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REPORT BY THE U.S.

# General Accounting Office

## Uncollected Rent Continues To Reduce Revenue For The District Of Columbia

Each year the District of Columbia loses millions of dollars in revenue because it fails to effectively collect rent from public housing and urban renewal tenants--a problem GAO previously identified in 1979. District data showed that delinquent rents for both programs amounted to \$4.2 million during fiscal year 1981, with \$2 million considered uncollectible. The reduced rent collections can be traced to the District's inadequate records on rent delinquencies and to its failure to collect when rent delinquency is established.

The less rental income, the more District funds must be used to pay for public housing and urban renewal programs. GAO recommends a number of steps the Mayor should take to better identify delinquent rent cases and improve collection actions.



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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT  
DIVISION

B-203834

The Honorable Marion S. Barry, Jr.  
Mayor of the District of Columbia  
Washington, D.C. 20004

Dear Mayor Barry:

The District continues to lose large amounts of revenue annually because it fails to effectively manage rent collections from public housing and urban renewal tenants, thereby requiring increased levels of Federal subsidies or additional District funding. Although we were unable to determine the annual rental loss for fiscal year 1981 due to poor recordkeeping and documentation, we believe that the District could be losing substantial amounts. District data show that delinquent rents for both programs amounted to about \$4.2 million for fiscal year 1981 with, according to the District's fiscal year 1981 closing statement, over \$2 million uncollectible. Collection efforts are hampered due to failure to maintain accurate accounts receivable for both public housing and urban renewal properties. The District generally agreed with our recommendations to help correct these problems but took exception to certain matters contained in the report. The District's comments are included in the appendix and are discussed beginning on page 12.

The District's Department of Housing and Community Development (DHCD), which formulates, identifies, and implements housing and community development programs, uses rental income along with District funds and Federal grants to operate the public housing and urban renewal programs. However, DHCD's failure to collect delinquent rent has decreased public housing and urban renewal rental income and thus increased the need for additional District funding. In fiscal year 1981 this funding amounted to \$4.1 million for public housing, according to DHCD's budget officer. Given the current trend of greatly reduced Federal budgets, it is likely that the District will continue to use District funds to support any additional financial burden caused by the public housing program.

DHCD's inability to manage public housing and urban renewal delinquent rent collections can be traced to several financial and management deficiencies. Public housing financial records,

although automated, do not provide accurate and reliable delinquent rent balances which DHCD officials can use to identify delinquent tenants. DHCD officials do not regularly maintain documents which substantiate automated financial records and do not record in tenant files or elsewhere collection actions taken against delinquent tenants. Also, DHCD managers do not uniformly apply collection actions, allowing many tenants to remain delinquent.

Similarly, urban renewal tenant financial records, which are not automated, do not show current rent balances because DHCD officials do not maintain them in a timely and accurate manner. DHCD managers readily admit urban renewal financial records cannot be relied upon to identify correct delinquent balances. Moreover, even when delinquencies are identified, vigorous collection actions are not pursued.

The financial and management problems afflicting public housing and urban renewal rent collections have a longstanding history within both programs. In 1979, we reported that DHCD lost large amounts of rent owed by delinquent former tenants, did not collect all rents due, and had not treated tenants equitably because of inconsistent collection actions. 1/ Also, DHCD had not established an effective system for monitoring the collection process to ensure prompt collection of rent.

In 1979 DHCD's Director agreed that more rigorous rent collection policies and practices were needed and that accounting, recordkeeping, and reporting should be improved. The Director also told us that his department was revising rent collection policies and procedures and was expanding and improving the computerized data used to administer the District's rent collection activities. However, in 1981 we found that many of the problems noted in our 1979 report still existed.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

We initiated this review to determine whether the District was collecting all rent that should have been collected and whether procedures, accounting methods, and collection actions were supporting the revenue effort. This work was part of an

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1/ "D.C. Rent Losses Significant: Timely Collections A Must" (B-118638, May 23, 1979).

overall evaluation of the District's efforts to record, bill, and collect accounts receivable, and this report is one of several in a series dealing with accounts receivable and related activities. Our review was intended to identify areas for improvement which could help the District reduce its outstanding receivables, minimize the number of accounts that must be written off, and improve collection efforts. We intended to examine public housing and urban renewal collection practices to evaluate DHCD managers' delinquent rent collection actions. However, we found DHCD managers frequently lacked accurate and timely delinquent rent information to use as a basis for collecting delinquent rent.

Public housing automated financial records proved inadequate to allow an intensive review of delinquent tenant accounts. Public housing tenant files did not have adequate documentation by which to evaluate DHCD managers' collection actions. Likewise, urban renewal financial records were neither current nor complete, but documentation existed which identified some urban renewal collection efforts. Since information needed to adequately manage rent collection actions at the project level was not sufficient for our purposes, we focused our review upon the management problems surrounding the financial information disparities.

We interviewed officials and reviewed records in DHCD's Property Management Administration, Housing Business Resources Administration, Office of Administration and Management, and the DHCD Comptroller's office to try to ascertain the extent of delinquent rent and the type and extent of collection action taken. In addition, we met with the contractor responsible for the public housing automated tenant billing system to get an understanding of the system and to try to find out why the system's output was not considered adequate. We interviewed all three urban renewal property managers and the area managers at three public housing projects: Arthur Capper, Sibley Plaza, and Edgewood Terrace. We also reviewed these projects' tenant files to ascertain whether they contained data showing the status of tenants' rents and the District's collection efforts.

Our work was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

We did not use random sampling techniques because the data were too erratic. Instead we relied upon judgmental samples when reviewing public housing tenant files and delinquent tenant listings. We looked at all urban renewal tenant accounts and files, except for those in the 14th Street area which were too out-of-date to provide useful data.

REFORMS NEEDED TO COLLECT  
PUBLIC HOUSING RENT EFFECTIVELY

DHCD failed to collect low-income housing delinquent rent in many instances because it did not accurately identify delinquent tenants, thereby discouraging housing managers from taking uniform collection actions. We found tenant files contained little or no documentation concerning rent receipts or delinquency notices sent to delinquent tenants which DHCD needs in order to accurately identify delinquent rent and take timely collection action. DHCD's fiscal year 1980 report on accounts receivable disclosed public housing delinquent rent had climbed to \$2.3 million (up from about \$1 million at the end of December 1977), with \$1.1 million reported as uncollectible. According to DHCD reports, outstanding delinquent rent climbed to more than \$3.3 million as of October 1, 1981. However, we were unable to verify these figures because DHCD did not maintain adequate documentation in the tenant files.

DHCD uses an automated tenant billing system to maintain tenant accounts receivable and identify delinquent rent, but we could not find documentation which could be used to verify this system on an ongoing basis. This system began operation under its present contractor in April 1981. DHCD's Comptroller uses this system to establish tenant accounts receivable amounts for public housing, and DHCD's Property Management Administration (PMA), which is responsible for managing public housing properties and collecting tenant rent, uses the system to identify tenant delinquent rent. However, PMA officials told us that they recognize this system has many data accuracy problems. According to a PMA official, the data accuracy problems will either be remedied with this contractor or PMA will find another contractor to operate the tenant billing information system. However, regardless of PMA's contractor selection, we believe PMA must immediately adopt tenant billing system procedures designed to guarantee a timely, accurate, and well documented tenant billing system. Failure to take this step only delays aggressive and consistent delinquent rent collections.

PMA is responsible for collecting rent from approximately 10,800 households residing in public housing and from 1,075 former tenants who owe delinquent rent. The tenant billing system reported a tenant delinquency rate of over 35 percent with delinquent rents of over \$3 million for both current and former tenants as of October 1, 1981. However, DHCD managers do not consider reported outstanding public housing rent accurate, because the billing system is not accurate. One housing manager has estimated his error rate varies between 25 percent and 50 percent.

In addition, the system incorrectly reported one DHCD-owned project operated under a contract by a private firm as having a 97 percent delinquency rate as of September 28, 1981 even though its actual rate did not exceed 37 percent during August 1981. Because of the inaccuracies, housing project managers, who initiate collection actions against delinquent tenants, do not rely upon the billing system as an accurate and authoritative source when taking collection actions.

Due to DHCD's failure to establish an accurate billing system, uniform collection measures have not been taken against delinquent tenants. Tenant files we reviewed at two projects did not contain adequate documentation on either delinquent rent balances or any collection efforts which area managers may have taken. These continuing problems have allowed large, but undetermined, amounts of delinquent rent to remain outstanding, thereby denying the District an important source of revenue. To remedy this problem, we believe DHCD must immediately institute procedures designed to guarantee a timely, accurate, and well documented tenant billing information system and begin to take collections against tenants newly identified as delinquent. Delinquencies identified prior to the establishment of an accurate system should be pursued on a priority basis as time permits.

Accurate and complete rent receivable records should be established

Although DHCD's Director told us in 1979 that his department was expanding and improving the computerized data used to administer the District's rent collection activities, the PMA automated tenant billing system still does not have a verifiable data base; include all public housing tenants within the data base; or define and document DHCD's system requirements. In addition, software problems continue to plague the system. These problems produced unreliable delinquent tenant information which impeded collection efforts.

DHCD's present tenant billing system began operation in April 1981; however, DHCD officials and the systems contractor acknowledge that the initial data base had many errors. Since complete manual rent records did not exist, little action could be taken to verify and correct the automated records. The tenant files we reviewed had little or no data to confirm or dispute the computer printouts. Also, DHCD officials have received complaints from former tenants who have continued receiving monthly bills even though they had moved out months before. Furthermore, current tenants, thought to be delinquent by DHCD, brought in rent

receipts to prove that they had paid their rent and were not delinquent. Area managers we interviewed estimated the tenant billing system error rate from as low as 25 percent to as high as 50 percent. The area managers ceased preparing monthly progress and other related reports concerning their projects after the March 1981 reports because the computer printout under the new system contained erroneous information and tenant files lacked sufficient information to identify delinquent tenants, monitor repayment agreements, and substantiate issuances of "notices to quit" (eviction notices).

DHCD's public housing tenant billing system does not include rent information on all public housing projects. The tenant billing system has reported the Edgewood Terrace housing project, which is managed by a contractor, as having a 97 percent delinquency rate. The contractor maintains an independent rent billing and collection system but forwards all tenant financial information, including rent collections, to DHCD. According to DHCD officials, the original DHCD system design did not include the Edgewood Terrace tenant billing information in its design. Furthermore, the Edgewood Terrace contractor's files showed that 37 percent of the tenants at this project were delinquent, not 97 percent as reported by the system. As a result, public housing accounts receivable were overstated by \$259,356 for September 1981. If DHCD had used the report as a basis for monitoring collection efforts, the errors would cause considerable wasted effort and needless confrontation.

The tenant billing system software program and contractor data reliability continue to have problems, which add to the system's inaccuracies. A comparison of July 1981 delinquent balances with August 1981 balances showed a \$1 million reduction. Most of this reduction resulted from software program deficiencies occurring when DHCD switched to a new delinquent rent aging method in August. According to the contractor, the system's software program did not adjust to this new aging method and excluded some delinquent rent from the aging schedule totals. DHCD officials requested the contractor to return to the previous method of aging accounts before the contractor resolved the problem. However, continuing system problems raise serious questions concerning the validity of delinquent rent balances.

#### Uniform collection actions needed

DHCD's failure to establish an accurate tenant billing system reduces its ability to take effective rent collection actions. In our 1979 report, we noted that DHCD had collection

problems and that collection procedures were not applied consistently; this situation still exists. Housing area managers have indicated they use delinquent rent information provided by the tenant billing system selectively because they consider it unreliable. One area manager sent "notices to quit" to all tenants in his project identified as delinquent by the billing system, whereas another withheld issue of "notices to quit" while trying to verify whether the tenant was actually delinquent. The former housing manager reported many tenants produced rent receipts, which cast further doubt on the accuracy of the billing system's delinquency information.

A review of March, June, and September 1980 "notices to quit" showed that, although several hundred were sent to tenants each month, only a fraction of them resulted in repayment agreements (see table I), and only 38 tenants were evicted during fiscal year 1980; data were not available to show evictions resulting from "notices to quit" issued in March, June, and September.

TABLE I  
Comparison of  
Fiscal Year 1980  
"Notices to Quit" and  
Repayment Agreements

<u>Month</u>	<u>Notices to quit</u>		<u>Repayment agreements</u>		<u>Number of evictions</u>
	<u>No.</u>	<u>Dollars</u>	<u>No.</u>	<u>Dollars</u>	
March	722	\$172,827	174	\$79,119	7
June	710	191,573	180	61,268	0
September	925	325,122	204	69,766	4

As shown above, large numbers of "notices to quit" were issued to tenants because of what DHCD believed to be delinquent rent, but only a relatively small percentage resulted in either eviction or repayment agreements. We could not ascertain whether the remaining cases (occurring during fiscal year 1980) involved inaccurate identification of delinquent rent balances because records were not available. We presume they did; otherwise, either evictions or repayment agreements should have resulted. Failure to accurately identify delinquent rent balances hinders public housing project managers' collection efforts, thereby reducing the District's opportunity to obtain maximum rental income.

We believe there is an urgent need to develop an accurate, complete, and well documented tenant billing system in order to establish accurate rent accounts receivable. Until a reliable automated system is implemented, DHCD will be unable to take effective collection action against delinquent accounts. Once a reliable tenant billing system has been implemented, immediate and aggressive collection action should be taken against newly identified delinquent accounts. Older, unverifiable, delinquent accounts should be prioritized and dealt with on a case-by-case basis.

POOR MANAGEMENT AND ADMINISTRATION REDUCE  
URBAN RENEWAL RENT COLLECTIONS

Problems in urban renewal rent collection management are similar to those we found in public housing. DHCD fails to maintain urban renewal tenant accounts in an accurate and timely manner, thus seriously reducing DHCD's ability to collect delinquent rent. Moreover, even when DHCD identifies a delinquent tenant's correct balance, DHCD does not take collection actions in a uniform manner.

The management structure for urban renewal rent collection is as follows. DHCD's Comptroller maintains all urban renewal tenant accounts receivable manually. DHCD's Housing and Business Resource Administration (HBRA) processes rents collected from urban renewal tenants. HBRA relies upon the Comptroller's accounting staff to notify HBRA of tenants owing rent and the amounts owed. Likewise, the Comptroller's accounting staff relies upon HBRA officials to notify them of rent changes and vacancies. However, neither office provides information to the other in an accurate or timely fashion, thereby severely reducing DHCD's ability to identify delinquent rent and take effective collection actions.

In the course of the work leading to our 1979 report we recommended that DHCD institute improved accounting, recordkeeping, and reporting to remedy these continuing financial and management deficiencies. In addition, we recommended more vigorous rent collection policies. DHCD agreed with these recommendations in 1979 but continues to fail to maintain accurate and timely accounting records and to take vigorous collection actions when necessary.

Accurate and timely delinquent rent information needed

The Comptroller's accounting staff has not, on a regular basis, provided delinquent rent information to HBRA managers because the manual tenant accounting system is not current. In

turn, HBRA officials have not notified accounting of rent changes and tenant vacancies in a timely manner. Because DHCD financial managers do not consider maintaining urban renewal tenant ledger cards a high priority, rent accruals generally lagged between 1 month and 4 months behind and for one area accruals had not been recorded for 20 months as of June 30, 1981 (see table II). Because HBRA managers have not provided current vacancy information to accounting staff and the Comptroller's staff has in some cases not removed inactive tenant accounts, urban renewal tenant's accounts receivable were overstated by about \$113,000 through July 1981. These problems continue to prevent DHCD from developing accurate, up-to-date data upon which to base collection actions and monitor the collection process to ensure prompt rent collection efforts are being taken.

Having reviewed all occupied and vacant property accounts, except 14th Street area accounts which were too out-of-date to use, we found \$871,206 in delinquent rent for occupied properties as of July 1981 and about \$113,000 in erroneously accrued rent for vacated properties. DHCD financial managers had planned to have all urban renewal rent accruals recorded through September 30, 1981, by December 1981, for the fiscal year 1981 closeout. Even so, HBRA officials do not have current delinquent rent information available, thereby denying them an opportunity to collect delinquent rent.

TABLE II  
Areas Having Late Accruals

<u>Urban renewal areas</u>	<u>Number of months accruals are late</u>	<u>Amount of delinquent rent</u>
NE #1	2	<u>a/\$153,838</u>
NW #1	1	<u>b/98,071</u>
C St.	1	<u>b/356,312</u>
Shaw	1	<u>b/25,940</u>
14th St.	20	Undetermined
Downtown	4	<u>c/237,045</u>
Total		<u>\$871,206</u>

a/ Amounts as of June 30, 1981  
b/ " " " July 31, 1981  
c/ " " " April 30, 1981

Improved delinquent rent collections needed

HBRA officials have not taken vigorous collection action against delinquent tenants even when delinquent rent balances are known. The Comptroller's records indicate many tenants owe delinquent rent. HERA officials have acknowledged many tenants owe delinquent rent but also recognize the records are inaccurate. In addition, some delinquent tenants have never established repayment agreements while others have unreasonably long ones. In either case DHCD's failure to make collections of delinquent rent reduces income to the city.

HERA had requested the Corporation Counsel to dispossess (evict, because property is to be redeveloped) all downtown area tenants. The Corporation Counsel filed dispossession complaints between September and November 1981 against all downtown area tenants still occupying the property; however, the Corporation Counsel initiated collection actions against only five downtown area tenants owing rent. HERA had not attempted to collect from several other tenants who owed the District rent (see table III) because, according to the Chief of the Urban Renewal Section, they doubted the validity of several tenants' delinquent rent balances as reported by the Comptroller's accounting staff. However, the Chief acknowledged that the Urban Renewal Section did not verify several downtown area tenants' delinquent rent balances either.

TABLE III  
Dispossessed Downtown Area Tenants  
Owing Delinquent Rent

<u>Tenant</u>	<u>Delinquent rent owed*</u>
A	\$12,500.00
B	4,726.00
C	445.00

\* Figures as of September 1, 1981 according to Accounting's tenant ledger

In addition to these problems, DHCD has unnecessarily allowed some delinquent rent to remain outstanding through the establishment of unreasonably long repayment agreements. A delinquent rent collection program was initiated in April 1975 to encourage tenants who owed rent to start paying the delinquent amounts in installments. To accomplish this, DHCD emphasized the use of

letters of agreement--agreements made with tenants in which the tenant agreed to pay delinquent rent in installments. The use of letters of agreement was authorized by existing rent collection procedures. All tenants with delinquent rent were to sign a letter of agreement or face legal action. Cases involving tenants defaulting on letters of agreement were to be referred to the Corporation Counsel for legal action.

According to one HERA official, no repayment agreements were signed during fiscal year 1981 for any urban renewal property and only two were signed in fiscal year 1980. He said that, due to poor accounting practices, it takes a long time to determine the correct amount of delinquent rent. However, in the 121 currently occupied properties, the records showed 8 tenants were delinquent by over \$25,000, one of them being delinquent by over \$100,000. Although an HERA official believes these amounts to be incorrect, HERA should verify them, because of the large amounts indicated, and take collection actions when appropriate.

DHCD officials responsible for administering urban renewal properties were permitted to use their own discretion in setting the terms of letters of agreement until late 1980. This discretion was not always used prudently. We found an agreement in which a tenant agreed to pay about \$2,740 of delinquent rent at \$5.00 per month for more than 45 years. In our work leading to our 1979 report, we found that one tenant was given almost 33 years to pay \$3,900 of delinquent rent, and another tenant was given almost 13 years to pay about \$2,800 of delinquent rent. When this practice ended in late 1980, according to the Corporation Counsel handling urban renewal property rent collections, new agreements established to repay delinquent rent were to be established through the court. However, it is doubtful that the properties under the old repayment agreements will still exist or be owned by the District for any period approximating these agreements. The District makes little attempt and has had little success in collecting delinquent rent from ex-tenants.

Failing to collect delinquent rent from known delinquent tenants and establishing unnecessarily long repayment agreements has reduced urban renewal rent collections. Timely collections and reasonable repayment agreements will increase rental income which has heretofore been denied to the city.

#### CONCLUSIONS

The District continues to lose large amounts of revenue annually because it fails to identify and uniformly collect delinquent rent from public housing and urban renewal tenants. Inaccurate records continue to severely hamper public housing and

urban renewal rent collections, as we found in 1979. Although the amounts of delinquent rent are not considered reliable, as of October 1, 1981, DHCD reports show public housing accounts receivable to be \$3.3 million; urban renewal accounts receivable were estimated to be \$871,206. Whatever the amount, it is substantial. Continued failure to accurately identify these outstanding rents denies the District the opportunity to collect outstanding delinquent rent which in itself diminishes the city's income and increases the need for additional District funding or Federal subsidies.

#### RECOMMENDATIONS

We recommend that the Mayor direct DHCD to take immediate and aggressive action to collect all delinquent rents. To assist in this endeavor, the Mayor should direct DHCD to:

- Immediately institute procedures guaranteeing a timely and accurate automated tenant billing system and organized and easily accessible manual delinquent tenant files which can be used to verify the automated system.
- Begin taking prompt, aggressive, and consistent collection action against newly identified delinquent tenant accounts and initiate action to verify and collect amounts of delinquent rent due from older delinquent accounts on a prioritized case-by-case basis.
- Bring all urban renewal property tenant accounts up-to-date, and require the accounts be periodically reviewed to better assure they are kept up-to-date.
- Establish and use uniform collection procedures for public housing and urban renewal tenants.
- Initiate legal action against urban renewal tenants where such action is appropriate and necessary to collect delinquent rent and establish and use procedures for eviction in appropriate cases.

#### AGENCY COMMENTS AND GAO ANALYSIS

The DHCD Director, commenting on our draft report on behalf of the Mayor, concurred with most of our recommendations although he took exception to certain matters contained in the report. Each of these items are discussed following the Director's responses to our specific recommendations.

Concerning the need to institute a timely and accurate public housing tenant billing system, the Director disclosed that DHCD planned to install a new information system which enforces entry of adequate and proper data, makes relevant updates, and produces appropriate forms at each property site. While we agree DHCD must "enforce entry of adequate and proper data" in its current tenant billing system or in any proposed tenant billing information system, we do not believe it can accomplish this without first establishing procedures governing the efficient and expeditious management of all information provided to and by the tenant billing information system. We do not believe new computer hardware in and of itself will guarantee a timely and accurate information system.

DHCD's Director proposed the new tenant billing information system would automatically require review of every tenant account as soon as it became delinquent. To prevent inaccurate data from entering the new information system, DHCD plans to open all accounts in the new system with a zero balance. Thus, DHCD believes all delinquencies will be immediately and correctly identified. However, in the interim before this system becomes operational, on May 20, 1982, DHCD plans to automatically mail notices to public housing tenants concerning their outstanding balances. In addition a copy of each notice will be placed in the tenant's file. Tenants will be requested to contact property managers concerning any discrepancies in their balances within thirty days. DHCD plans to complete any adjustments to tenant balances by June 20, 1982, when they will make a second mailing to tenants with a copy sent to each housing manager. These letters will serve as a basis for collecting delinquent rent.

DHCD's plan to open all tenants' balances at zero when instituting the new information system should lay the groundwork for accurate data on the status of collections, but the plan remains contingent upon the effectiveness of the procedures DHCD sets in place to manage the system. Further, DHCD's decision to issue hard-copy notices identifying tenant balances for housing managers to incorporate into each tenant file represents the first step in making timely collections, but this step must be taken regardless of the information system in use.

DHCD has made all urban renewal property accounts current as of March 1982 and plans to enter all urban renewal accounts in the public housing tenant billing information system. Since DHCD has made urban renewal tenant accounts current, DHCD has begun collecting delinquent accounts. However, DHCD has not developed procedures which will accrue rent in a timely manner and guarantee the accuracy of these accounts in a manual or automated

form. In addition, we believe these accounts should be monitored periodically to better assure that they are kept up-to-date, and we have expanded our recommendation to so state.

DHCD did not comment upon the need to establish uniform collection procedures for public housing and urban renewal tenants beyond establishing a new tenant billing information system. We do not believe even an accurate tenant billing information system in and of itself can guarantee uniform collection actions for public housing or urban renewal. We continue to believe DHCD must establish collection procedures which can be vigorously and uniformly applied.

The Director advised that procedures for collecting delinquent urban renewal rent, including eviction where appropriate, have been established and are being used in conjunction with the new current rent balances. He said that delinquencies have been reduced by 5 percent during the first 2 months of 1982.

The Director took exception to our report in four areas: whether DHCD pursued vigorous collection actions against delinquent public housing tenants; whether housing managers ceased preparing monthly progress reports; that our report does not compare like statistics for "notices to quit" and evictions; and whether urban renewal property managers had treated delinquent tenants uniformly when collecting delinquent rent. Finally, the Director noted Edgewood Terrace would be removed from the tenant billing system and the system's accuracy would thereby be increased.

The Director's comments cited the fact that DHCD hired a private collection firm to make collections of delinquent accounts in 1979. DHCD officials believe that this action demonstrates that vigorous collection actions have been taken. We asked DHCD to provide data concerning the extent of these past collection efforts, but DHCD could not. With respect to whether use of collection agencies constitutes vigorous collection action, such use, while certainly noteworthy and usually worthwhile, is generally regarded as a "last ditch" external effort to collect, after all other internal alternatives have been exhausted.

The Director took exception to a statement in the draft report that managers stopped preparing certain reports after the March 1981 report because of billing system data problems. The Director said that DHCD continued to require such reports after March 1981 and provided certain information on cases referred to legal, cases filed, delinquent rent collected, writs obtained, and evictions executed. These data were extracted from a Corporation Counsel report on actions taken against delinquent

tenants. The discontinued reports referred to in our report related to the number of "notices to quit" issued and the number of related repayment agreements executed. As of April 20, 1982, DHCD had not provided copies of these reports from the managers cited in the report for periods between March 1981 and October 1981, although reports for January 1982 were provided for most projects.

Our report does not compare the number of evictions resulting from "notices to quit" issued during the months of March, June, and September 1981 as the Director of DHCD contends. The evictions illustrated for March, June, and September 1981 were not meant to directly relate to the "notices to quit" issued for that month but rather to illustrate the low eviction rate compared to the large delinquency rate for each of the 3 months. Further, on page 7 of the report we point out in discussing the table in which the actions are displayed that data was not available to show evictions resulting from "notices to quit" issued in March, June, and September.

Finally, the Director indicated that our disclosure of an apparent lack of uniform collection actions among eight delinquent urban renewal accounts was an unfair assessment. The Director stated that negotiations continued between DHCD and the three tenants cited in our report until all rent collections which could be enforced after a "notice to quit" was sent were made. We recognize DHCD may not have been able to collect delinquent rent after a "notice to quit" had been sent. However, we found in the other five cases cited in our report that DHCD sued for back rent as part of the dispossession action whereas in the three properties cited in our report they did not.

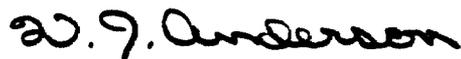
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Section 736(b) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774), approved December 24, 1973, requires the Mayor, within 90 days after receiving our audit report, to state in writing to the District Council what has been done to comply with our recommendations and send a copy of the statement to the Congress. Section 442(a)(5) of the same act also requires the Mayor to report, in the District of Columbia's annual budget request to the District Council, on the status of efforts to comply with such recommendations.

B-203834

We are sending copies of this report to interested congressional committees; the Director, Office of Management and Budget; and to each member of the Council of the District of Columbia.

Sincerely yours,

A handwritten signature in black ink that reads "W. J. Anderson". The signature is written in a cursive style with a large, prominent "W" and "A".

William J. Anderson  
Director



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT  
WASHINGTON, D. C.

Reply To

**APR 8 1982**

Mr. William J. Anderson  
Director  
General Government Division  
U. S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Anderson:

The following are the District of Columbia Government's formal comments on your draft report entitled "Uncollected Rent Continues to Reduce Revenues for the District of Columbia" as required by Public Law 96-226.

Our comments are divided into two parts, namely "General Comments" which relate to the statements made in the body of the draft report and "Specific Comments" which respond to each of the recommendations specified in the draft report.

General Comments

In the body of the report, on page 2, in paragraph one, it is stated that vigorous collection actions are not pursued by The Department of Housing and Community Development (DHCD). To evaluate our own procedures and to see if procedures could be improved, DHCD effected a contract with a collection firm in June 1974. The services of this firm were terminated in January 1979, because of ineffective results. Another collection company received a contract in January 1979, and its services were terminated in February 1981, also due to ineffectiveness. The process of selecting another collection agency to do the Department's inactive tenant collections was begun in late 1981. At the time of the writing of this report no firm had been selected although several firms have been interviewed.

On page 4, paragraph 3, and on page 5, last paragraph et seq., it is stated that the automated tenant billing system reported a rate of 97% delinquency, when the actual delinquency was 37% for one project area. During the months that GAO made its survey, DHCD was considering whether to retain Edgewood Terrace (the property in question) in the DHCD automated system and require the private collection firm to use the system for billing or to

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remove the property from the system. It was known that if the property remained in the system, a false delinquency rate and an overstatement of system accounts receivable would result. It was further known that true accounts receivable could be gotten by adjusting the stated receivables by the amount of overstatement caused by the retention of the property on the system. Further, since payments were being collected by the firm and not entering the system, a delinquency rate close to 100% would be expected on the system until a decision was made as to whether the property should be removed or retained in the automated system. Removing the property from the system would have required expensive data entering and reorganization of files, and probably a contract modification, if a subsequent decision were made to reenter the property into the system. Until a final decision was made, adjustment for a known error seemed more cost effective than removal and reentry. It has been recently determined that the private firm's billing and collection process is adequate and the property records of Edgewood have been purged from the system. As of March 28, 1982, data entry was started on properties not in the system. The projected date for completion of this task, the entry of beginning balances and the entry of current transactions is April 20, 1982. At that time all properties which have not been purposefully removed from the system will be on it.

On page 7, paragraph 3, it is indicated that managers ceased preparing monthly progress reports because the tenant system was inaccurate. This has never been a management policy despite any alleged system inaccuracies. As late as February 18, 1982, in a memorandum to all managers, the managers were directed to make a delinquency rent analysis using the tenant ledgers. This memorandum affirmed that such reports were due the 5th of each month. In November 1981, property managers were advised by memorandum that collection procedures were to be intensified.

On page 5, last paragraph et seq., it is indicated that certain records were not available on notices to quit after September 1980. Our records indicate that from April 1, 1981, to January 31, 1982, a period subsequent to your report, that:

- (a) 451 cases were referred to legal
- (b) 358 cases were filed
- (c) \$333,885.00 in delinquent rents were collected
- (d) 184 writs were obtained
- (e) 35 evictions were executed

Further, we do not feel that because all cases are not carried to eviction that it can be presumed that in most cases tenant records are inaccurate as implied in line 6, paragraph 1, page 7 of the report. In fact all tenant records indicated to be delinquent on the automated tenant history are verified manually before they are taken to court. It is more likely that the tenant was able to

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introduce evidence that caused dismissal of the case or caused a reformation of the lease terms. It should be further pointed out that in Table I (page 7) the column titled "Notices to Quit, No." and the column titled "Number of Evictions" are unrelated. The notices in a given month could not become evictions in the same month.

On page 9, last paragraph, it is indicated that HBRA initiated collection action against only five of eight tenants in the downtown urban renewal area when all eight tenants were delinquent. This suggests a policy of non-evenhandedness in collections. We are unable to state whether negotiations to settle the matters broke down with some of the tenants while not with others. However, based on statements by an HBRA official, negotiations with the three tenants did continue and all rent collections that can be enforced after a notice to quit has been served or a threat of bankruptcy has been invoked by a tenant have been paid. This strongly suggests some sort of continuing negotiations. It should be further noted that after a notice to quit has been served in the District of Columbia, no rent billing can be made without the possibility of voiding the notice.

#### Specific Comments

Our specific comments are sequenced to first state the recommendation and then to respond immediately following the statement of the recommendation.

#### Recommendations

We recommend that the Mayor direct DHCD to take immediate and aggressive action to collect all delinquent rents. To assist in this endeavor, the Mayor should direct DHCD to:

Immediately institute procedures guaranteeing a timely and accurate automated tenant billing system and organized and easily accessible manual delinquent tenant files which can be used to verify the automated system.

#### Response

In response to the 1979 Audit recommendations, extensive studies were made by the Department to determine how the automated billing system could be upgraded. Based upon financial constraints, it was decided that the best approach was to redesign the system adding certain additional information to improve collections which would be transparent to the property managers and, from the managers point of view, would simulate the existing system. In the absence of documentation of the old system, a contract was let to Lewis Systems to make the changes and to create the

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April 1, 1981 and subsequent runs. Basically, the new data requirement was that every transaction in the system would be numbered sequentially and each cash transaction record include a check or money order number. Since the system was to duplicate the previous system, final user documentation would be delayed until complete system simulation was tested and debugged. It was estimated that final simulation would be accomplished in six months. After that, enhancements were to be made to the system with complete documentation. It was recognized that the data base was polluted. To correct this, the Department's plan was to make the required adjustments to correct the data base, after receiving feedback adjustments from the property managers. Additionally, the system could be adjusted on-line and transactions would be posted within 24 hours. The ability to make on-line updates did not alleviate the problems associated with the older batch system. Since property managers had no way of accessing the system on-line, the system appeared to them as still being batch. In an attempt to cure some of the problems, on October 18, 1981, DHCD management required approval and monitoring of all adjustments and write-offs of tenant bills to be centralized in the Office of the Chief, PMA Management Division. On November 10, 1981, interim collection procedures were installed which required the serving of delinquency notices for rents 10 days in arrears. All of these actions had to be prepared for batch entry and introduced errors similar to those in the previous batch system. In late 1981, at a meeting of all affected parties it was decided that a new system with appropriate edits to enforce the entry of adequate and proper data should be installed with the ability to make relevant updates, queries and generate appropriate forms on each property site.

The Department is now in the process of selecting a comprehensive integrated management information system (IMIS) which will coordinate tenant billings and rent charges. The Department has solicited proposals from five computer systems companies, four of which have a turnkey IMIS that service agencies or installations comparable in size to the Department of Housing and Community Development. Contractors are being evaluated on experience, references, costs, accessibility, back-up support, maintenance, training and other factors. Additionally, we have taken action to identify, designate and/or employ personnel whose background and training meet the requirements to maintain and operate the system selected. The systems under consideration all have extensive editing and validity checking capabilities which will prevent persons from entering unvalidated data into the system thus assuring a much higher degree of accuracy than that which

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existed in the previous systems. Further all transactions to the system will be made on line, which will eliminate the time delays which previously hampered vigorous attempts to collect rent. The IMIS is scheduled to be implemented for tenant billing by July 1, 1982, or 60 days after date of award of a contract to the supplier of the IMIS. With the institution of the IMIS all delinquent files will be referred for legal action and as such will be located in central files which will be cross verified against the IMIS before the institution of legal action.

During the interim period, before selection of the new system, a decision has been made to place urban renewal accounts on the present billing system by June 1, 1982. Since these accounts will open with current accurate balances, the system will be monitored closely to identify any system introduced errors. Further, on May 20, 1982, all public housing tenant accounts indicated as delinquent will be automatically mailed a notice of delinquency and the current status indicated on the system. A copy of these letters will be distributed to the property managers for placement in the tenant files. In the letter the tenant will be advised that if he/she desires to correct the balances, he/she should contact the property manager within 30 days. It is anticipated that all adjustments will be closely monitored and made before June 20, 1982. Letters will again be mailed on June 20 and these letters will be the basis for collection action against all delinquent tenants if the system performs as estimated. The placement of the delinquency letters in the tenant files will provide a verifiable hard copy record of delinquencies for back up.

Begin taking prompt, aggressive and consistent collection action against newly identified delinquent tenant accounts and initiate action to verify and collect amounts of delinquent rent due from older delinquent accounts on a prioritized case-by-case basis.

#### Response

The IMIS selected will automatically force every delinquent account for review as soon as it becomes delinquent. To ensure that no polluted data will enter the new IMIS, all accounts will be loaded with a zero balance and thus all prospective delinquencies will be immediately and correctly identified. Since all rental collections will be loaded on the new system, including urban renewal tenants, the programmed requirements for determining delinquency will assure that there is a uniform policy of identifying and collecting future delinquent accounts. Until the new system is installed we will proceed as is indicated in our response to the first recommendation which assures consistency in the determination of delinquent accounts.

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Past delinquent accounts will be analyzed and corrected and collection remedies will be vigorously pursued on a prioritized basis. Even with the difficulties we are presently experiencing, we are proceeding with maximum effort on verified delinquent accounts. During a three quarter period in FY '81 and FY '82, 451 delinquent cases were submitted for legal action to the Office of the Corporation Counsel. Three hundred and fifty-eight (358) of these were filed and \$333,885 in delinquent rents were collected as a result of these efforts. In the same period occupants of 35 residential units were evicted for nonpayment of rent.

Bring all urban renewal property tenant accounts up-to-date.

Response

All accounts of tenants presently occupying urban renewal property have been brought up-to-date. Balances of move-out tenants are being verified before further action. The accounts are also scheduled to be loaded on the automated system by June 1, 1982, as indicated in our response to the first recommendation.

Establish and use uniform collection procedures for public housing and urban renewal tenants.

Response

As has been previously indicated both the urban renewal accounts and the public housing accounts will be loaded on the selected IMIS. The criteria for generating the notices required to pursue collection will be system generated and will thus have machine consistency. Interim procedures previously discussed, also will use similar criteria for identification of delinquent accounts.

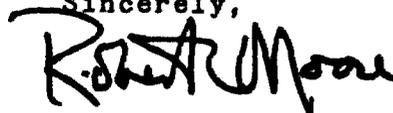
Initiate legal action against urban renewal tenants where such action is appropriate and necessary to collect delinquent rent and establish and use procedures for eviction in appropriate cases.

Response

As has been previously indicated all urban renewal accounts are in current posted condition. The Department has instituted collection procedures including eviction where appropriate to collect on delinquent accounts. Delinquencies have been reduced 5% in the first two months of 1982 and with the new procedures and current balances it is expected that the decrease in delinquent accounts will accelerate.

The Department has either instituted or taken the action indicated in each of the areas covered in the draft report in accordance with your recommendations. If we can be of any further assistance, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Robert L. Moore". The signature is written in a cursive style with a large, prominent "R" at the beginning.

Robert L. Moore  
Director

(426610)





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