in categories 2 and 1 as "no," and responses in categories 0 and 3 as "don't know."

In our ongoing work, we have also identified instances of errors and inaccuracies in how OSD calculates these data and reports on resident satisfaction to Congress. Specifically, we found missing data points and incorrect formulas, among other errors, in OSD's calculation of the data submitted by the military departments for OSD's fiscal year 2017 report to Congress. For example:

- The formula used by OSD to calculate overall resident satisfaction for the fiscal year 2017 report did not include data for several projects, including for four Army projects that, as of September 30, 2017, accounted for over 18 percent of the Army's total housing inventory.

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- Additionally, we identified that OSD did not include resident satisfaction data for a Navy project in its fiscal year 2017 report to Congress, even though when we reviewed the Navy's submission to OSD, we found that the Navy had included data for that project.
 - For one Air Force project, OSD reported identical resident satisfaction data for the fiscal year 2015, 2016, and 2017 reports, despite the fact that Air Force officials had noted in their submissions to OSD that the resident satisfaction data were from the annual resident satisfaction survey conducted in December 2013.

We also found that presentation of data in OSD's report to Congress may be misleading because OSD did not explain the methodology it used to calculate the overall resident satisfaction percentage or include caveats to explain limitations to the data presented. Specifically, OSD did not include information on overall response rates to the annual satisfaction survey for each military department, nor did it include response rates by project. Low response rates can create the potential for bias in survey results. For example, in the report for fiscal year 2017, OSD reported that 25 percent of residents living in renovated housing units for one privatized housing project were satisfied with their housing, but we found that only four residents had provided responses to this question. Thus, only one resident reported being satisfied. In addition, we found that OSD did not provide an explanation in the report for why five projects were listed as "not applicable." According to OSD officials, this error was a quality control issue that they plan to address.

According to OSD officials, OSD and the military departments are reviewing the resident satisfaction survey questions and will be identifying and implementing measures to ensure an accurate and reliable process to compile, calculate, report and compare MHPI resident satisfaction by military department and across DOD.

Military Housing Offices Have Not Effectively Communicated Their Role as a Resource for Servicemembers Experiencing Challenges with Privatized Housing

Military housing office officials located at each installation are available to provide resources to servicemembers experiencing challenges with their privatized housing, among other services, but these offices have not always effectively communicated this role to residents of privatized

housing. The military housing office is to provide new residents with information on their local housing options, to include referral services for housing options. According to some military housing office officials, the military housing office then works with the private partner to identify the eligibility and type of home the servicemember qualifies for, if the resident chooses to live in privatized housing. According to some residents we spoke with in one of our focus groups, beyond this initial interaction, military housing office officials generally do not interact with residents on a regular basis. Additionally, residents who participated in our focus groups noted they were sometimes confused about the military housing offices' roles and responsibilities with regard to the maintenance of their home; there was a perception that the military housing office was not working independently of the partner in the residents' best interest; or they did not know the military housing office existed.

The military department oversight agencies have acknowledged resident confusion and a lack of awareness regarding the role of the military housing offices as an issue. In May 2019, the Army Inspector General reported to the Secretary of the Army that at 82 percent of Army installations with privatized housing, residents did not know how to escalate issues to either the private partner or the Army housing office. Additionally, the Army Inspector General reported that installation command teams and staff cited multiple circumstances where military housing offices and tenant advocacy roles and responsibilities were unclear. Further, some military housing office officials with whom we spoke during our site visits acknowledged the gap in resident awareness regarding the existence and purpose of the military housing office. Some military housing officials also noted that some residents are unaware of the difference between the military housing office and the private partner office, due in part to their physical co-location and unclear building signage.

Each military department has issued information that establishes that its housing offices can assist in the resident dispute resolution process. Specifically, if servicemembers are experiencing a dispute with a private partner, military department guidance establishes varying roles for their respective military housing office officials. For example, Army policy states that each installation should have an official tasked with supporting servicemembers regarding resident issues that cannot be resolved by the private property manager. This individual is also responsible for resolving every resident complaint and the military housing office, if required, can request mediation by the garrison commander.

Despite this guidance, according to DOD officials, the military departments had generally decreased their staffing and oversight of daily privatized housing operations since the enactment of MHPI. For example, Army officials we spoke with in January 2019 told us that they typically filled 80 percent of available military housing office positions across their installations. Additionally, officials stated that housing offices were generally staffed with two or three officials responsible for assisting servicemembers with housing needs both on the installation as well as in the local community. Further, the officials told us that the team at one Army installation was decreased from about 15 to 3 positions. According to OSD officials, while housing offices should generally not require the number of personnel that were necessary prior to privatization, reductions following sequestration reduced housing staff below the level necessary to fully perform required privatized housing oversight as it was originally envisioned at the outset of the program.

OSD has recognized that the military departments' communication with residents about their role as a resource for them has been limited. In February 2019, the Assistant Secretary of Defense for Sustainment testified before Congress that a way forward in addressing resident concerns would require focus in three key areas: communication, engagement, and responsiveness. Some military housing office officials told us they have taken steps to increase resident awareness, such as increasing the advertising of the military housing office's role and contact information, conducting town hall meetings, and rebranding their military housing offices to differentiate them from the private partners. For example, a Marine Corps housing office official stated that the housing office established a document, which is distributed to residents by the private partner, informing residents of housing office contact information and the service's 3-step dispute resolution process, but efforts have not been standardized across all projects.

DOD and Private Partners Are Implementing Initiatives to Improve Privatized Housing, but May Face Challenges

OSD, the military departments, and the private partners have identified and begun collaborating on a series of initiatives aimed at improving residents' experiences with privatized housing, but our preliminary work showed that these efforts face challenges. According to an OSD official, a series of initiatives has been identified and are some are currently in

various phases of development and implementation. Tri-service working groups, each chaired by a designated military department and comprising officials and legal counsel from each military department as well as private partner representatives, are leading efforts to develop and implement the initiatives. In particular, DOD and the private partners are collaborating on the following key initiatives:

- **Development of a Resident Bill of Rights.** The Resident Bill of Rights is to provide clarity to residents on their rights and responsibilities while living in privatized military housing.
- **Development of a common tenant lease.** The common lease framework will be binding in all 50 states, but also include addendums to capture state and local laws, as required. The common lease would provide residents of privatized housing with similar terms in their leases, regardless of where they are living and which private partner owns their housing unit.
- **Establishment of a resident advocate position.** The resident advocate position, according to an OSD official, will be available to provide independent advice, education, and support to residents. However, an OSD official noted that the military departments have not yet determined whether this individual would be active duty or civilian and where the position would fall organizationally—specifically, whether it would be part of the military housing office.
- **Development of a standardized adjudication process.** The military departments and private partners are developing a common dispute resolution process that would apply to all projects. According to OSD, this process would provide residents the right to have housing issues heard and resolved by a neutral third party.

DOD and Congress are exploring additional initiatives and legislative proposals. However, both DOD and private partner officials have noted several challenges that could impact their ability to implement some of these initiatives and legislative proposals. Key challenges include the following:

- **The need to collaborate with and obtain input and agreement from the large number of stakeholders involved in privatized housing.** Many of the initiatives aimed at improving privatized housing require not only agreement between DOD and the private housing partners, but may

also require discussion with and approval by the project bond holders.³⁰ This requirement could limit the military departments' legal authority to unilaterally make changes to existing business agreements. The private partners noted that the bond holders may be reluctant to agree to changes to the business agreements that could result in higher project costs.

- **Limited military department resources.** The military departments had reduced their involvement in daily privatized military housing operations as part of the overall privatization effort. This included reducing staffing levels at the installations. Each of the military departments has plans to increase the military housing office staffing at each installation to allow for enhanced oversight.
- **The potential for negative financial impacts to the projects that may outweigh the intended benefits of the initiatives.** Representatives from many of the private partners we met with expressed concern that some proposed initiatives may result in a financial burden for their projects, such as legal fees associated with the development of a common lease and the various addendums that would be required; unanticipated costs of hiring outside third party inspections; or the potential impact to project revenue that would result from residents withholding rent. Some of the private partners noted that the financial impact of unfunded requirements to projects that are already experiencing financial distress could result in even fewer funds available to reinvest in the physical condition of the housing units.

In summary, while the privatization of military housing has resulted in private partners assuming primary responsibility for military housing, DOD maintains responsibility for overseeing privatized housing and ensuring that eligible personnel and their families have access to affordable, quality housing facilities and services. While DOD and the private partners have taken steps to address concerns raised about their ability to adequately maintain and oversee the condition of these housing units and provide quality housing for servicemembers, the extent to which the efforts will be sustained and result in improvements remains unclear. We are continuing our broader review of DOD's oversight of privatized housing, including the issues addressed in this statement and will make recommendations as appropriate in our final report, which we anticipate issuing in early 2020.

³⁰Privatized housing projects were generally financed through both private-sector financing and funds provided by the military departments. Projects obtained private-sector financing by obtaining bank loans and by issuing bonds, which are held by the public.

Chairman Inhofe, Ranking Member Reed, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff members have any questions about this testimony, please contact Elizabeth A. Field, Director, Defense Capabilities and Management, at (202) 512-2775 or FieldE1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Kristy Williams (Assistant Director), Tida Reveley (Analyst in Charge), Austin Barvin, Ronnie Bergman, Vincent Buquicchio, William Carpluk, Juliee Conde-Medina, Mae Jones, Jordan Mettica, Kelly Rubin, Monica Savoy, and John Van Schaik.

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