



Before the Subcommittee on Military Construction, Veterans Affairs, and Related Agencies, Committee on Appropriations, House of Representatives

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# PRIVATIZED MILITARY HOUSING

## Update on DOD's Efforts to Address Oversight Challenges

Statement of Elizabeth A. Field, Director, Defense Capabilities and Management

Accessible Version

# GAO Highlight

Highlights of [GAO-22-105866](#), a testimony before the Subcommittee on Military Construction, Veterans Affairs, and Related Agencies; Committee on Appropriations, House of Representatives

## Why GAO Did This Study

Congress enacted the privatized housing program in 1996 to improve the quality of housing for service members and their families. DOD is responsible for general oversight of the privatized family housing program; and private housing companies own and operate housing projects and are responsible for the maintenance and repair of privatized housing projects.

In recent years, members of Congress have raised concerns over the condition of privatized family housing. Since March 2018, GAO has issued four reports identifying deficiencies in DOD's oversight. Some of these deficiencies were highlighted by recent Department of Justice investigations into alleged wrongdoing by two of DOD's largest private housing companies. These investigations resulted in one company pleading guilty to defrauding the government and another reaching a settlement with the government.

This statement summarizes (1) actions DOD has taken to implement GAO's March 2020 recommendations on the privatized housing program, (2) actions DOD has taken to increase its oversight of privatized housing, and (3) key oversight challenges that remain. It also includes preliminary observations from ongoing audit work examining this program.

For this statement, GAO reviewed prior reports and DOD steps taken to address prior recommendations; reviewed and analyzed relevant DOD guidance, policies, and planning documents; and interviewed DOD officials.

View [GAO-22-105866](#). For more information, contact Elizabeth A.Field at (202) 512-2775 or [fieldE1@gao.gov](mailto:fieldE1@gao.gov).

March 2022

## PRIVATIZED MILITARY HOUSING

### Update on DOD's Efforts to Address Oversight Challenges

## What GAO Found

Congress enacted the Military Housing Privatization Initiative (hereafter, the privatized family housing program) to improve the quality of housing for service members and their families, which had been owned and managed by the Department of Defense (DOD). However, over the past several years, congressional concerns regarding DOD's oversight of the private housing companies has resulted in numerous National Defense Authorization Act requirements. GAO's related work has resulted in 30 recommendations to improve the privatized family housing program—15 of which have been implemented. GAO found that DOD has made progress in implementing several of these requirements and recommendations. Specifically, DOD has improved:

- **Oversight of the condition of homes.** The military departments have increased the frequency of inspections of privatized family homes, and directed use of a standardized inspection checklist during all changes in occupancy. Military housing officials use this checklist to identify housing deficiencies to be corrected before move-in. In addition, the resident is required to acknowledge satisfaction with the condition of the home. The military departments have also initiated uniform safety inspections at their over 205,000 privatized housing units, to be completed by September 30, 2024.
- **Resident communication.** The military departments have implemented actions to clearly and systematically communicate the responsibilities, locations, and contact information of local military housing offices to residents, and the difference between these offices and the private housing company. This includes providing residents briefings to ensure they are aware of whom to contact about housing issues and providing for ongoing communication with residents at established intervals.
- **Metrics used to measure project performance.** The military departments have revised their performance indicators and incentive fee structures used to determine private housing companies' eligibility to receive performance incentive fees. Changes to these metrics may provide a more accurate reflection of the condition of the homes and resident satisfaction. For example, the military departments have taken steps to focus metrics on the quality of work completed, rather than work order response times.
- **Leadership's role in project oversight.** The Office of the Secretary of Defense has increased its project oversight by conducting quarterly reviews of each of the 78 privatized family housing projects, requiring the military departments to seek approval prior to making certain changes to these projects, and standardizing the information collected through DOD's annual resident satisfaction survey.

Nevertheless, oversight of the privatized family housing program will likely continue to face challenges. In part because DOD cannot unilaterally make changes to projects without the concurrence of the private companies, as demonstrated by DOD's efforts to implement several legislative provisions. For example, DOD has been statutorily required to establish a Tenant Bill of Rights, but as of March 2022, agreement had not yet been reached with private companies at five installations. While DOD has taken numerous actions to improve its oversight, a continued emphasis on oversight is critical to ensure quality housing for service members and their families.

Chair Wasserman Schultz, Ranking Member Carter, and Members of the Subcommittee:

Thank you for the opportunity to provide an update on the Department of Defense's (DOD) efforts to improve its privatized family housing program. In 1996, Congress enacted the Military Housing Privatization Initiative (hereafter, the privatized family housing program) in response to DOD concerns about the effect of inadequate and poor quality housing on service members and their families.<sup>1</sup> Since the mid-1990s, DOD has worked with private-sector developers and property management companies (hereafter referred to as private housing companies) to construct, renovate, maintain, and repair housing at domestic military installations through partnerships known as privatized housing projects.<sup>2</sup> These private housing companies currently own and operate about 99 percent of military family housing in the continental United States, Alaska, and Hawaii.

In recent years, members of Congress have expressed concerns over the condition of privatized housing and private housing company performance. Since March 2018, we have issued multiple reports examining DOD's oversight of the privatized housing program and made 30 recommendations to improve the program.<sup>3</sup> As of March 2022 DOD has implemented 15 of our recommendations. In addition, the Department of Justice (DOJ) recently investigated alleged wrongdoing by two of the largest private housing companies. These investigations resulted in one company pleading guilty to defrauding the government and paying over

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<sup>1</sup>National Defense Authorization Act for Fiscal Year 1996, Pub. L. No. 104-106, §§ 2801-2802 (1996), *codified as amended* at 10 U.S.C. §§ 2871-2894a.

<sup>2</sup>Private housing companies are alternately referred to by the military departments as project owners, private developers, private partners, and managing members. Private housing companies may also be referred to as lessors of privatized homes in their capacity as landlords to the service members who rent the privatized housing.

<sup>3</sup>See, GAO, *Military Housing Privatization: DOD Should Improve Oversight of Property Insurance and Natural Disaster Recovery*, [GAO-21-184SU](#) (Washington, D.C.: Feb. 18, 2021); *Military Housing: Actions Needed to Improve the Process for Setting Allowances for Servicemembers and Calculating Payments for Privatized Housing Projects*, [GAO-21-137](#) (Washington, D.C.: Jan. 25, 2021); *Military Housing: DOD Needs to Strengthen Oversight and Clarify Its Role in the Management of Privatized Housing*, [GAO-20-281](#) (Washington, D.C.: Mar. 26, 2020); and *Military Housing Privatization: DOD Should Take Steps to Improve Monitoring, Reporting, and Risk Assessment*, [GAO-18-218](#) (Washington, D.C.: Mar. 13, 2018).

\$65 million in civil liability under the False Claims Act and criminal fines and restitution, and the other company reaching a settlement with DOJ and agreeing to pay \$500,000 to resolve allegations of a violation of the False Claims Act.<sup>4</sup> Both of these cases involved allegations that the private housing companies falsified data in order to fraudulently induce inflated performance incentive fees from the military departments.

My testimony today provides information on the status of DOD's efforts to improve oversight of its privatized family housing program. Specifically, I will provide observations on DOD's (1) steps to implement our prior recommendations aimed at improving privatized housing performance metrics and communication with residents, (2) efforts to increase oversight of privatized housing projects, and (3) oversight challenges that remain as it works to improve privatized housing for residents.

This statement is based on recommendations made in our March 2020 report on the privatized family housing program,<sup>5</sup> as well as information we have gathered as part of our ongoing audit work related to a request from the House Armed Services Committee.<sup>6</sup> This ongoing audit work examines a range of issues related to DOD's oversight of the privatized family housing program, including actions DOD has taken to implement a number of requirements from the National Defense Authorization Acts (NDAA) for Fiscal Years 2020 and 2021 that are aimed at strengthening oversight of the private housing companies.<sup>7</sup>

To follow up on DOD's actions to address our March 2020 recommendations, we obtained and analyzed updates from DOD on the status of its efforts to implement recommendations from our prior report. These updates are current as of March 2022. To conduct our ongoing audit work focused on DOD's continued oversight of the privatized family housing program, we reviewed and analyzed relevant DOD guidance, policies, and planning documents. We also interviewed Office of the

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<sup>4</sup>The settlement agreement reached with the second developer resolved the allegations without admission of fault.

<sup>5</sup>GAO, *Military Housing: DOD Needs to Strengthen Oversight and Clarify Its Role in the Management of Privatized Housing*, [GAO-20-281](#) (Washington, D.C.: Mar. 26, 2020).

<sup>6</sup>On March 26, 2021, we received a request from Rep. John Garamendi, Chairman, Readiness Subcommittee, and Rep. Jackie Speier, Chair, Military Personnel Subcommittee, House Armed Services Committee to review and report on DOD oversight of the privatized family housing program.

<sup>7</sup>Pub. L. No. 116-92 (Dec. 20, 2019) and Pub. L. No. 116-283 (Jan. 1, 2021).

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Secretary of Defense (OSD) and military department officials involved in implementing and overseeing the privatized family housing program.

We performed the work on which this statement is based from November 2018 through March 2022 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.

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## Background

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### DOD Privatized Housing

DOD's policy is to ensure that eligible personnel and their families have access to affordable, quality housing facilities and services consistent with their grade and dependent status, and that the housing generally reflects contemporary community living standards.<sup>8</sup> From the inception of the privatized family housing program, the military departments were provided the necessary legal authorities to obtain private sector financing and private sector ownership and management of military housing in the United States. Through these authorities, the military departments have entered into a series of project-specific agreements with private housing companies to construct, renovate, repair, and operate housing.

The legal authorities provide the military departments flexibility in how they structure their privatized housing projects. Historically, the military departments have leased land to private housing companies for 50-year terms and conveyed ownership of existing housing located on the land to the private housing companies for the duration of the lease. As of March 2022, 14 private housing companies own and operate 78 privatized family

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<sup>8</sup>DOD Instruction 4165.63, *DOD Housing* (July 21, 2008) (incorporating Change 2, Aug. 31, 2018).

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housing projects—34 for the Army, 31 for the Air Force, and 13 for the Navy and the Marine Corps.<sup>9</sup>

Each of the 78 privatized housing projects is a separate and distinct entity governed by its own set of legal agreements specific to that project (hereinafter referred to as business agreements). These business agreements typically include a ground lease, an operating agreement, a property management agreement, and an agreement that describes the management of funds and the order in which funds are allocated within the project.

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## DOD Oversight Roles and Responsibilities

The Assistant Secretary of Defense for Energy, Installations, and Environment, the official designated as DOD's Chief Housing Officer, is responsible for overseeing all aspects of DOD housing to include the privatized family housing program. According to DOD, the Deputy Assistant Secretary of Defense for Housing supports the Assistant Secretary of Defense for Energy, Installations, and Environment in performing the statutorily defined duties of the Chief Housing Officer, to include programmatic oversight of DOD's government-owned, government-controlled, and privatized family and unaccompanied housing and privatized lodging, and the creation, standardization, and administration of DOD housing policies and procedures.<sup>10</sup>

Accordingly, each of the military departments is responsible for overseeing its specific privatized housing projects. Each military department has issued guidance and policy that outlines its oversight

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<sup>9</sup>Since our last housing testimony before this Subcommittee in February 2021, there have been some changes to the ownership and number of privatized housing projects. According to information provided by DOD, the Air Force divested one of its projects at Robins Air Force Base on November 2, 2021. Additionally, Clark Realty sold all eight of its projects and is no longer involved in the privatized family housing program; Lincoln Military Housing converted to an Employee Stock Ownership Plan and changed its name to Liberty Military Housing and sold one of its projects; and Corvias sold one of its projects to a new private partner known as Mayroad.

<sup>10</sup>Almost all DOD family housing in the United States has been privatized; however, DOD remains responsible for overseas family housing and most housing for unaccompanied military personnel in the United States.

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roles and responsibilities, such as which offices are responsible for overseeing privatized housing projects.<sup>11</sup>

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## National Defense Authorization Act Requirements

The Fiscal Year 2020 and 2021 NDAA, established more than 30 requirements that reformed various aspects of the privatized family housing program and established additional department-wide oversight requirements. Among the Fiscal Year 2020 NDAA requirements is the establishment of the Chief Housing Officer position to oversee privatized housing projects and standardize housing policies and processes. This NDAA also included additional requirements designed to further improve DOD's oversight of privatized housing.<sup>12</sup> For example, the Fiscal Year 2020 NDAA included provisions to improve resident satisfaction, such as developing resident rights and responsibilities documents; establishing a standardized, common lease framework for all privatized housing; implementing a common dispute adjudication process; and ensuring all resident have access to a military tenant advocate. It also included provisions for improving privatized housing project data, such as publishing on a publicly accessible website the military department's use of incentive fees to support contracts for the provision or management of housing units; enabling residents to electronically submit work orders; and making work order status and progress visible and transparent to military housing office staff and residents.

The Fiscal Year 2021 NDAA revised and clarified several requirements in the Fiscal Year 2020 NDAA and added some new privatized family housing program requirements. For example, the Fiscal Year 2021 NDAA included provisions to broaden DOD's direct hire authorities at the installation level. It amended the requirement related to metrics and the use of incentive fees directing installation housing offices to provide this information to residents upon request. It also directed the military

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<sup>11</sup>Air Force Instruction 32-6000, *Housing Management* (Mar. 18, 2020) (incorporating Department of the Air Force Guidance Memorandum 2022-01, Mar. 8, 2022); Department of the Army, *Portfolio and Asset Management Handbook: Residential Communities Initiative*, ver. 6.1 (August 2021); Commander, Navy Installations Command Notice 11101, *Navy Privatized Family Housing Oversight* (Feb. 4, 2020); and Commander, Marine Corps Installations Command Policy Letter 1-20, *Marine Corps Privatized Family Housing Oversight* (June 16, 2020).

<sup>12</sup>In addition to the oversight provisions discussed in this statement, the Fiscal Year 2020 NDAA also included provisions related to other aspects of privatized housing, such as the reporting of medical issues and the use of nondisclosure agreements.

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departments to conduct an assessment of performance metrics for each contract to ensure they adequately measure the condition and quality of housing units.

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## Military Departments Have Implemented Several GAO Recommendations Aimed at Improving Performance Metrics and Communication with Residents

In response to recommendations we made in March 2020, OSD and the military departments have taken steps to improve the metrics used to measure privatized housing project performance and to more clearly and systematically communicate with residents.<sup>13</sup> See appendix I for a summary of the status of the recommendations made to DOD related to privatized housing since March 2018.

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### DOD Has Improved Privatized Family Housing Program Performance Metrics

In general, the business agreements between the military departments and the private housing companies have performance incentive fees based on performance metrics identified in the agreements. In March 2020, we found that the military departments' performance metrics did not always provide meaningful information on the condition of housing. Specifically, we found that the indicators underlying the metrics associated with the quality of the maintenance performed may not provide meaningful information or reflect the actual condition of the housing.<sup>14</sup> For example, one indicator of "maintenance management" commonly used by the military departments measured how often a property manager was able to close maintenance work orders within required timeframes

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<sup>13</sup>See [GAO-20-281](#). In that report, we made 12 recommendations for DOD to strengthen its oversight and clarify its role in managing privatized housing. DOD generally concurred with the recommendations and has taken steps to implement them. See appendix I for the status of these recommendations as of March 2022.

<sup>14</sup>[GAO-20-281](#).



stipulated in the project's business agreement.<sup>15</sup> While this indicator measured the timeliness of the private partner's response, it did not measure the quality of the work performed or whether the resident was satisfied with the outcome.

During the course of the audit work for our March 2020 report, OSD began to address weaknesses related to the performance metrics.<sup>16</sup> Specifically, in October 2019, in collaboration with the military departments and private housing companies, OSD issued new guidance standardizing the performance incentive fee framework across the military departments.<sup>17</sup> This guidance set minimum and maximum percentages of the incentive fee that each performance metric can account for, allowing for some flexibility in the weight—or percentage—that the metric carries for a particular privatized housing project. For example, maintenance management can account for between 35 and 50 percent of the fee, resident satisfaction can account for between 25 and 40 percent of the fee, project safety can account for between 5 and 15 percent of the fee, and financial performance can account for between 5 and 15 percent of the fee.

Standardizing the performance incentive fee framework across the military departments was a significant improvement. However, it did not address the issue we raised about the underlying performance indicators not providing meaningful information about the private housing companies' performance in maintaining the privatized homes in good condition.

We, therefore, recommended that each of the military departments review the indicators underlying their privatized housing performance metrics to ensure they provide an accurate reflection of the condition of the homes. DOD concurred with this recommendation and it has been implemented by the military departments. Each of the military departments has since revised these underlying performance indicators and revised its performance incentive fee structures. By taking these actions, DOD has

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<sup>15</sup>We reported that work orders may be categorized as emergency, urgent, or routine, with pre-established, required response time frames outlined in the agreement, which the military departments use to evaluate private developers and award performance incentive fees.

<sup>16</sup>[GAO-20-281](#).

<sup>17</sup>Assistant Secretary of Defense (Sustainment) Memorandum, *Common Incentive Fee Framework for Military Housing Privatization Initiative Projects* (Oct. 28, 2019).

emphasized the condition of the homes and resident satisfaction and given work order response times less weight in measuring and rewarding private housing company performance.

The “work order response time” indicator, in particular, was involved in DOJ’s recent investigations discussed above. Specifically, the private housing companies involved allegedly reported to DOD that responses to maintenance work orders had met required timeframes to receive performance incentive fees, even if they had not.<sup>18</sup> According to OSD officials, the military departments have taken steps to reduce the weight of work order response times in rewarding private company performance. Officials noted that this, in conjunction with other actions, in part disincentivizes reporting of fraudulent data.<sup>19</sup> Specific changes the military departments made include:

- In 2021, the Navy and Marine Corps, in advance of negotiations with their private housing companies, standardized their performance incentive fee criteria to establish several work order-related metrics that could account for up to 31 percent of the total performance incentive fee and revised these metrics to focus on quality of work, not just work order response time. These metrics include resident work order survey responses (15-16 percent); work order response time (7.5 percent); and work order completion time (7.5 percent). In comparison, in one of the business agreements we reviewed for our March 2020 report, work order response time could account for up to 23 percent of the total performance incentive fee, as opposed to the 7.5 percent maximum under the current criteria. Eligibility for the remaining 69 percent of the performance fee established by the new criteria is dependent on meeting various other metrics related to resident satisfaction, maintenance management, project safety, and financial management.
- In 2021, the Army revised its Incentive Performance Management Plan based on lessons learned over the previous 14 months. The revised plan sets criteria and processes for Army installation housing offices to evaluate and award performance incentive fees to private

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<sup>18</sup>As noted above, one private housing company entered a guilty plea. The second company reached a \$500,000 settlement to resolve allegations of fraud; there was no admission of fault as part of the settlement.

<sup>19</sup>The military departments also took other actions to deter fraud, including increasing oversight and validation of work order data, increasing installation commander discretion in determining whether to award performance incentive fees, and working with private housing companies to improve the companies’ internal controls over work order data.

housing companies. The revised plan standardizes the weight of maintenance work order closures across all Army privatized housing projects to account for up to 10 percent of performance incentive fee received. For comparison, in one of the business agreements we reviewed for our March 2020 report, work order closures could account for up to 30 percent of the total performance incentive fee received. The plan also states that “at no time will the original work order be closed out or a new work order generated until the original maintenance issue is fully resolved or the housing office concurs.” This requirement directly limits the private housing company’s ability to close work orders simply to meet established timeframes even if the issue has not been addressed.

This limitation is significant, as we found in our March 2020 report that private housing companies had differing practices for opening and closing work orders, limiting the usefulness of these data in monitoring the status of work orders over time. We also identified anomalies in work order data, indicating the need for further scrutiny. For example, we identified instances in which work orders were identified as having been closed, even before the residents had reported the problem. Under the Army’s revised plan, eligibility for the remaining 90 percent of the performance fee is dependent on meeting various other metrics related to resident satisfaction, maintenance management, project objective, and financial management.

- In 2021, the Air Force issued a Performance Incentive Fee Playbook that outlines the process for reviewing and approving project performance and incentive fee eligibility. In addition, in October 2021, the Air Force reported that it was negotiating with its private housing companies to implement standardized revisions to its performance incentive fee metrics to more accurately measure resident experience and maintenance quality. The revisions include standardizing the weight of maintenance work order closures across all of its privatized housing projects to account for up to 10 percent of the total incentive fee. For comparison, in one of the business agreements we reviewed for our March 2020 report, work order closures could account for up to 45 percent of the total performance incentive fee. Under the Air Force’s revised plan, eligibility for the remaining 90 percent of the performance fee is dependent on meeting various other metrics related to resident satisfaction, maintenance management, project safety, and financial management.

By implementing our recommendation, DOD has better assurance that the performance of its private housing companies is more directly tied to

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the housing companies' performance in maintaining the condition of the homes and responding to residents' needs.

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## DOD Has Improved Communication with Residents of Privatized Family Housing

In March 2020, we found that military housing offices located at installations with privatized housing projects, which are available to assist residents experiencing challenges with their housing, were not always communicating the availability of this assistance to residents. Therefore, we recommended that the military departments develop and implement a plan to clearly and systematically communicate to residents the military housing office's roles, responsibilities, locations, and contact information, as well as to communicate the difference between the military housing office and the private housing company.<sup>20</sup> In addition, the Fiscal Year 2020 NDAA requires that the military housing offices provide all residents with a briefing—before signing a lease and 30 days after move-in—that clarifies all tenant rights and responsibilities, and provides military housing office contact information, among other things.<sup>21</sup> DOD concurred with our recommendation, and, in part, through actions taken to implement NDAA requirements, the recommendation has been implemented by the military departments. Specifically:

- The Army developed a briefing for privatized housing residents, as required by the Fiscal Year 2020 NDAA. According to Army officials, the intent of the briefing is to ensure that all residents are aware of their ability to contact directly the installation's Army housing office and installation commander about housing issues. Army policy requires the briefing to be presented at all newcomer briefings—a mandatory sit-down briefing for those new to the installation on basic information about their new home and the surrounding community. The briefing was also provided to current residents of privatized housing. Additionally, the Army is developing written correspondence and signage to communicate more clearly to residents the difference between the Army housing office and the private housing company with respect to their roles and responsibilities.
- The Air Force developed a briefing, as required by the Fiscal Year 2020 NDAA, and a move-in checklist. The briefing and the checklist

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<sup>20</sup>GAO-20-281.

<sup>21</sup>Pub. L. No. 116-92, § 3011(b).

emphasize the military housing office's roles and responsibilities and the residents' rights and responsibilities. The Air Force also updated its guidance to instruct all Air Force military housing offices to (1) clearly distinguish themselves from the private partner and (2) designate space for residents to meet privately with military housing office personnel to discuss housing issues.

- The Navy and Marine Corps have issued a briefing for privatized housing residents in accordance with the Fiscal Year 2020 NDAA, and have taken additional steps to address our recommendation. For example, all Navy and Marine Corps installations have posted information in hard copy and on their websites describing the dispute resolution process and reminding residents that they can contact both the private housing company and the installation housing office with any issues. This information includes an email and phone number for both the private housing company and the military housing office. In addition, documents provided by the Navy state that Navy and Marine Corps commanders, through town halls, websites, and other means, make sure that all residents know they can contact their chain of command, military housing offices officials, or installation legal office if they have an issue or concern.

By taking actions to implement our recommendation, the military departments have greater assurance that privatized housing residents clearly understand the difference between the military housing office and the private housing company, and are aware of the resources available to provide assistance with housing related issues.

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## DOD Has Increased Oversight of Its Privatized Family Housing Projects

Since 2019, DOD has taken a number of actions to increase its oversight of privatized family housing projects. Many of the actions DOD has taken to enhance project oversight are a direct result of legislative requirements in the NDAs for Fiscal Years 2020 and 2021 and additional recommendations made in our March 2020 report. Examples of actions OSD and the military departments have taken include:

- **Increasing oversight of the condition of homes.** Each of the military departments has been required to increase the frequency of inspections of privatized homes. In our March 2020 report, we found that the rate of inspections of homes during a change of occupancy varied. For example, officials at one installation told us that they inspected 100 percent of homes that have completed change-of-

occupancy maintenance, while officials from another stated that they inspected 10 to 20 percent of these homes.<sup>22</sup> However, in February 2021, in response to Fiscal Year 2020 and 2021 NDAA requirements, OSD provided the military departments with a universal lease template and directed them to use this template, to the extent possible, for all privatized housing projects.<sup>23</sup> Among other things, the lease template includes a standardized, detailed move-in/move-out checklist to be used to inspect all homes during a change of occupancy. This checklist is required to be used by military housing officials to identify housing deficiencies and assign responsibilities for correcting them, such as electrical and plumbing deficiencies. The resident and a representative of the private housing company are both required to sign the checklist indicating their satisfaction with the condition of the home at move-in and move-out.

Additionally, the Fiscal Year 2020 NDAA required DOD to (1) establish and implement a uniform code of standards for safety, comfort, and habitability for privatized family housing; and (2) inspect and assess the condition of privatized family housing units using this code.<sup>24</sup> OSD developed a uniform code and an inspection checklist, and in January 2022 issued policy directing all of the military departments to complete inspections of their more than 205,000 privatized family housing units by September 30, 2024.<sup>25</sup> Officials from each of the military departments told us that they have started the process of contracting with third-party inspectors to conduct these inspections and assessments. In the case of the Army, officials told us

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<sup>22</sup>[GAO-20-281](#).

<sup>23</sup>Assistant Secretary of Defense (Sustainment) Memorandum, *Universal Lease and Dispute Resolution Process for Privatized Housing* (Feb. 12, 2021). This guidance requires the military departments to use the lease template for all privatized housing projects entered into or renewed after December 20, 2019. It also requires that the military departments provide the universal lease template to all private housing companies for their voluntary use at existing privatized housing projects no later than June 1, 2021. This policy updates and supersedes guidance issued by OSD in July 2020, September 2020 and December 2020.

<sup>24</sup>Pub. L. No. 116-92. Subsequently, the Fiscal Year 2021 NDAA expanded the uniform code and the housing inspection and assessment requirement to include Government-owned and Government-controlled military family housing located inside and outside the United States.

<sup>25</sup>Assistant Secretary of Defense (Sustainment) Memorandum, *Inspection and Assessment of Housing* (Jan. 21, 2022).

that a pilot inspection at one privatized housing project has already been completed.

- **Increasing leadership role in project oversight.** OSD and the military departments have increased their monitoring of project performance. In January 2021, OSD issued guidance requiring quarterly programmatic reviews of each military department's privatized housing projects.<sup>26</sup> These quarterly reviews require each of the military departments to provide OSD with standardized data on the financial health of its privatized housing projects. During these reviews, the military departments are also required to provide OSD with in-depth information on designated topics, such as the annual resident satisfaction survey results and risk-based assessments of the projected long-term financial viability of individual projects.

According to OSD officials, the guidance also clarified and formalized military department authority to make certain changes to privatized housing projects. For example, it requires military departments to seek OSD approval prior to certain actions such as soliciting or awarding any new privatized housing projects and before altering, modifying, or restructuring provisions of existing differential lease payments. The guidance also requires that the military departments notify OSD after certain changes are made to projects (e.g., delays to the planned demolition of homes and changes to private (non-government) monetary contributions to projects).

Further, in response to the Fiscal Year 2020 NDAA, each of the military departments has established privatized housing councils and increased the role of senior military department leadership in overseeing privatized housing. For example, the Air Force has revised its oversight structure to include three levels of oversight—group, board, and council. The group membership is at the senior military officer or manager pay grade level and convenes quarterly. The board membership is at the General Officer/Senior Executive Service pay grade level and convenes semi-annually. The council convenes annually and membership includes the Assistant Secretary of the Air Force for Installations, Environment and Energy; the Commander, Air Force Materiel Command; the Deputy Chief of Staff for Logistics,

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<sup>26</sup>Assistant Secretary of Defense (Sustainment) Memorandum, *Military Housing Privatization Initiative – Approval and Notifications Policy* (Jan. 15, 2021). Military departments are also required to report on their privatized unaccompanied housing and lodging, as applicable. As of January 2022, DOD had seven privatized unaccompanied housing projects, and one unaccompanied lodging project that provides lodging at 40 Army installations.

Engineering and Force Protection; and a representative from an installation's military housing office.

- **Increasing information collected on resident experience.** In March 2020, we found that resident satisfaction data reported to Congress for fiscal years 2016 and 2017 were unreliable and misleading due, in part, to variances in the data the military departments collected. We also found that the resident satisfaction survey did not directly ask residents for their views on the condition of their home. We recommended that DOD develop a process for collecting and calculating resident satisfaction data from the military departments to ensure that the data are compiled and calculated in a standardized and accurate way. We also recommended that DOD provide additional explanation of the survey data collected and reported in future reports to Congress, such as explaining the limitations of available survey data, how resident satisfaction was calculated, and the reason for any missing data, among other things.<sup>27</sup>

DOD has made some progress in implementing these recommendations. For example, beginning with the fiscal year 2019 satisfaction survey, DOD added a question asking residents to rate their satisfaction with the “overall condition of [their] home.”<sup>28</sup> The use of this question was an improvement over prior satisfaction surveys, which had asked residents, instead, whether they would recommend their community to others. As we reported in March 2020, a residents' 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. In addition, DOD has taken steps to improve the quality and transparency of the data it reports to Congress, such as providing explanations for missing survey data.

DOD has also recently standardized its resident satisfaction survey for residents of privatized housing. In November 2020, in response to a

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<sup>27</sup>[GAO-20-281](#).

<sup>28</sup>In its fiscal year 2018 survey, DOD slightly modified the question on resident satisfaction from asking residents “would you recommend privatized housing?” to asking residents if “[they] would recommend this community to others”. The fiscal year 2018 survey did not directly ask residents for their views on the condition of their home. DOD provided its fiscal year 2019 report to Congress on March 25, 2022. In preparing this statement we did not have time to assess how the results of the new question asking residents to rate their satisfaction with the “overall condition of [their] home” were reported.



Fiscal Year 2020 NDAA requirement, OSD issued a policy directing the military departments to administer the annual resident satisfaction survey using identical questions.<sup>29</sup> The OSD policy provided specific questions for the military departments to use in the fiscal year 2021 survey.<sup>30</sup> For the recently administered fiscal year 2022 resident satisfaction survey, as well as for future surveys, OSD also directed the military departments to jointly review the survey questions on an annual basis for relevance and to use identical questions for all surveys administered in a given fiscal year. Our ongoing work is reviewing the extent to which DOD's continued efforts will fully implement our recommendations, including ensuring that it is capturing and reporting consistent information on resident satisfaction from one fiscal year to the next.

Another Fiscal Year 2020 NDAA provision requires the heads of military housing offices to initiate contact with residents no later than 15 days after move-in and again 60 days after move-in, furthering opportunities to collect data on resident's experience and satisfaction with their housing situation. Each of the military departments provided to GAO documentation demonstrating efforts to implement these 15-day and 60-day resident check-ins.

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## DOD's Oversight of the Privatized Family Housing Program Will Likely Continue to Face Challenges

Since 2018, we have reported and testified on the challenges DOD faces in conducting oversight of the privatized family housing program. These challenges include: the timeliness with which DOD is able to implement initiatives, insufficient resources needed for implementation, and

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<sup>29</sup>Assistant Secretary of Defense (Sustainment) Memorandum, *Tenant Satisfaction Survey Policy for DoD Privatized, Owned or Leased Housing* (Nov. 16, 2020).

<sup>30</sup>The survey questions ask residents of privatized housing to rate their satisfaction with a range of topics, such as "the responsiveness of maintenance personnel", "[f]ollow-up on maintenance requests to ensure satisfaction", "[c]larity of [privatized property management office] communication", "[o]verall condition of [their] home", "[t]he government housing office as your advocate", and "[y]our Chain of Command in engaging on housing issues". The survey also asks residents how strongly they agree with the various statements, such as, "[w]hen the [private] property management/housing office team promises to do something by a certain time, they do it" and "[g]iven the choice in the future, I would seek/want to live in this housing community again".

concerns that implementation could have unintended negative effects on the financial viability of privatized housing projects.

DOD has taken steps to address these challenges, including increasing the number of personnel at the installation, command, and headquarters levels to oversee privatized housing projects; and incorporating financial risk assessments into ongoing project monitoring.<sup>31</sup> However, the extent to which these actions have resulted in improvements to the condition of homes, residents' experience, and the financial sustainability of the privatized housing projects remains to be seen. Our ongoing work will address, at least in part, DOD's efforts to address some of these challenges and, where applicable, identify areas for further improvement.

While DOD has made progress in implementing our recommendations, several recommendations related to the quality of data reported to Congress, the processes for validating work orders, ensuring proper oversight of insurance for privatized housing projects, and calculating the basic allowance for housing (BAH) have not been fully implemented.<sup>32</sup> However, on March 25, 2022, DOD officials just provided us with information on their actions taken in response to some of these recommendations. We will continue to work with the agency as we assess their actions to determine if they have addressed our recommendations.

As we have previously reported, DOD cannot unilaterally make changes to the legally-binding privatized housing project business agreements without the concurrence of the private housing companies.<sup>33</sup> DOD's efforts to implement several NDAA provisions have demonstrated this limitation.

As I discussed earlier, DOD has issued guidance to implement several NDAA provisions and our prior recommendations; however, not all of the privatized housing projects have reached agreement to fully implement all provisions. For example, the Fiscal Year 2020 NDAA required DOD to

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<sup>31</sup>According to DOD officials, the Army added 119 (114 permanent and 5 temporary) personnel. The Navy added 181 personnel and the Marine Corps added 114 personnel. The Air Force added 218 personnel.

<sup>32</sup>BAH is designed to provide fair housing allowances to service members to help cover a portion of the monthly costs of rent and utilities. By law BAH rates are to be based on the cost of adequate housing for civilians with comparable income levels in the same areas. (37 U.S.C. § 403(b)(2)).

<sup>33</sup>[GAO-20-281](#).

establish a Tenant Bill of Rights, which established 18 tenant rights. Many of these rights—such as the right to a formal dispute resolution process; the right to have rent segregated and not used by the privatized housing company pending completion of the dispute resolution process; and the right to request 7 years of maintenance history on the home before signing a lease—required agreement by the private housing companies before they could be implemented. According to DOD officials, as of March 2022, while the 18 tenant rights set out in the Tenant Bill of Rights are available at most of DOD’s 200 installations, five installations have yet to fully implement them. According to OSD officials, two of the installations do not provide rights to dispute resolution and rent segregation, and three do not provide 7-year maintenance histories, dispute resolution, and rent segregation. OSD officials indicated that they are continuing to seek agreement at these five installations. Our ongoing work will further address the extent to which DOD has made changes to its project business agreements in recent years.

In summary, DOD has implemented or is implementing numerous NDAA requirements and our prior recommendations to improve oversight of the privatized family housing program. However, because the military departments typically lease land to private housing companies for 50-year terms, and in light of recent alleged fraud investigated by DOJ, continued congressional oversight is critical to ensure continued and sustained improvement in the management and condition of privatized housing for service members and their families.

Chair Wasserman Schultz, Ranking Member Carter, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions you may have at this time.

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## GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Elizabeth A. Field, Director, Defense Capabilities and Management, at (202) 512-2775 or [FieldE1@gao.gov](mailto: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 Marc Schwartz (Assistant Director), Tida Barakat Reveley (Analyst-in-Charge), Vincent Buquicchio, Wesley A. Johnson, Monica Savoy, McKenna Storey, Barbara Wooten, and Lillian Moyano Yob.

# Appendix I: Status GAO Recommendations Related to Privatized Housing

**Table 1 summarizes the status of recommendations (as of March 2022) GAO has made to the Department of Defense (DOD) related to privatized housing since March 2018.**

GAO product and issue date	Recommendation	Recommendation status (as of March 2022)
<i>Military Housing Privatization: DOD Should Improve Oversight of Property Insurance and Natural Disaster Recovery (GAO-21-184SU)</i> , Feb. 18, 2021. <sup>a</sup>	We made 7 recommendations in this report. However, the report includes controlled unclassified information and was not publically released. The recommendation language is therefore not reproduced here.	1 of the 7 recommendations has been implemented by DOD and closed, and the remaining 6 recommendations are open.
<i>Military Housing: Actions Needed to Improve the Process for Setting Allowances for Servicemembers and Calculating Payments for Privatized Housing Projects (GAO-21-137)</i> , Jan. 25, 2021.	The Secretary of Defense should ensure that the Military Compensation Policy directorate within the Office of the Deputy Assistant Secretary of Defense for Military Personnel Policy, in coordination with the military services, (1) assesses its process for collecting rental property data to determine ways to increase sample size of current representative data and (2) ensures sample size targets are met.	Not Implemented
	The Secretary of Defense should ensure that the Military Compensation Policy directorate within the Office of the Deputy Assistant Secretary of Defense for Military Personnel Policy, in coordination with the military services, reviews and updates basic allowance for housing (BAH) guidance to ensure that information about the BAH rate-setting process, including its sampling methodology and use of minimum sample-size targets, is accurately and fully reflected.	Not Implemented
	The Secretary of Defense should ensure that the Military Compensation Policy directorate within the Office of the Deputy Assistant Secretary of Defense for Military Personnel Policy, in coordination with the military services, establishes and implements a process for consistently monitoring anchor points, the interpolation table, external alternative data, and any indications of potential bias by using quality information to set BAH rates and ensuring timely remediation of any identified deficiencies.	Not Implemented

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GAO product and issue date	Recommendation	Recommendation status (as of March 2022)
<p><i>Military Housing: DOD Needs to Strengthen Oversight and Clarify Its Role in the Management of Privatized Housing</i> (GAO-20-281), Mar. 26, 2020</p>	<p>The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment, in collaboration with the military departments, provide updated guidance for the oversight of privatized military housing, to include oversight objectives for each service to monitor the physical condition of privatized homes over the remaining duration of the ground leases.</p>	Implemented
	<p>The Secretary of the Army should take steps, in collaboration with the Army's private housing partners, to review the indicators underlying the privatized housing project performance metrics to ensure they provide an accurate reflection of the condition and quality of the homes.</p>	Implemented
	<p>The Secretary of the Air Force should take steps, in collaboration with the Air Force's private housing partners, to review the indicators underlying the privatized housing project performance metrics to ensure they provide an accurate reflection of the condition and quality of the homes.</p>	Implemented
	<p>The Secretary of the Navy should take steps, in collaboration with the Navy and Marine Corps' private housing partners, to review the indicators underlying the privatized housing project performance metrics to ensure they provide an accurate reflection of the condition and quality of the homes.</p>	Implemented
	<p>The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment, in collaboration with the military departments and private housing partners, establish minimum data requirements and consistent terminology and practices for work order data collection for comparability across installations and projects and to track trends over time.</p>	Implemented
	<p>The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment require the military departments to establish a process to validate data collected by the private housing partners to better ensure the reliability and validity of work order data and to allow for more effective use of these data for monitoring and tracking purposes.</p>	Not Implemented

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GAO product and issue date	Recommendation	Recommendation status (as of March 2022)
	The Secretary of Defense should ensure the Assistant Secretary of Defense for Sustainment, in collaboration with the military departments, develop a process for collecting and calculating resident satisfaction data from the military departments to ensure that the data are compiled and calculated in a standardized and accurate way.	Implemented
	The Secretary of Defense should ensure the Assistant Secretary of Defense for Sustainment provides additional explanation of the data collected and reported in future reports to Congress, such as explaining the limitations of available survey data, how resident satisfaction was calculated, and reasons for any missing data, among other things.	Not Implemented
	The Secretary of the Army should develop and implement a plan to clearly and systematically communicate to residents the difference between the military housing office and the private partner. At a minimum, these plans should include the Army housing office's roles, responsibilities, locations, and contact information and should ensure that all residents are aware that they can directly contact Army housing office officials.	Implemented
	The Secretary of the Air Force should develop and implement a plan to clearly and systematically communicate to residents the difference between the military housing office and the private partner. At a minimum, these plans should include the Air Force housing office's roles, responsibilities, locations, and contact information and should ensure that all residents are aware that they can directly contact Air Force housing office officials.	Implemented
	The Secretary of the Navy should develop and implement a plan to clearly and systematically communicate to residents the difference between the military housing office and the private partner. At a minimum, these plans should include the Navy housing office's roles, responsibilities, locations, and contact information and should ensure that all residents are aware that they can directly contact Navy housing office officials.	Implemented

**Appendix I: Status GAO Recommendations  
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GAO product and issue date	Recommendation	Recommendation status (as of March 2022)
	The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment, in collaboration with the military departments, assess the risks of proposed initiatives aimed at improving the privatized military housing program on the financial viability of the projects.	Implemented
<i>Military Housing Privatization: DOD Should Take Steps to Improve Monitoring, Reporting, and Risk Assessment (GAO-18-218), Mar. 13, 2018.</i>	The Secretary of Defense should ensure that the Assistant Secretary of Defense for Energy, Installations, and Environment provides additional contextual information in future reports to Congress on privatized military housing to identify any differences in the calculation of debt coverage ratios and the effect of these differences on their comparability.	Implemented
	The Secretary of Defense should ensure that the Assistant Secretary of Defense for Energy, Installations, and Environment revises its existing guidance on privatized housing to ensure that financial data on privatized military housing projects reported to Congress, such as debt coverage ratios, are consistent and comparable in terms of the time periods of the data collected.	Implemented
	The Secretary of Defense should ensure that the Assistant Secretary of Defense for Energy, Installations, and Environment revises its guidance on privatized military housing to include a requirement that the military departments incorporate measures of future sustainment into their assessments of privatized housing projects.	Implemented
	The Secretary of Defense should ensure that the Assistant Secretary of Defense for Energy, Installations, and Environment takes steps to resume issuing required reports to Congress on the financial condition of privatized housing in a timely manner.	Not Implemented
	The Secretary of Defense should ensure that the Assistant Secretary of Defense for Energy, Installations, and Environment reports financial information on future sustainment of each privatized housing project in its reports to Congress.	Not Implemented

**Appendix I: Status GAO Recommendations  
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GAO product and issue date	Recommendation	Recommendation status (as of March 2022)
	<p>The Secretary of Defense should ensure that the Assistant Secretary of Defense for Energy, Installations, and Environment provides guidance directing the military departments to assess the significance of the specific risks to individual privatized housing projects resulting from the reductions in the basic allowance for housing and identify courses of action to respond to any risks based on their significance.</p>	Not Implemented
	<p>The Secretary of Defense should ensure that the Assistant Secretary of Defense for Energy, Installations, and Environment finalizes guidance in a timely manner that clearly defines the circumstances in which the military departments should provide notification of project changes and which types of project changes require prior notification or prior approval.</p>	Implemented
	<p>The Secretary of Defense should ensure that the Assistant Secretary of Defense for Energy, Installations, and Environment revises its guidance on privatized military housing to require the military departments to define their risk tolerances regarding the future sustainability of their privatized housing projects.</p>	Not Implemented

Source: GAO.22-105866

<sup>a</sup>A publically-available version of this CUI report was issued as [GAO-21-418](#) on May 20, 2021.



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## Related GAO Products

*Military Housing Privatization: DOD Should Improve Oversight of Property Insurance and Natural Disaster Recovery.* [GAO-21-418](#). Washington, D.C.: May 20, 2021.

*Military Housing Privatization: DOD Should Improve Oversight of Property Insurance and Natural Disaster Recovery,* [GAO-21-184SU](#), Washington, D.C.: Feb. 18, 2021.

*Military Housing: Actions Needed to Improve the Process for Setting Allowances for Servicemembers and Calculating Payments for Privatized Housing Projects.* [GAO-21-137](#). Washington, D.C.: Jan. 25, 2021.

*Military Housing: DOD Needs to Strengthen Oversight and Clarify Its Role in the Management of Privatized Housing.* [GAO-20-281](#). Washington, D.C.: March 26, 2020.

*Military Housing: Preliminary Recommendations to Strengthen DOD's Oversight and Monitoring of Privatized Housing.* [GAO-20-471T](#). Washington, D.C.: March 3, 2020.

*Military Housing Privatization: Preliminary Observations on DOD's Oversight of the Condition of Privatized Military Housing.* [GAO-20-280T](#). Washington, D.C.: December 3, 2019.

*Defense Infrastructure: Additional Actions Could Enhance DOD's Efforts to Identify, Evaluate, and Preserve Historic Properties.* [GAO-19-335](#). Washington, D.C.: June 19, 2019.

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

*Defense Infrastructure: Army Has a Process to Manage Litigation Costs for the Military Housing Privatization Initiative.* [GAO-14-327](#). Washington, D.C.: April 3, 2014.

*Military Housing: Information on the Privatization of Unaccompanied Personnel Housing.* [GAO-14-313](#). Washington, D.C.: March 18, 2014.

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**Appendix I: Status GAO Recommendations  
Related to Privatized Housing**

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*Military Housing: Enhancements Needed to Housing Allowance Process and Information Sharing among Services.* [GAO-11-462](#). Washington, D.C.: May 16, 2011.

*Military Housing Privatization: DOD Faces New Challenges Due to Significant Growth at Some Installations and Recent Turmoil in the Financial Markets.* [GAO-09-352](#). Washington, D.C.: May 15, 2009.

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

*Military Housing: Further Improvement Needed in Requirements Determination and Program Review.* [GAO-04-556](#). Washington, D.C.: May 19, 2004.

*Military Housing: Better Reporting Needed on the Status of the Privatization Program and the Costs of Its Consultants.* [GAO-04-111](#). Washington, D.C.: October 9, 2003.

*Military Housing: Opportunities That Should Be Explored to Improve Housing and Reduce Costs for Unmarried Junior Servicemembers.* [GAO-03-602](#). Washington, D.C.: June 10, 2003.

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

*Military Housing: DOD Needs to Address Long-Standing Requirements Determination Problems.* [GAO-01-889](#). Washington, D.C.: August 3, 2001.

*Military Housing: Continued Concerns in Implementing the Privatization Initiative.* [GAO/NSIAD-00-71](#). Washington, D.C.: March 30, 2000.

*Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed.* [GAO/NSIAD-98-178](#). Washington, D.C.: July 17, 1998.

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