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Report to Mayor and Council, District of Columbia; by Elmer B. Staats, Comptroller General.

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The District of Columbia's Department of Housing and Community Development (DHCD) is responsible for providing decent, safe, and sanitary housing to low-income District families who cannot afford such housing. As of June 30, 1976, approximately 11,300 families lived in DHCD-provided housing, over 10,900 of whom were in DHCD-owned projects. The public housing program is financed mostly with rental income and Federal funds. DHCD is also responsible for planning and administering the urban renewal program of the District.

Findings/Conclusions: DHCD rents space to tenants under both the public housing and urban renewal programs. During the 6-month period ended June 1976, DHCD charged about 60% of its public housing tenants improper rents, losing about \$902,000 in revenues. The losses occurred because the District used a 1971 rent schedule to set rents, used an outdated definition of tenant income for setting rents, delayed processing rent changes an average of 6 months, and was ineffective in verifying tenant income. Rent policies and procedures for urban renewal properties were not always appropriate and were not uniformly and effectively implemented. Tenants were treated inequitably and revenues were lost, although documentation was not sufficient to estimate the amount of revenue lost. Inadequate utility payment policies and procedures also resulted in inequitable treatment of tenants. Recommendations: The Mayor should direct DHCD to: improve policies, procedures, and

practices for setting rents and utility allowances of public housing and urban renewal tenants; regularly monitor the rent-setting and utility allowance process; and improve documentation of rent actions, particularly under the urban renewal program, to insure control over the rent-setting process. He should also implement specific recommendations for public housing, urban renewal, and utilities. (RHS)

6435

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

District Of Columbia's Rent Establishment Policies And Procedures Need Improvement

The rent establishment and adjustment system for public housing and urban renewal tenants needs to be improved. Weaknesses in the system have resulted in lost revenues and improper rental charges.

The District should improve the rent-setting system in order to increase rental revenues, reduce Federal subsidies, and provide equitable treatment to tenants.



GGD-78-50
MAY 17, 1978



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

B-118638

To the President of the Senate and the
Speaker of the House of Representatives
and the Mayor and Council of the
District of Columbia

This report describes problems in the District of Columbia's rent-setting system for public housing and urban renewal properties and suggests ways to improve the system.

In the course of our ongoing efforts to assist the District in improving its revenue posture, we noted that the District was losing substantial rental revenues and the Federal Government was paying increased operating subsidies. Tenants were not being charged proper rents and some were treated inequitably.

We made our review pursuant to section 736(a) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774), approved December 24, 1973, and are submitting the report in accordance with section 736(b)(1) of the act.

Section 736(b)(3) of the act 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.

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


Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT
TO THE CONGRESS AND TO THE
MAYOR AND COUNCIL OF THE
DISTRICT OF COLUMBIA

DISTRICT OF COLUMBIA'S
RENT ESTABLISHMENT
POLICIES AND PROCEDURES
NEED IMPROVEMENT

D I G E S T

The District of Columbia's Department of Housing and Community Development rents public housing to low-income families and rents space in acquired urban renewal properties until redevelopment or rehabilitation begins. As of June 1976, approximately 12,300 households and businesses were renting from the Department and annual rental revenues were about \$10.4 million.

These revenues and about \$44.1 million in Federal subsidies covered most of the \$56.8 million cost to operate the programs. The remaining funds were from sources such as the sale of urban renewal lands and income from investments.

Better management and administration should increase revenues and reduce Federal subsidies. GAO estimates that rents lost from January through June 1976 totaled about \$902,000 for public housing activities. (See app. I.) It was not possible to estimate the rental loss for urban renewal activities because of poor records. However, these losses could be substantial. The District estimated that it was losing about \$800,000 annually from parking lot rents in urban renewal areas.

PUBLIC HOUSING

About 60 percent of the public housing tenants were charged improper rents during the period covered by GAO's review. The resulting estimated \$902,000 loss in rents occurred because the District:

- Used a 1971 rent schedule to set rents.
(See p. 5.)
- Used an outdated definition of what constituted tenant income for setting rents.
(See p. 6.)

--Delayed processing rent changes an average of about 6 months. (See p. 7.)

--Was ineffective in verifying tenant income-- a vital factor in setting rents. (See p. 10.)

URBAN RENEWAL

The District's rent policies and procedures for urban renewal properties were not always appropriate and uniformly and effectively implemented. Because of this tenants were treated inequitably and revenues were lost. Documentation was not sufficient to estimate the amount of revenues lost, but it could be substantial. The problems occurred because the District:

--Established rents for some tenants which were below rates permitted by legislation. (See p. 14.)

---Did not examine rents periodically to determine whether they were still appropriate. For parking lots alone, the District estimated that it was losing about \$800,000 annually because rents were too low. (See p. 20.)

--Did not have adequate procedures for setting and adjusting rents of temporary tenants. (See p. 23.)

In addition, the District

--used outdated appraisal data in establishing rents (see p. 18),

--did not have an effective system to make sure that rents did not exceed 25 percent of tenant gross income (see p. 19), and

--did not usually document reasons for rent adjustments (see p. 22).

UTILITIES

Inadequate utility payment policies and procedures resulted in inequitable treatment of

tenants and unnecessary costs to the District.
The District:

- Used a 1972 schedule of utility allowances. GAO tested utility charges and allowances for 1 month and found that for 2,585 public housing tenants who paid their own utilities, the allowances were \$12,640 too low. (See p. 25.)
- Paid electricity and gas bills for about 150 tenants who should have paid their own bills and improperly paid electricity charges for 18 tenants who received utility allowances. (See p. 27.)
- Did not have a system to charge public housing tenants living in master-metered units for excess utility consumption. (See p. 30.)
- Inappropriately based utility allowances for urban renewal tenants on rents charged rather than estimated utility consumption. (See p. 31.)

RECOMMENDATIONS

GAO recommends that the Mayor direct the Department of Housing and Community Development to

- improve policies, procedures, and practices for setting rents for public housing and urban renewal tenants;
- regularly monitor the rent-setting process; and
- improve documentation of rent actions.

Specific recommendations dealing with public housing and urban renewal rents and with utility allowances are made on pages 35 to 37.

AGENCY COMMENTS

The District said that the Department of Housing and Community Development had taken or

planned action on each of the areas discussed in the report in accordance with GAO's recommendations. Properly implemented, the actions, taken and proposed, will go a long way in correcting the problems GAO found. (See pp. 37 and 40.) However, GAO believes that other actions are also required and the report contains appropriate recommendations to the Mayor.

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Public housing	1
	Urban renewal	2
2	CHANGES IN POLICIES AND PROCEDURES NEEDED TO ASSURE PROPER RENTAL CHANGES	4
	Public housing	4
	Update rent schedule to reflect fair market rents	5
	Revise definition of tenant in- come to comply with HUD regula- tions	6
	Improve rent adjustment system	7
	Process rental fee increases promptly	7
	Charge tenants for rent lost be- cause of delays in submitting rental adjustment information	9
	Regular reexaminations	9
	Interim examinations	9
	Improve verification of tenant income	10
	Urban renewal	12
	How rents are established and ad- justed	13
	Establish rents at levels allowed by existing law	14
	Apply rent establishment policy consistently	16
	Use current appraisal data in es- tablishing rents	18
	Coordinate income and rental data	19
	Review rents periodically	20
	Document rent adjustments ade- quately	22
	Improve procedures for setting and adjusting rents of tempor- ary tenants	23
3	IMPROVED PROCEDURES NEEDED FOR COMPUTING UTILITY ALLOWANCES AND PAYING UTILITY BILLS	25
	Utility payment policies and procedures	25

CHAPTER		<u>Page</u>
3	Need to increase utility allowances granted to public housing tenants	25
	Need to apply utility payment policy consistently	27
	System needed to identify excess electrical consumption	29
	Better system needed to set utility allowances for urban renewal tenants	31
4	CONCLUSIONS AND RECOMMENDATIONS	33
	Conclusions	33
	Public housing	33
	Urban renewal	34
	Utilities	34
	Recommendations to the Mayor	35
	Overall	35
	Public housing	35
	Urban renewal	36
	Utilities	36
	Agency comments	37
5	SCOPE OF REVIEW	41

APPENDIX

I	Sampling method used for review of the District's rent establishment policies, procedures, and practices for public housing	42
II	February 17, 1978, letter from the Mayor, District of Columbia	44
III	Principal District of Columbia officials concerned with activities discussed in this report	55

ABBREVIATIONS

DHCD	Department of Housing and Community Development
DHR	Department of Human Resources
GAO	General Accounting Office
HUD	Department of Housing and Urban Development

CHAPTER 1

INTRODUCTION

The Department of Housing and Community Development (DHCD) was established by the District of Columbia Reorganization Plan No. 3 of 1975. DHCD's functions include identifying housing and community development needs, formulating and recommending policies, and implementing activities to meet these needs.

DHCD was formed by merging several independent offices and agencies. These included the National Capital Housing Authority, the Redevelopment Land Agency, the Office of Housing and Community Development, the Model Cities Commission, and the Housing, Zoning, and Building Bureau of the Department of Economic Development. DHCD's programs are carried out through five operating organizations and two staff office with approximately 1,500 employees.

Two major DHCD activities are the public housing and urban renewal programs. These activities were formerly the responsibility of the National Capital Housing Authority and the Redevelopment Land Agency, respectively. Through these programs, DHCD provides housing or commercial space to approximately 12,300 households and businesses. The cost to operate these programs during fiscal year 1976 was about \$56.8 million, which was primarily paid with about \$44.1 million in Federal subsidies and about \$10.4 million in rental income. The remaining funds were from various sources such as the sale of urban renewal lands and income from investments.

PUBLIC HOUSING

DHCD is responsible for providing decent, safe, and sanitary housing to low-income District families who cannot otherwise afford such housing. Approximately 11,300 families lived in DHCD-provided housing as of June 30, 1976; over 10,900 were in DHCD-owned projects, and the remainder in units leased by DHCD from private owners.

The public housing program is financed mostly with rental income and Federal funds; some miscellaneous income is received from investments. The fiscal year 1976 cost to operate the program was about \$30 million. Tenant rents totaled about \$7.9 million, and Federal subsidies totaled about \$22 million.

Under the United States Housing Act of 1937 (42 U.S.C. 1401), as amended, DHCD receives Federal assistance from the Department of Housing and Urban Development (HUD) to administer the low-income public housing program. This assistance consists of loans for developing new housing projects and annual contributions from HUD. The latter are for (1) paying the principal and interest (debt service) on bonds and notes sold to obtain project development funds and (2) paying operating subsidies.

In the past several years the public housing program's operating expenses have exceeded rental income. To offset these deficits, HUD has contributed operating subsidies to DHCD. Annual contributions received by DHCD under the public housing program have been increasing. For the 5-year period ended in fiscal year 1976, the contributions were as follows:

	<u>Annual Contributions Received</u>				
	<u>Fiscal Years 1972 Through 1976</u>				
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Debt service	\$ 7,697,490	\$ 7,714,583	\$ 8,689,522	\$ 8,702,034	\$ 8,431,132
Operating subsidies	5,531,747	9,734,887	8,046,063	11,234,883	11,378,060
Leased housing (note a)	390,073	533,339	491,736	762,746	637,482
Target project program (note b)	-	-	-	302,913	1,615,387
Total	<u>\$13,619,310</u>	<u>\$17,982,809</u>	<u>\$17,227,321</u>	<u>\$21,002,576</u>	<u>\$22,062,061</u>

a/Funds for leasing private housing units which are sublet to low-income families.

b/Special funds for correcting maintenance deficiencies on DHCD-owned housing.

During the 5-year period, operating subsidies more than doubled from \$5.5 million to \$11.4 million.

URBAN RENEWAL

DHCD is responsible for planning and administering the rebuilding and rehabilitation of slums and blighted areas. This is accomplished by acquiring property for redevelopment and managing it until vacated; relocating occupants, utilities, and rights-of-way; building streets and parks; and

selling sites for redevelopment or rehabilitation, in accordance with approved urban renewal plans.

Urban renewal is financed primarily by rental income, land sales, and HUD grants. Some miscellaneous income is received from investments. HUD issues general rent-setting and adjusting guidelines, and DHCD is responsible for detailed guidelines and procedures for setting and adjusting rents. The cost to operate the urban renewal program during fiscal year 1976 was about \$26.8 million. Rents totaled about \$2.5 million, and HUD grants totaled about \$22 million.

Many of DHCD's properties are occupied when acquired. DHCD also permits tenants to temporarily move into acquired properties that are vacant. Tenants are charged rent to help defray operating costs. In June 1976, DHCD was renting space to about 1,020 families and commercial establishments in seven urban renewal areas.

CHAPTER 2

CHANGES IN POLICIES AND PROCEDURES NEEDED

TO ASSURE PROPER RENTAL CHARGES

DHCD rents space to tenants under both the public housing and urban renewal programs. DHCD charged 60 percent of its public housing tenants improper rents and lost about \$902,000 during the 6-month period ended June 1976. It also charged improper rents and lost rental revenues under the urban renewal program, but we could not determine the number of households and businesses involved nor estimate the revenues lost because of poor recordkeeping.

PUBLIC HOUSING

DHCD provides dwellings to families who cannot afford the fair market rent for standard private housing. Existing Federal statutes provide that rents be no more than 25 percent of annual income as defined by the Secretary of HUD. HUD defines annual income as the total family income less (1) \$300 for each allowable dependent, (2) \$300 for a secondary wage earner who is the spouse of the head of the household, (3) 5 percent of the total family income (10 percent in the case of elderly families) and (4) extraordinary medical and other expenses. Total family income excludes nonrecurring income and the income of full-time students and dependents under 18 years of age and payments received for maintenance of foster children.

DHCD establishes maximum rents (rent schedules by unit size) and, as appropriate, adjusts them based on the tenant's income to insure that rents do not exceed the 25-percent statutory limit. The fair market rents established for private housing are used as the base. For example, if a four-bedroom unit rents for \$300 per month, DHCD reduces this amount by 20 percent to \$240, which becomes the fixed rent that can be charged as a maximum for that unit. However, if 25 percent of the tenant's income produces a lesser amount, that amount is charged. DHCD is required to examine tenant income periodically and make appropriate rent adjustments.

DHCD could assure public housing tenants more equitable rent treatment, optimize rental revenues, and reduce its dependence on Federal operating subsidies. DHCD should

- update its rent schedule to reflect current fair market rentals;

--comply with the definition of income contained in the Housing Act of 1974 and in HUD regulations; and

--correct weaknesses in the process for adjusting tenant rents, particularly by eliminating delays in processing rent adjustments and improving verifications of tenant incomes.

DHCD charged tenants over \$4 million in rents during January through June 1976. An additional estimated \$902,000 should have been charged during this 6-month period. This estimate is based on a random sample of 220 DHCD households selected from a universe of 12,092 households as of June 30, 1976. (See app. I for estimate details and a description of our sampling approach.)

Update rent schedule to reflect fair market rents

The city's public housing rent schedule has not been revised since 1971, even though fair market rental value increased about 45 percent by 1975. In July 1975, HUD published fair market rents for the Washington, D.C., metropolitan area. The following table compares the city's 1971 rent schedule with rents at 80 percent of HUD's 1975 fair market rents.

<u>Number of bedrooms</u>	<u>City's 1971 rent schedule</u>	<u>80 percent of HUD's 1975 fair market rents for Washington, D.C.</u>	
		<u>With elevators</u>	<u>Without elevators</u>
0	\$ 86		
1	104	\$132	\$126
2	116	158	144
3	124	184	168
4	140	215	192
5	156	237	216
6	172	260	240
		282	264

If the rent schedule had been revised, 15 percent of the sample tenants (32) could have been charged higher rents without exceeding the 25-percent limit and DHCD could have realized \$339,000 in additional revenues. According to DHCD information, 982 of the 8,920 tenants reexamined during fiscal year 1975 were paying less than 25 percent of their adjusted income for rent.

DHCD officials had no explanation for the delay in submitting an updated rent schedule to HUD. In June 1976, DHCD began updating the rent schedule, and on November 10, 1976, submitted it to HUD for approval, which was granted in February 1977. The resulting rent increases became effective on December 1, 1977.

Revise definition of tenant
income to comply with HUD regulations

The Housing and Community Development Act of 1974 (Public Law 93-383) amended the Housing Act of 1937. HUD regulations implementing the Housing Act of 1974 required redefinition of tenant income for rent-setting purposes. However, DHCD delayed about 8 months in complying. As a result, it lost an estimated \$17,900 in rental revenues during the period covered by our sample--January through June 1976. Lost rental revenues will continue until DHCD applies the new definition.

Beginning in December 1969, a series of amendments to the Housing Act of 1937 were enacted. The Brooke amendments, as they are commonly called (83 Stat. 379, 389; 84 Stat. 1770, 1778; and 85 Stat. 775, 776), defined net income and provided that tenants in low-income public housing should not pay more than 25 percent of this income for rent. In August 1974, the Housing Act of 1974 was enacted to consolidate, simplify, and improve laws relating to housing and housing assistance. The act revised the definition of income.

The 1974 act established minimum rents for public housing. It required every tenant to pay at least 5 percent of total family income for rent. It further required that public housing agencies use the revised definition for the first regular reexamination that occurred at least 6 months after the effective date of the regulations. Tenants who moved in after the effective date were to be charged rents computed using the revised rules.

The HUD regulations became effective on September 26, 1975. On October 22, 1975, HUD directed public housing agencies to implement the new rules immediately. DHCD's first scheduled reexamination 6 months after the effective date was April 1, 1976. DHCD established a task force in March 1976 to determine the steps necessary to implement the regulations. In June 1976 DHCD submitted to HUD a timetable for revising the definition of income. This was nearly 9 months after publication in the Federal Register and 8 months after specific directions from HUD. A DHCD official believed that this was not an excessive delay, but could not explain why it took so long. On November 10, 1976, DHCD submitted

to HUD its proposed revision of the income definition. HUD approved the proposal in February 1977, but the rents were not increased by DHCD until December 1977.

Improve rent adjustment system

DHCD has not promptly processed rent adjustments, has failed to charge tenants increased retroactive rents when they delayed submitting rental adjustment information, and has lacked a procedure to properly verify tenant income information. This resulted in estimated lost revenues of \$545,000 for the period January through June 1976.

The Housing Act of 1974 requires that regular rent re-examinations be made at least every 2 years, or more often at HUD's discretion. HUD requires DHCD to reexamine rents at least biennially for elderly tenants and annually for most others.

For regular reexamination purposes, DHCD divided its housing projects into four groups, each with about the same number of tenants. Each group has a rent review date of the first of January, April, July, or October. Tenants in projects for the elderly have rent review dates every 2 years. Tenants are requested to report income and family data 2-1/2 months before the scheduled rent review date and are given about 2 weeks to submit the required data. DHCD analyzes the data and makes appropriate adjustments to the rental rate. In addition to reporting at scheduled intervals, tenants are required to report income and family status changes whenever they occur. Through a process called interim examination, DHCD makes interim rental adjustments both downward--as HUD requires--and upward as well.

Process rental fee increases promptly

We estimate that DHCD lost \$245,000 in rental income during the period January through June 1976 because of excessive delays in processing both regular and interim rent adjustments after tenants submitted income and family data. The majority of this loss, \$228,000 (93 percent), was due to delays in processing regular reexaminations.

Our analysis of the 220 sample cases showed that regular reexaminations were processed an average of about 6 months late. In 92 (42 percent) of the sample cases we could not determine the full delay because the reexamination had not been completed as of June 30, 1976; these cases were

delayed from 3 to 52 months, with most delayed between 3 and 12 months. The following table shows the processing delays for the sample tenants:

Processing Delays

<u>Months delayed</u>	<u>Number of sampled tenants</u>
Reexam not required	27
0	23
1-3	56
4-6	17
7-9	29
10-12	41
13-15	17
16-18	9
19 and over	<u>1</u>
Total	<u>220</u>

Sixty-one of the tenants sampled also submitted interim change reports during the 6 months we reviewed. The time to process these reports ranged from less than 1 month to 15, and averaged about 4 months after tenants filed reports.

DHCD reports show that processing delays have been increasing. DHCD officials said they were aware of the rent examination backlog and attributed the increasing delays to an inadequate number of examination technicians. DHCD estimates the annual workload to be 12,000 regular reexaminations. Six employees perform these duties.

The rent adjustment system has resulted in an uneven workload distribution. Because of the quarterly schedule for reviewing rents and the requirement for 30 days' notice to increase rents, DHCD must process the rent review information for one-fourth of its 12,000 tenants in only 1 month, or rental revenues could be lost. Also, annual social security increases can create an instant backlog of nearly 2,000 interim examinations from tenants receiving social security payments.

If tenants' reporting dates were spread more evenly throughout the year, the workload would be more even, and rent changes could be processed in a timely manner. Also, DHCD could eliminate a substantial portion of its interim examination workload by making the periodic rent review dates for elderly tenants coincide with annual social security increases.

DHCD said that it is considering a number of improvements including steps that would eliminate the reexamination backlog and change the reporting dates for elderly tenants.

Charge tenants for rent lost because of delays in submitting rental adjustment information

DHCD lost an estimated \$50,000 from January through June 1976 because it failed to charge tenants retroactive rents for submitting income and family data late. Twenty of the 220 tenants in our sample submitted data late, and DHCD did not charge them even though tenants are liable for rent charges accrued due to delays they cause. Tenants are not liable for DHCD processing delays or administrative errors.

Regular reexaminations

Late submission by tenants of regular reexamination information caused about \$7,700 of the total projected revenue losses. Of the 220 tenants sampled, 171 (78 percent) submitted the regular reexamination information on time. The remaining 49 tenants submitted information from 1 to 20 months late; 30 submitted the information over 4 months late. DHCD should have retroactively charged 4 of the 49 tenants. Retroactive charges were not required for the remaining tenants because the reported information did not result in a rent change.

Interim examinations

Tenants also submitted interim change reports late. Delays averaged 4 months. Although 69 of the 220 sample tenants submitted late interim change reports, only 19 were charged retroactive rents. Sixteen others should have been charged. DHCD's failure to do so resulted in a loss of about \$42,000 for the 6-month period. A DHCD official said that the tenants were not charged primarily because of the reexamination backlog.

In 82 of the 220 sampled cases, annual rent review data showed that tenants' income changed but had not been reported at the time the change took place. Also, the effective date of the change was not reported. DHCD's practice is to obtain the effective date of the change from the tenant; if the tenant cannot supply the effective date, no back rent is charged. Because extreme effort would have been required to determine the financial losses for such cases, they are not included in our projections.

DHCD's housing managers were accepting tenants' regular reexamination reports without promptly checking if there was a previously unreported change and determining its effective date. In many cases, several months elapsed, due to DHCD processing delays, before the change was discovered. By then tenants, when contacted, were unable to recall the date of the change. According to a DHCD official, in some cases a tenant may be able to respond but does not because an answer will result in a retroactive charge. In cases in which a tenant does not provide the date of an income change, it seems that DHCD could contact employers directly.

The latest required regular reexamination data had not been filed by 27 of the 220 sample tenants as of June 30, 1976. Assuming they had income increases similar to those who did report, DHCD is losing rental income above the estimated losses discussed in this section. While it was not possible for us to identify why the tenants did not report, discussions with DHCD officials lead us to believe the following contributed to this condition:

- Tenants whose income rises recognize that their rents would increase and retroactive rent charges might be made.
- Tenants are not notified of their failure to report regular reexamination information.
- Tenants are not penalized for late reporting other than being charged rent which should have accrued in any event.

DHCD officials agree that tenants frequently fail to report interim increase and regular reexamination data. Officials responsible for rent collection stated retroactive charges create serious collection problems. A DHCD official also said that DHCD is considering eliminating interim examinations that increase rents in order to place more effort on the regular reexaminations. While eliminating interim examinations that increase rent may not be practical, DHCD could eliminate the requirement for reporting the type of change which normally results in no rent increases.

Improve verification of tenant income

If DHCD had crosschecked tenants' reports with information at the District's Department of Human Resources (DHR), about \$250,000 of the estimated losses during the first

6 months of 1976 could have been avoided. DHCD needs to determine, to the extent possible, tenants' full income from available sources to make a fair and proper rent determination.

The Housing Act of 1974 requires public housing agencies to review the incomes of families living in low-income housing projects. HUD and DHCD regulations require adequate verification of tenants' income reports. Neither HUD nor DHCD has defined adequate verification.

DHCD's policy requires reported income to be verified before tenants are approved for public housing. Tenants must submit documentation such as checks for each source of income. At regular reexaminations, tenants are required to report their earnings if employed and have their employer complete an earnings statement to be returned by the tenant to DECD. Information on income from public benefits (e.g., social security, unemployment compensation) must be notarized. For interim examinations, a signed statement by the tenant is considered sufficient to report an increase in income; however, a decrease must be formally documented (i.e., payroll slip or the like).

For each of the 220 sample tenants, we checked welfare records as of June 1976 to determine if they were receiving a welfare grant, and if so, the amount. For the 101 tenants (46 percent) in our sample receiving such grants, we found discrepancies in income reported by 31. Examples of discrepancies included the failure to report to DHCD periodic welfare increases of several hundreds of dollars and failure to report up to three entire welfare grants totaling over \$300. We calculated that DHCD should have charged additional rentals of \$250,000 for the 6-month period.

We also noted other discrepancies in information reported to DHR and DHCD. For example, several tenants reported income to DHCD, but DHR had no record of these earnings.

DHCD does not regularly or systematically contact tenants' employers to verify employment information. Contacting a specified number of employers during each reexamination would provide a meaningful independent verification of tenants' reported income.

To determine the accuracy of tenant-submitted income reports, we contacted employers of 39 tenants in our sample who reported earned income. The remaining sampled tenant files

showed no employment information or insufficient information to contact the employers (e.g., address and phone number missing or incorrect, employer's name not included). We compared the amount provided by the employer with the latest income report made to DHCD. Employers of two tenants would not divulge income information and two other tenants no longer worked for the employers identified in DHCD's files.

Of the 35 employers responding, 21 (60 percent) verified as correct the tenant income report made to DHCD. The remaining 14 employers (40 percent) reported differences which reflected income changes since the date of the tenants' report. The differences included income amounts lower and higher than those shown by DHCD. The following table shows the range of discrepancies for the tenants.

<u>Annual discrepancies</u>	<u>Number of tenants</u>	
	<u>Lower</u>	<u>Higher</u>
\$1 - \$300	1	4
301 - 600	0	5
601 - 900	0	1
901 - 2,300	2	0
Undeterminable (note a)	0	1

a/The tenant's income had changed, but the employer would not provide the amount of the change.

A DHCD official agreed that DHR's more current and complete income data on some DHCD tenants would be useful in verifying income and helpful in disclosing unreported sources of income.

URBAN RENEWAL

DHCD does not have adequate procedures for establishing and maintaining proper rents for urban renewal properties and has not adequately documented rent-related actions. Also, DHCD has not effectively monitored the rent practices and procedures employed. Because of these weaknesses

- rents were lower than allowed by existing law,
- rents were inconsistently established,
- out-of-date information was used in establishing rents,
- untimely consideration was given to tenants' income when establishing rents,

--rents were not periodically reviewed for appropriateness,

--rent adjustments were not adequately documented, and

--rents for temporary tenants were not established consistently and were not adequately documented.

As a result, DHCD lost rental revenue, resulting in increased Federal subsidies. Also, some tenants were paying more than they should have, and others were paying less. The District estimated that it was losing about \$800,000 annually from parking lots in urban renewal areas because rents had not been periodically reviewed for appropriateness.

We could not determine the dollar effect of the deficiencies in the urban renewal program because of inadequate records. However, based on data developed from our sample, indications are that rent losses could be substantial. For example, we point out on page 15 that about \$4,400 was lost (for 12 tenants) because rents were set too low for periods of from 5 to 54 months. On page 17 we point out that (for 27 tenants) there is a potential loss of about \$200,000 in rental revenue.

How rents are established and adjusted

Federal regulations implementing the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (42 U.S.C. 4601 et seq.) provide that the rent charged a short-term occupant shall not exceed the lesser of the property's fair rental value or 25 percent of the tenant's income. DHCD's policy, however, was to allow the independent appraiser's fair rental value for each residential property to be reduced by an amount not to exceed one-third.

Prior to acquiring a commercial or residential property, DHCD contracts with independent appraisers to estimate the property's value. The appraisal is to include the estimated fair rental value of the property. In addition, if the property was previously rented, the appraisers are to provide data on prior rentals. The rent recommended by the independent appraisers is referred to as fair rent.

DHCD, on the basis of judgment, determines ceiling rents for residential units. To do this, DHCD usually arbitrarily reduces either the fair rent recommended by the appraiser or the prior rent paid by the tenant by up to one-third (sometimes more). This amount may be further adjusted

to insure that the rent to be charged tenants will not exceed 25 percent of their income or impose financial hardship because of such circumstances as unusual medical expenses. For commercial property, DHCD's regulations require that the fair rent recommended by the appraiser be charged. However, in practice, rent charged for commercial property is often reduced when in DHCD's judgment a financial hardship would be involved.

We analyzed the rent-setting and adjustment process for 130 of DHCD's 1,020 tenants as of June 1976. We randomly selected 50 of the 663 residential, 50 of the 238 commercial, and 30 of the 119 temporary tenants (those allowed to move into properties after acquisition). We also analyzed how rents were determined for an additional 68 tenants residing in properties acquired between June 1975 and June 1976 (after procedures were revised in June 1975) to identify whether improvements had been made in the rent establishment process.

Establish rents at levels allowed by existing law

DHCD did not realize optimum revenues because residential rents were established lower than permitted by existing legislation. Our analysis of the sampled residential tenants' rents showed that the DHCD-established monthly rents for 12 tenants averaged \$31 less than the fair rents recommended by DHCD's independent appraisers. Because of inadequate documentation, we were unable to determine differences for the remaining 38 tenants.

By establishing a rent lower than the maximum allowed, DHCD limits potential rental income because some tenants may be financially capable of paying an amount which more closely approximates the independent appraiser's fair rent without violating the 25-percent limitation. For example, monthly rents charged 10 of the 12 tenants were \$211 less than maximum rents allowed by legislation. The rents charged for the remaining 2 tenants totaled \$17 more than the maximum rents allowable. The following table shows the disparity among maximum rents, DHCD-established rents, and rents actually charged.

<u>Tenant</u>	<u>Allowable rent permitted by law (note a)</u>	<u>DHCD-established rent</u>	<u>Rent charged</u>	<u>Monthly rent revenue lost</u>	<u>Rent revenue lost since lease began</u>
A	\$135	\$ 85	\$ 85	\$ 50	\$ 800
B	110	85	85	25	1,025
C	80	65	65	15	585
D	70	75	66	4	47
E	60	45	45	15	615
F	86	85	85	1	54
G	124	77	77	47	235
H	49	50	44	5	25
I	90	70	49	41	1,517
J	68	45	60	8	200
K	73	80	80	(7)	(280)
L	50	60	60	(10)	(390)
Total	<u>\$995</u>	<u>\$822</u>	<u>\$801</u>	<u>\$194</u>	<u>\$4,433</u>

a/The lesser of DHCD-appraised fair rent or 25 percent of gross monthly income.

DHCD officials gave three reasons for the policy of reducing residential tenant rents by up to one-third of the fair rent: fixed and operating expenses approximate two-thirds of property income; a profit should not be made; and the tenant should be provided an incentive to remain in the property until it is needed by DHCD. DHCD officials were unable to provide documentation to support these reasons.

A HUD official said that if DHCD could not clearly justify the one-third policy, HUD should have been consulted. Officials at DHCD and HUD were unsure as to whether HUD was consulted.

A DHCD official agreed that Federal legislation allowed the setting of ceiling rents that were equitable to both the tenant and DHCD. The official also agreed that when residential properties are acquired, DHCD should establish ceiling rents at the fair rent as recommended by independent appraisers. However, the rent charged should be limited to the lesser of

--the fair rent as set forth by independent appraisers or

--25 percent of the tenant's gross monthly income.

Following this policy would give DHCD additional rental revenues. Rents would be reduced below those recommended by independent appraisers only for those tenants who could not afford to pay the fair rent. A March 1977 memo from the DHCD official responsible for establishing rents stated that all rents for all uses should be established at market rate (fair rental) and that all rents can be adjusted later to prevent hardship and assure all tenants of fair and equitable treatment. The DHCD official responsible for charging rents advised us that the policy will be changed to conform to this memo.

Apply rent establishment
policy consistently

The lack of adequate procedures, including monitoring provisions, on how the policy should be interpreted and implemented does not assure that the contemplated revised policy for establishing rents will be consistently and correctly applied and that DHCD rent revenues will not continue to be lost and tenants will not be charged rents that are either too low or too high.

DHCD's policies governing the setting of residential and commercial rents have not been consistently followed. Agency records did not document the rent-setting process, and the agency did not have procedures to describe how DHCD's policies were to be implemented. According to one DHCD official there were no detailed procedures on how the files should be documented, and little documentation was maintained in support of how rents were established. Therefore, it was necessary for us to determine, with the aid of DHCD officials and the limited information in DHCD files, what appeared to be the method used to establish rents.

Maximum rents for 64 of the 100 sampled residential and commercial tenants were established by DHCD using as a basis the tenant's prior reported monthly rent rather than the fair rent. Only 18 of the rents were determined by using the independent appraiser's recommended fair rent. We could not determine how rents were established for the remaining 18 cases.

It appeared that residential rents were reduced by less than one-third of the prior reported rent or fair rent in 11 cases, more than one-third in 13 cases, and exactly one-third in 4 cases. We could not determine the extent of reductions made in the remaining 22 cases.

For the commercial tenants sampled, it appeared that 31 rents were established below the prior reported rent or fair rent and 6 established at the prior reported rent or fair rent. We could not determine the extent of reductions made in the remaining 13 cases. The following table shows examples of DHCD rent reductions.

<u>Residential tenants</u>	<u>DHCD-established rent</u>	<u>Basis for DHCD-established rent</u>		<u>Percent reduction</u>
		<u>Fair rent</u>	<u>Prior rent</u>	
A	\$100	\$135	N/A	25.9
B	85	140	N/A	39.3
C	90	N/A	\$150	40.0
D	60	N/A	72	16.7
<u>Commercial tenants</u>				
E	160	300	N/A	46.7
F	185	250	N/A	26.0
G	250	N/A	250	0.0
H	60	N/A	100	40.0

Note: N/A--not available.

To illustrate the extent of potential revenue losses when rents for commercial tenants were established below the fair rent, we compared 30 cases from our sample that had both fair rents recommended by independent appraisers and DHCD-established rents. Documentation needed to make similar comparisons for the remaining 20 tenants was not available. The fair rent and DHCD-established rent were the same in three cases. However, in the remaining 27 cases, total monthly DHCD rents were established about \$5,400 below the fair rents. By assuming no changes in property values from the lease dates for these 27 tenants to June 30, 1976, the rents established by DHCD totaled about \$200,000 less than fair rents. These leases were established during the years 1970 through 1975.

A new rent procedure issued by DHCD on June 17, 1975, provided that an "inspection and possession" report, listing tenant names and the DHCD-established rent for the property, be prepared on each newly acquired property. The procedure did not show how policies were to be implemented or include provisions for monitoring the rent-setting process. The actual rent establishment decision was left to the discretion of a few DHCD officials.

To determine whether DHCD had applied its rent establishment policies with better consistency since the June 1975 procedure was issued, we evaluated the rents established for 68 tenants in properties acquired between June 17, 1975, and June 24, 1976. DHCD-established rents were usually shown on the reports. However, the justification for these rents was not documented. The DHCD officials stated and we found that the statement, "DHCD established rent - \$50," was typical of the only documentation to support DHCD established rents.

We selected five of the inspection and possession reports and asked the DHCD official who established the rents to explain how each was determined. The official, after searching through agency files, could not ascertain how the rents were established but offered the following explanations.

- Rents for two properties were based on reductions from the fair rent.
- Rents for two properties were based on reductions from the prior rent paid by the tenant.
- The basis for the remaining rent was unknown.

After reviewing these five cases, the DHCD official agreed that the justification for DHCD rents should be better documented. He stated that not much time was directed to setting rents on urban renewal property because of other higher priority work.

Use current appraisal data in establishing rents

DHCD often established rents for agency-owned property using outdated appraisal data. Delays between preparing property appraisals and establishing rents could have caused DHCD to set improper rents for properties whose market values had changed.

HUD guidelines require DHCD to establish a fair rent for each property acquired. DHCD contracts with independent appraisers to provide property appraisals of fair market value that include fair rent and prior rental information.

The rents for 74 of the residential and commercial cases sampled were established using appraisal data which was more than 6 months old. The market value of some of the properties changed during this time, and some rents are not appropriate. The following table shows the age of appraisals used in the rent establishment process.

Age of appraisal in months	Number of cases		
	Residential	Commercial	Total
Under 3	1	9	10
3 to 6	6	1	7
6 to 9	10	4	14
9 to 12	11	5	16
Over 12	19	25	44
Not determinable	<u>3</u>	<u>6</u>	<u>9</u>
Total	<u>50</u>	<u>50</u>	<u>100</u>

DHCD had to update the appraisals for 53 of the 100 cases sampled. This was necessary to determine compensation for properties acquired by a "declaration of taking" (condemnation proceedings). The appraisals have an "as of" date that corresponds to the date of taking (DHCD's acquisition date). DHCD officials told us that the appraisals were generally received after the DHCD-established rent was set.

DHCD did not use fair rent information from updated appraisals. Our review of the 53 updated appraisals showed that in some cases the fair rent data was different and an adjustment either up or down to DHCD's ceiling rent was justified. By comparing the DHCD-established rent with fair rent "as of" the date of taking, DHCD could establish a proper maximum rent.

Coordinate income and rental data

DHCD lacked an effective system to assure compliance with its policy that residential rents were not to exceed 25 percent of the tenant's gross monthly income. When the DHCD-established rent was set, consideration was not given to the tenant's income or ability to pay. Therefore, DHCD had to adjust tenant rents at a later date if the 25-percent limitations were exceeded.

Two separate DHCD offices must coordinate income and rental data to implement this policy. We reviewed their available income information for the 50 residential tenants sampled to ascertain whether rental payments exceeded 25 percent of gross monthly incomes. We found income data for only 28 of the 50 sampled tenants. Documentation in the files for the remaining 22 tenants was not adequate for making income determinations. Even in the 28 cases, however, DHCD had not made calculations to determine whether the rent being charged exceeded 25 percent of the tenant's gross monthly income. Based on the income information on these

tenants, we identified six who were being charged rents in excess of the 25-percent limitations.

<u>Tenant</u>	<u>Rent being charged</u>	<u>25 percent of income</u>	<u>Rental overpayment</u>
A	\$54	\$43	\$11
B	45	42	3
C	44	37	7
D	80	73	7
E	45	32	13
F	68	38	30

Incomes and rental rates were examined by DHCD only if tenants complained of being charged excessive rents. A DHCD official acknowledged that there is a need for a system that regularly examines income and rental data to assure that proper rental rates are charged. This was not previously done because coordination between DHCD offices was lacking.

Review rents periodically

DHCD's rent adjustment policies did not include provisions for the periodic review of rents. Such provisions are necessary because properties have not been disposed of or rehabilitated quickly. Many properties and tenants have remained under DHCD's control for a number of years.

An examination of the 100 randomly selected residential and commercial tenants showed that most rents have remained unchanged for a number of years:

<u>Year existing rent became effective</u>	<u>Tenants</u>		
	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Before 1970	0	3	3
1970	4	3	7
1971	10	3	13
1972	2	12	14
1973	14	15	29
1974	8	3	11
1975	6	11	17
1976	<u>6</u>	<u>0</u>	<u>6</u>
Total	<u>50</u>	<u>50</u>	<u>100</u>

Since rents for 66 of the 100 cases were set in 1973 or earlier, we believe they may not be fair to either the tenant or DHCD. For the remaining 34 cases there had been no change in 1 to 3 years. For example, the files showed cases in which commercial property exteriors were cluttered with subway construction barricades at acquisition. Subway construction is now completed near many of the properties, and business opportunities may be enhanced by having subway stations within walking distance. A DHCD official told us there appears to be justification to raise these rents. Also, in those instances in which it can be shown that properties have deteriorated since DHCD acquisition, a rent reduction may be in order. A DHCD official told us the rents would be evaluated to determine if they should be revised.

We found that rents for three of the sampled residential tenants were decreased based on 25 percent of gross monthly incomes. These reductions were made effective during 1971, 1972, and 1974, respectively. However, documentation in agency files did not show that incomes were examined since the last reduction to see if further reductions or possible rent increases were justified. If a tenant's income increases after a rent reduction has been granted based on a lower income, DHCD does not have a system to periodically review the case to determine if the rent should be increased because the tenant is earning more.

During our review, DHCD recognized that rental rates for some parking lot tenants were inappropriate. In February 1977, DHCD completed an appraisal of rental values for parking lots. This analysis showed that DHCD was losing over \$800,000 annually because rents charged to 38 parking lots were too low. DHCD conservatively estimated that fair market rental rates for these properties were up to \$7,400 per month more than rents charged. For example, the monthly rent charged one parking lot was \$7,048 and DHCD estimated that the monthly fair market rent should have been \$14,500.

DHCD officials agreed that rents should be periodically reviewed. One official said that the parking lot rents would be further evaluated. However, none of these rents had been adjusted 5 months after DHCD's analysis had been published, so the city lost another \$333,000 in revenue because of the inaction on the part of DHCD. Every month's delay results in a loss of about \$67,000.

Document rent adjustments adequately

After DHCD-established rents were set for tenants residing in newly acquired properties, the rental rates to be charged were often adjusted without adequately documented justification. The rental rates were adjusted for 19 of our sample tenants. However, in 15 cases, we found a lack of documentation to support the adjustments.

HUD guidelines provided for the adjustment of rental rates in cases of demonstrated hardship to tenants caused by either income limitations or urban renewal project activities. HUD also required that justification for rental adjustments be documented and maintained in the project files. DHCD adjusted rents for various reasons relating to hardship and financial status--such as assuring that the 25-percent-of-income limit is not exceeded.

We compared DHCD-established rents (see p. 14) with rents listed on tenant leases for the residential and commercial sampled tenants to determine whether differences existed and, if so, the extent of documentation to support those differences. The DHCD-established rents were different from the lease rents in 19 (7 residential and 12 commercial) of 52 cases examined (19 residential and 33 commercial). Comparisons for the remaining 48 tenants were not made because the DHCD-established rents were not shown, the tenants were different from those occupying properties at acquisition, or the lease rents were not determinable.

The differences resulted in 17 tenants being charged less than the DHCD-established rent and 2 being charged more. There was sufficient documentation to support four of the differences. The following table shows the undocumented differences for the remaining 15 tenants.

<u>Residential sample</u>	DHCD- <u>established rent</u>	<u>Lease rent</u>	<u>Difference</u>
A	\$ 97	\$ 80	\$ 17
B	50	44	6
C	70	60	10
D	70	49	21
E	45	60	(15)
F	100	25	75
G	100	35	65
<u>Commercial sample</u>			
H	160	125	35
I	75	67	8
J	200	90	110
K	60	67	(7)
L	250	200	50
M	500	400	100
N	300	60	240
O	90	75	15

When an adjustment to the DHCD-established rent is made, a DHCD official said, there should be adequate documentary support for the decision. The official believed that the problem was a failure to file all pertinent information rather than a lack of sufficient justification for adjustments.

Improve procedures for setting and adjusting rents of temporary tenants

DHCD's procedures did not adequately describe how rents for temporary tenants--such as commercial and nonprofit tenants (about 119 as of June 1976)--were to be established or adjusted. Rents were established at rates that did not assure equitable treatment among tenants. The lack of adjustment procedures also resulted in some rents remaining constant for extended periods even though increases were justified because of DHCD's rising operating costs.

DHCD's procedure governing temporary uses of property specified that fair rents should be determined and justified. This procedure did not explain what should be considered when determining and justifying fair rents. In addition, the procedure did not mention under what conditions, if any, rents should be adjusted.

We reviewed DHCD files for 30 randomly selected temporary tenants to analyze how rents were established, whether the process was done consistently, and whether rents charged by DHCD were adjusted after establishment. There was a general lack of documentation governing how rents were established; rental charges remained constant for a number of years, and rents were not adjusted for cost increases incurred by DHCD.

Rents for 14 of the 30 sample tenants were set in 1973 or earlier. In 7 of the 14 cases, the rents were established in 1970 or earlier. The lease agreement files did not contain supporting documentation to show whether the rental rates were reviewed by DHCD for possible adjustments.

One lease included provisions under which a rental adjustment should be made. The rent charged the tenant, about \$360 monthly, had not changed between the date the lease agreement was signed, May 19, 1969, and October 1, 1976. According to the lease, the tenant's rent was based on a percentage of the building's 1967 estimated monthly operating costs. If the operating costs exceeded the estimated amount, the tenant was to pay additional rent equaling his prorated share of the increase. We calculated that operating costs had more than tripled since the date of the lease agreement. Based on the increased costs, the tenant's rent should be in excess of \$1,200 monthly. Furthermore, when we compared the operating costs with total rental income from the building's tenants, costs (excluding taxes and maintenance) exceeded income by about \$2,600 monthly.

found a general lack of documentation explaining (1) how rents were established for our sample tenants, (2) variances in the method used to determine rental charges, and (3) why rental adjustments were not made. We believe this resulted from not having detailed procedures governing the rent establishment and adjustment process. A DHCD official agreed that rents for temporary tenants should be established and adjusted according to the same procedures that apply to residential and commercial tenants. This includes documenting the property's fair rental rate, justifying the establishment of a rent that differs from the fair rent recommended by independent appraisers, and reviewing rental rates periodically for possible adjustments.

CHAPTER 3

IMPROVED PROCEDURES NEEDED

FOR COMPUTING UTILITY

ALLOWANCES AND PAYING UTILITY BILLS

DHCD can decrease utility costs and consumption and treat tenants more equitably by improving utility payment procedures and updating utility allowances. Because DHCD lacked adequate procedures and did not consistently follow stated policies, it

- granted utility allowances which were too low to about 2,500 public housing tenants,
- incorrectly paid public housing gas and electricity bills,
- did not have a system for identifying the costs of excess amounts of electricity consumed by public housing tenants, and
- did not have an adequate system for granting allowances to urban renewal tenants.

UTILITY PAYMENT POLICIES AND PROCEDURES

Tenants pay utility charges when their units are metered; DHCD pays the utilities for master-metered buildings.

DHCD tenants' rents are affected by the method of paying utilities. If DHCD pays the utilities, the rents are based on the factors discussed on pages 4 and 13 of this report. If tenants pay their own utilities, utility allowances are granted by rent reductions. Allowances granted public housing tenants are based on DHCD's estimate of the cost of reasonable amounts of gas and electricity for various-sized units. Urban renewal tenants' allowances are determined by reducing the rent by specified percentages for each type of utility service provided without regard to unit size.

NEED TO INCREASE UTILITY ALLOWANCES GRANTED TO PUBLIC HOUSING TENANTS

Gas and electricity costs increased by over 62 percent and 49 percent, respectively, since DHCD's utility allowance

schedule was last revised about 5 years ago. As a result, tenants who paid their own utility charges were not being adequately compensated. Also, the tenant-paid increased utility charges, combined with unadjusted rents, violated the maximum rent provision of the Housing Act of 1974 for those tenants whose rent was limited to 25 percent of income.

Although HUD allows local housing authorities to establish utility allowances, its regulations state that if there is an indication that utility allowances are not appropriate, they should be revised at the earliest possible date. HUD guidelines also advise local housing authorities to revise their allowance schedules whenever substantial changes are made in the rent schedule, or every 3 or 4 years.

We examined DHCD's allowances using June 1976 gas and electricity rates and the DHCD allowance schedule consumption estimates. We also obtained actual billing data from local utility companies for 50 selected tenants who received gas and/or electricity allowances.

In June 1976, DHCD granted utility allowances to 2,585 (23 percent) of its approximately 11,300 households. Our calculations, using June 1976 utility rates and the DHCD consumption amounts allowed those households, showed that existing utility allowances were insufficient to pay for allowed usage. Allowances were \$12,640 too low during June and ranged from \$2 to \$8 per household. Tenants had been receiving insufficient allowances for several months.

Actual billing information obtained for one period, August 1975 to July 1976, from local utility companies showed that, for our selected tenants, utility charges exceeded allowances by from 8 to 357 percent, depending upon the service type. These differences were due to variances in consumption, as well as DHCD's failure to revise utility allowances.

DHCD's allowance schedule was last revised in March 1972. From the time of that revision through June 1976, increases in the cost of the utility consumptions allowed by DHCD ranged from 49 to 54 percent for electricity and 62 to 75 percent for gas. For example, allowed consumptions of cooking gas and electricity for lighting and refrigeration cost \$8.07 for a two-bedroom unit in March 1972. In June 1976, the same service cost \$12.71. This 57-percent increase represents higher basic service charges plus a fuel

adjustment charge introduced by one of the utility companies after March 1972. Despite the \$4.64 price increase, the allowance remained the same.

The insufficient allowances we computed were based on DHCD's estimates of consumption for various-sized units. Since DHCD officials could not explain the source of these estimates, we attempted to determine their reasonableness by comparing them with consumption estimates provided by HUD. Although some of the estimates were the same, there were variances, both high and low, between the HUD and DHCD consumption estimates depending upon the unit size and type of service. These differences indicated a need for DHCD to reexamine its consumption estimates.

DHCD officials agreed that the utility allowances were not appropriate and that the costs of reasonable amounts of utilities plus rent charged should not exceed 25 percent of tenants' adjusted income. DHCD also recognized that there is a need for periodic updating of allowances. In December 1976, DHCD began to revise its utility schedules using updated utility rates. Also, local utility companies were contacted to determine if the consumption estimates were fair and reasonable. A December 1976 response from one local company indicated that the electricity consumption estimates for zero-bedroom and one-bedroom units were too low. DHCD revised the estimated consumption for the zero-bedroom units but did not increase that for the one-bedroom units because a DHCD official considered it to be adequate.

NEED TO APPLY UTILITY PAYMENT POLICY CONSISTENTLY

DHCD did not require all tenants living in individually metered units to pay their own gas and electricity bills. Also, it improperly paid utility charges for some tenants who had been granted utility allowances. Since HUD estimates that tenants living in individually metered units and billed directly consume 25 percent less gas and electricity than tenants who do not directly pay their own utilities, we believe that DHCD incurred excess cost by not requiring tenants to pay their own gas and electric bills.

HUD regulations require that, to the extent practicable, all utilities consumed directly by tenants of units owned by local housing authorities be individually metered. Charges for individual units are to be determined by either individual

meters or checkmeters. Under an individually metered system consumption for each unit is identified by the utility supplier and the tenant is directly billed. The tenant receives a utility allowance to help offset his bill.

Checkmeters are devices placed in a master-metered system which measure utility consumption of individual units. When checkmeters are used the utility company directly bills the housing authority for consumption identified by the master meter, and the housing authority reads the checkmeters and charges tenants for consumption in excess of the amount established as normal for the unit size.

Over 75 percent of DHCD's public housing tenants reside in master-metered buildings; the remainder are in individually metered units. DHCD does not use checkmeters.

For June 1976, DHCD incorrectly paid 148 electricity bills and 154 gas bills for tenants residing in individually metered units. These tenants should have received utility allowances from DHCD and should have paid their own utility bills.

We were unable to determine the improper payments resulting from DHCD's payment of tenants' gas bills because we could not identify monthly gas charges. However, we were able to determine the monthly electricity bills for calendar year 1975 and June 1976 and found:

--For June 1976, DHCD paid about \$2,700 more for electricity than the 148 tenants should have received in allowances. These payments represented the difference between the actual charges and our calculation of the June 1976 cost of DHCD-allowed consumptions for similar service types and unit sizes. If we had used allowances from the schedule utilized by DHCD in June 1976 instead of our updated allowance calculations, the payments would have been greater.

--In calendar year 1975, DHCD paid about \$17,000 more than it should have in electricity costs for 95 tenants.

DHCD did not have a written policy which required all tenants living in individually metered units to pay their own gas and electricity bills. A DHCD official agreed that DHCD should not pay utility costs for any tenants in individually metered units.

DHCD paid June 1976 electricity bills for 18 tenants who received electricity allowances. This resulted in improper payments totaling \$224. Improper payments totaling about \$1,960 were made to 13 of these tenants during calendar year 1975. Billing information for 1975 for the remaining five tenants was not available. Although unable to explain why the 18 exceptions occurred, a DHCD official said that they were probably caused by one of two situations. First, when a tenant moved out of the unit the billing was transferred to DHCD. When the unit was reoccupied DHCD may not have advised the utility company to transfer the billing to the new tenant. Second, a tenant may have told the utility company to bill DHCD.

DHCD had no established procedure to notify the utility company when a tenant was to be billed directly and no procedure to review individual bills after they were received from the District Accounting Office. A DHCD official said that the District has established a policy of paying electricity bills directly without advance review by the operating agencies.

In December 1976, DHCD implemented a procedure to notify the utility companies when a new tenant occupies a metered unit and that the tenant should be billed directly. A DHCD official also informed us that a procedure will be established with the utility companies whereby bills are not transferred until written notice is received from DHCD.

SYSTEM NEEDED TO IDENTIFY EXCESS ELECTRICAL CONSUMPTION

DHCD directly paid all utility charges for master-metered units which were occupied by about 8,700 (77 percent) of DHCD's public housing households as of June 1976. DHCD's policy is to require all tenants living in master-metered units to pay for excess electricity usage, but it had no procedure to implement this policy or to recover the cost of excess consumption. As a result, DHCD incurred additional costs and encouraged excess consumption because it paid for tenants' over-consumption.

Although HUD prohibits surcharging tenants for excess utility consumption based on prorated master-metered services, it authorizes service charges for certain major electrical appliances (freezers, air conditioners, washer-dryers, etc.) owned and used by tenants. In addition, DHCD leases stipulate that tenants pay for excess utility usage.

HUD, DHCD, and two nearby local housing authorities-- the Alexandria Redevelopment and Housing Authority and the Baltimore Department of Housing and Community Development-- recognize there is a potential for individuals in master-metered units to consume excess electricity. In May 1976, HUD issued regulations to support its national energy conservation goal of reducing energy consumption. HUD estimated that tenants in individual metered units use an average of 25 percent less electricity than tenants who do not pay their own utility bills. Because many public housing buildings are master-metered, HUD required local housing authorities to make cost-benefit analyses to measure the cost effectiveness of converting master-metered buildings to either individual or checkmeters.

In November 1976, DHCD completed a cost-benefit analysis on one master-metered building which showed that it was beneficial to convert the building to individual meters. A DHCD official stated that additional analyses will be performed to determine the feasibility of converting other buildings to individual or checkmeters; another official pointed out that individual meters were costly and could not be installed without financial assistance from HUD.

The Baltimore housing authority has procedures to recover the cost of excess utility consumption. Baltimore has installed checkmeters that show individual usage on all master meters. Each month the housing authority pays all utility charges, reads the checkmeters, and then charges tenants for consumption above what it considers normal. The Alexandria housing authority has a procedure to charge for potential excess electricity consumption. Tenants are charged \$10 monthly during the summer months for each air conditioner installed.

Prior to the late 1960s, DHCD residents were required to pay a monthly charge for extra refrigerators or freezers. DHCD resident managers monitored the installation of such appliances. This procedure was discontinued due to tenant resistance. However, a December 1976 DHCD study of one area with abnormally high electricity bills showed that tenants continue to use excess amounts of electricity. All of the units surveyed had additional electrical appliances such as air conditioners, freezers, washers, and dryers to which DHCD attributed the excess electricity consumption. DHCD informed the residents of the high bills and planned to send letters to them regarding energy conservation and

excess usage. Copies of the letters we subsequently reviewed were of a very general nature and made no mention of excess consumption. In addition, the letters dealt almost exclusively with heat, and made no mention of electricity costs.

BETTER SYSTEM NEEDED TO SET UTILITY ALLOWANCES FOR URBAN RENEWAL TENANTS

DHCD did not have an effective system for granting utility allowances to urban renewal tenants. Unlike those for public housing, allowances granted urban renewal tenants were based on rent charged instead of estimated utility consumption. In addition, DHCD granted these allowances inconsistently.

The absence of an effective system resulted in

- granting of improper allowances and
- allowances not granted to tenants who should have received them.

Utility allowances granted urban renewal tenants were based on percentage reductions of rents for each type of utility paid by the tenant. Rents were reduced 15 percent if the tenant paid for heating, 5 percent for electricity, and 5 percent for gas.

We reviewed the rents of 25 selected tenants who paid some or all of their utility costs to determine if they were granted proper utility allowances. Eleven tenants were granted allowances; 8 were not, and 6 tenants' files did not contain sufficient documentation to determine if they received allowances.

DHCD's method of computing utility allowances was inappropriate. Allowances for gas heating granted 3 of the 11 tenants demonstrated the inequities of the system of basing allowances on percentage reduction of rents. The tenant who received the highest allowance actually lived in the smallest unit. The allowance was highest because the tenant's rent was highest, as shown below in a comparison of three units with varying size, rent, and tenant income.

<u>Tenant</u>	<u>Number of bedrooms</u>	<u>Annual income</u>	<u>Monthly rent</u>	<u>Monthly heating allowance</u>
A	2	\$5,108	\$70	\$15.96
B	3	1,848	30	5.78
C	4	3,319	52	10.37

DHCD officials were unable to explain the justification for the procedure of basing allowances on rent, but agreed that it was inappropriate since it bore no relationship to utility consumption.

Allowances granted to 8 of the 11 tenants were less than would have been received had they resided in public housing units. These differences ranged from about \$1 to over \$11 per month.

Actual charges for those tenants for whom we were able to obtain consumption and billing information from the utility companies exceeded the allowances granted. Because local utility companies would only provide us information for a limited number of tenants, we were able to obtain actual consumption and billing information for only 3 of the 11 tenants who received allowances.

For the eight tenants who did not receive allowances, DHCD officials provided the following explanations:

--Three were oversights.

--Two were not granted allowances because the DHCD official who calculated the rent thought the tenant earned more income than reported to DHCD.

--Three were not granted allowances because the rent established at acquisition was considered fair without a reduction for utilities.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

DHCD's system of establishing rents has neither treated tenants equitably nor realized the optimum revenues permitted by law. DHCD lost rent revenues and did not treat tenants equitably because its rent policies and procedures were not uniformly and effectively implemented. Also, DHCD did not have an effective system for monitoring the rent-setting process to insure that rents were proper. In addition, an adequate system for documenting rent actions, particularly in the urban renewal program, did not exist.

Public housing

Our projections show that DHCD lost about \$902,000 in rental revenues under the public housing program during the 6-month period ending June 30, 1976. These losses could have been avoided had the District improved its rent establishment and adjustment policies, procedures, and practices and corrected deficiencies in the rent establishment and adjustment process.

DHCD lost substantial rental revenues, incurred costly delays, and treated tenants inequitably because it

- had not updated its rent schedule since 1971;
- did not promptly redefine the definition of tenant income for rent determination;
- did not take action to correct the rent adjustment workload distribution;
- did not retroactively charge all public housing tenants for late submission of data that increased rents;
- did not place enough emphasis on requiring tenants to submit requested data for regular examinations;
- did not adequately verify tenant income reports and dates of salary increases; and
- generally did not penalize tenants who did not accurately report earnings information.

Urban renewal

Several areas of DHCD's rent establishment and adjustment process for urban renewal tenants need improvement. Many problems occurred because DHCD had not adopted detailed procedures, including monitoring provisions, to carry out rent establishment and adjustment policies. Although documentation was not sufficient to project the monetary effect of weaknesses in the process, the examples disclosed in our review illustrate serious problems requiring DHCD's attention. DHCD action to correct these problems will help assure equitable treatment of tenants and optimize rental revenues.

DHCD did not realize optimum rental revenue and did not treat its tenants equitably because

- rents were established lower than allowed by Federal legislation;
- rent establishment policies and practices were applied inconsistently to both residential and commercial tenants;
- existing procedures did not sufficiently explain how rents were to be determined;
- rents were established using outdated appraisal data;
- there was no effective system to assure that rents did not exceed 25 percent of tenants' income;
- there were no procedures for periodically reviewing rents; and
- rents were often established and adjusted without adequately documenting the basis for the actions.

The rent establishment and adjustment process for temporary tenants had weaknesses similar to those discussed for residential and commercial tenants. The setting and adjusting of rents for temporary tenants should not differ from other tenants.

Utilities

DHCD treated tenants inequitably, incurred unnecessary expenditures, and encouraged excessive utility consumption

because of weaknesses in its utility payment system. Public housing utility allowances were too low because DHCD did not periodically revise its schedule of utility allowances to (1) reflect increases in utility rates and (2) verify estimated consumption amounts.

DHCD did not consistently follow its utility payment policy. Utility bills for many public housing tenants in individually metered units were improperly paid by DHCD, which resulted in unnecessary costs and could have led to excess gas and electricity consumption. DHCD also granted some of the same tenants a utility allowance. These payments were the tenants' responsibility, not DHCD's.

In addition, DHCD did not have a procedure to either identify or charge tenants in master-metered units for excess utility consumption. Utility allowances for urban renewal tenants were inappropriate because they were based on rent rather than actual or estimated utility costs.

RECOMMENDATIONS TO THE MAYOR

Overall

The Mayor of the District of Columbia should direct DHCD to

- improve policies, procedures, and practices for setting rents and utility allowances of public housing and urban renewal tenants;
- regularly monitor the rent-setting and utility allowance process; and
- improve documentation of rent actions, particularly under the urban renewal program, to insure control over the rent-setting process.

Public housing

The Mayor should direct DHCD to

- implement proposed policy changes to include the cost of comparable private housing in the rent schedule and periodically update the schedule;
- redefine income for rent to comply with existing legislation and HUD regulations;

- adjust the reexamination schedule so that the workload is more evenly distributed throughout the year and provide the necessary resources to accomplish this task;
- limit the situations for which tenants are required to submit interim change reports;
- charge tenants a penalty for each month required rent change reports are late or when inadequate information is knowingly reported; and
- improve tenant income verification by coordinating with other District agencies, and by establishing a system to verify dates and amounts of income changes.

Urban renewal

The Mayor should direct DHCD to

- establish a policy to charge the maximum rents allowed by legislation;
- implement detailed procedures to assure the consistent application of rent establishment policies;
- require the use of current property appraisals in the rent establishment process;
- improve its system for assuring that tenant rents do not exceed 25 percent of gross monthly income by obtaining all required income data from tenants, coordinating data maintained by different DHCD offices, and using income data in establishing rents;
- review rents periodically for possible adjustment;
- require adequate documentation for all rent actions; and
- include temporary tenants in all rent establishment and adjustment procedures.

Utilities

The Mayor should direct DHCD to

- periodically update utility allowances;

- base urban renewal tenants' utility allowances on consumption instead of rent;
- assure that tenants pay for their own utilities whenever possible;
- charge tenants who do not pay their own utilities for consumption above normal, such as for additional major appliances; and
- complete cost-benefit studies for converting master metering in buildings to individual or check meters and establish an action plan to implement the most beneficial findings.

AGENCY COMMENTS

By letter dated February 17, 1978, the Mayor transmitted the District's comments on the report. (See app. II.) The Mayor said that DHCD had taken action on each of the areas in accordance with our recommendations.

The District's comments were contained in a memorandum dated January 30, 1978, to the Mayor from the Director, Department of Housing and Community Development. DHCD operating personnel were apprised of our findings as they were developed and the DHCD Director's top staff were presented with summaries of the results of our work in May 1977 prior to our June 1977 final meeting with DHCD officials.

Properly implemented, the actions taken or planned should improve rent and utility allowance determinations. However, in some areas more needs to be done, as discussed below.

The District stated that it has improved the policies, procedures, and practices for setting rents and utility allowances, and has established a process whereby the rents and utility allowances are tied to applicable HUD regulations. According to the DHCD Director the process is self-monitoring in that any change in the regulations results in a review and revision of the rent and utility allowance procedure. The District points out that steps were taken to improve substantially the documentation of rent actions, citing as a most important step assignment of responsibility for all urban renewal rent establishment and rent reviews in the Real Estate Division of DHCD's Housing and Business Resources Administration.

The District's action in reply to our recommendation to regularly monitor the rent-setting and utility allowance process is not adequate. The substance of the monitoring recommendation is to assure that program requirements are followed and that if new requirements are established, top management would monitor their implementation. The mere fact that the regulations affecting rent and utility allowances change does not insure that the change will be promptly and appropriately implemented. Additionally, many of the corrective actions cited by the District have not yet been implemented. We believe it essential that top management have a system to monitor the timely implementation and propriety of corrective actions.

The District did not agree with our specific recommendation to limit situations for which tenants are required to submit interim change reports. The District believes that all tenants should continue to be required to report all changes because such reports (1) provide housing managers with a current record of the tenant-family situation, (2) can help highlight cases needing counseling and referrals for assistance, and (3) can be used as the basis to reduce rents which the tenant would not receive retroactively if changes were unreported until annual reexamination.

Our report points out that DHCD has had difficulties in processing interim reports. There was an average delay of 4 months between submission and review. Some reports do not result in a rent change, yet they are reviewed in the same manner as those which require a change. On page 10 we mention as an example the elimination of the requirement to report the type of changes which normally result in no rent increases. We believe that DHCD should provide specific guidance and instructions to tenants regarding the type information to be reported. In the event large numbers of reports continue to be submitted, DHCD should screen these reports to minimize the delays and review time.

The District did not adopt our recommendation to charge tenants a penalty for each month required rent change reports are late or when inadequate information is knowingly reported. The District said:

"Each housing manager is notified promptly of incomplete annual reexamination reports from tenants, and instructed to issue 30-day notices to vacate to those tenants as the penalty for

failure to comply. Further, although the tenant loses any retroactive credit to which he may have been entitled had he reported promptly, any debit is retroactive."

We report on page 9 that some tenants were submitting information from 1 to 20 months late, that inadequate submissions were not identified for several months, and that officials responsible for rent collection were not retroactively charging tenants for back rent because they felt such action would create serious collection problems. Relatively few tenants are evicted from public housing, and the few evictions that take place are made on the basis of non-payment of rent, not on failure to submit reexamination data. In view of the foregoing it would seem that issuance of the vacate notice constitutes no penalty at all, and as stated on page 10, the only penalty for late reporting is the charging of rent which should have accrued in any event. Accordingly, we believe the District should establish a penalty for late or inaccurate reporting, as recommended.

The District response to our recommendation to require adequate documentation for all urban renewal rent actions did not comment on the lack of documentation to show how the rents were determined. Rents charged 17 of 19 sampled tenants were below the rents established for the units. DHCD's files did not contain any documents justifying or supporting these rent adjustments for 15 tenants. DHCD should maintain documentation, in all cases, showing exactly how it arrived at the rents charged tenants to ensure that they are proper.

The District expressed reservation concerning our recommendation that it "assure that tenants pay for their own utilities, whenever possible." The reservation concerns urban renewal tenants and centers on what DHCD perceives as a conflict between our recommendations calling for

"(a) increasing rent by basing them on appraisals, making tenants pay their own utilities, and giving utility allowances based on consumption, and (b) the requirement that residential tenants must pay no more than 25 percent of income for rent."

We see no conflict between our recommendations and the 25 percent requirement. We recommend also that the tenant's income be considered in setting the rent to avoid the need for future adjustment when, as we reported, DHCD learns that the established rent exceeds the 25-percent limitation.

DHCD stated that rent at 25 percent of income plus the cost of utilities could result in a very high percentage of income being paid for shelter and that rent reduced by a utility allowance to 25 percent of income could result in no rent and the utility cost alone exceeding 25 percent of income. DHCD said that this issue will require intensive legal and management attention and will be addressed as part of the policy and procedure revision.

Despite the reservations expressed in the District's response, our recommendations are designed to assure that rent is established in accordance with existing regulations within the framework of the 25-percent statutory limitation, and we believe that the District should carefully consider each recommendation.

CHAPTER 5

SCOPE OF REVIEW

We reviewed rent establishment and adjustment policies, procedures, and practices for the District of Columbia's public housing and urban renewal programs. As of June 1976, we randomly selected 220 public housing households from a universe of 12,092, and 130 urban renewal households and businesses from a universe of 1,020.

We reviewed reexamination files for the 220 public housing households and acquisition and lease agreement files and rent accounts for the 130 urban renewal households and businesses. We analyzed the rent establishment and adjustment process for the selected cases.

In addition, we reviewed utility payment policies and procedures for both the public housing and urban renewal housing programs.

We examined applicable legislation and Federal and District of Columbia regulations and guidelines. We interviewed personnel in DHCD's operating administrations, HUD's headquarters, and area offices in Washington, D.C.; the Department of Housing and Community Development, Baltimore, Maryland; the Redevelopment and Housing Authority, Alexandria, Virginia; and representatives of local utility companies.

SAMPLING METHOD USED FOR REVIEW OF
THE DISTRICT'S RENT ESTABLISHMENT POLICIES,
PROCEDURES, AND PRACTICES FOR PUBLIC HOUSING

Estimates of public housing rental revenues lost (see p. 5) were based on an analysis of a statistical sample of 220 DHCD households. The sample households were drawn from DHCD's July 1976 billing ledger, which included all current tenants. The ledger also listed many households no longer in occupancy, but still being billed. When the ledger showed that a household was out of occupancy prior to January 1, 1976, we excluded it from our universe. Despite this screening process, the universe included some tenants who moved prior to or during the period January through June 1976. Our estimates included only the months the households were occupied during the period considered. The universe included 12,092 households.

Since the monetary effects of the deficiencies sometimes overlapped, we assigned an ordering process to calculate the incremental effect of each deficiency and to prevent duplication of any amounts. We consulted agency officials to determine a fair and logical ordering pattern. The following table shows the ordering of the effects and our estimate of the losses attributable to each.

	<u>Estimated losses</u>
Regular reexamination delays by DHCD	\$ 227,500
Regular reexamination delays by tenants	a/7,700
Interim examination delays by DHCD	a/17,900
Interim examination delays by tenants	a/42,000
Redefining tenant income in accordance with existing legislation and HUD reg- ulations	a/17,900
Use of outdated rent schedule to reflect current fair market rentals	339,300
Limited efforts to verify tenant income data	a/250,000
Total	<u>\$902,300</u>

a/Caution should be used in drawing conclusions from these estimates due to the range of sampling errors.

Our estimate of the additional rent that should have been charged during the period, \$902,000, was derived at a 95-percent confidence level with a sampling error of + \$244,000. When we found circumstances in which tenants should have been charged lower rents during the period, we counted these as negative amounts for projection purposes. Although we can project statistically the combined losses from all deficiencies, we could not project statistically the efforts of each individual deficiency. This is due to the range of sampling errors found for several of the deficiencies.



THE DISTRICT OF COLUMBIA

WASHINGTON, D.C. 20004

WALTER E. WASHINGTON
Mayor

FEB 17 1978

Mr. Victor L. Lowe
Director
General Government Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

Enclosed is a memorandum from Lorenzo W. Jacobs, Jr., Director D. C. Department of Housing and Community Development. This memorandum constitutes the District's formal comments on your draft report entitled "District of Columbia's Rent Establishment Policies and Procedures Need Improvement", transmitted to me by your letter dated November 18, 1977.

As you will see from the enclosed memorandum, the Department has taken action in each of the areas covered by the recommendations in your draft report. The actions taken are in accordance with your recommendations. Thank you for the opportunity to comment on your draft report. If you have any questions, or need further response, please do not hesitate to call upon me or Mr. Jacobs and his staff.

Sincerely,

A handwritten signature in cursive script that reads "Walter E. Washington".

Walter E. Washington
Mayor

Enclosure



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

Reply To

MEMORANDUM

8 0 JAN 1978

TO: Honorable Walter E. Washington
Mayor

FROM: Lorenzo W. Jacobs, Jr.
Director

SUBJECT: Formal Comments on GAO Draft of a Proposed Audit
Report on Rent Establishment Policies and Procedures

As you requested, following are the Department's formal comments on GAO's draft report on an audit of rent establishment policies and procedures for property of the National Capital Housing Authority (public housing) and the Redevelopment Land Agency (urban renewal). The report was transmitted to you for formal comment by letter dated November 18, 1977, from Victor L. Lowe, Director, General Government Division, U.S. General Accounting Office.

These comments respond to each of the recommendations specified in the draft report (pages 53 and 54). The recommendations are of four kinds: overall, public housing, urban renewal, and utilities. The comments are in the same order as the recommendations.

OVERALL RECOMMENDATIONS

Recommendations

The Mayor of the District of Columbia should direct DHCD to:

- Improve policies, procedures, and practices for setting rents and utility allowances of public housing and urban renewal tenants;
- Regularly monitor the rent setting and utility allowance process; and

--Improve documentation of rent actions, particularly under the urban renewal program, to insure control over the rent setting process.

Response

As a result of on-going work, following your organization of the Department (effective July 3, 1975) as well as discussion of their findings with the GAO auditors, we have taken steps which address each of these recommendations. Specifically, we have improved our policies, procedures and practices for setting rents and utility allowances. These actions are described below. We have also established a process whereby the rents and utility allowances are tied to applicable regulations published by the U.S. Department of Housing and Urban Development. This process is self-monitoring, in that any change in the regulations results in a review and revision of the rent and utility allowance procedures. Finally, we have taken steps to improve substantially the documentation of rent actions. The most important step is the assignment of responsibility for all rent establishment and rent reviews for urban renewal properties in the Real Estate Division of the Housing and Business Resources Administration.

As a result of these actions, and the specific actions described below, this Department is correcting the problems where required, in accordance with each of the recommendations set forth in the GAO draft report.

PUBLIC HOUSING

Recommendation

Implement proposed policy change to include the cost of comparable private housing in the rent schedule and periodically update the schedule.

Response

NCHA Manual Section 4120, V. dated 7-8-77, attached, provides that: "...In the event the rent currently charged is equal to an amount which is less than 25% of family income because of a previously imposed maximum rent, said rents will be increased within the following limitations. No tenant will be charged in excess of 80% of the fair market value of the unit that he/she occupies. In determining fair market value of a unit the Authority will use the values established by the United States Department of Housing and Urban Development in the administration of its rental subsidy program published in Title 24 of

the Code of Federal Regulation, part 888, as modified from time-to-time in the Federal Register." These are the HUD Section 8 limits, which are a useful source of average rents in this locality. The 80% limit reflects our experience regarding comparability of private and public housing, i.e., that private units in the top 20% of the rent ranges are not comparable.

Recommendation

Redefine income for rent to comply with existing legislation and HUD regulations.

Response

NCHA Manual Section 4120 X. dated 7-8-77, attached, lists revised definitions for family income, disabled, elderly and minor members and exclusions from income of \$300 for secondary wage earner spouse and foster child care payments, all of which affect family income, i.e., income for rent, to comply with legislation and HUD regulations.

Recommendation

Adjust the reexamination schedule so that the workload is more evenly distributed throughout the year and provide the necessary resources to accomplish this task.

Response

The annual reexamination schedule was revised in May, 1977, effective July 1, 1977, for the rent change date October 1, 1977. This schedule provides for six rent change dates instead of four, and is timed to coincide with certain regularly scheduled changes in benefits viz., Social Security, Supplemental Security Income, Railroad Retirement, affecting projects exclusively for elderly/disabled tenants, thus reducing to a minimum the necessity for interim reports by this group.

In addition, notices to tenants of reexamination are mailed one month earlier than previously to permit more processing time before the rent change deadlines. There is currently no backlog, and it is expected that the next change (3-1-78) will be completed on schedule.

Recommendation

Limit the situations for which tenants are required to submit interim change reports.

Response

It is our opinion that all tenants should continue to be required to report all changes, in compliance with the provisions of the lease. These reports provide a current record of the family situation for the housing managers' information and possible counselling and referrals for assistance where indicated. They are also valuable as the basis for reductions in rent, where appropriate, which the tenant would not receive retroactively if the changes were unreported until annual reexamination.

Recommendation

Charge tenants a penalty for each month required rent change reports are late or when inadequate information is knowingly reported.

Response

Each housing manager is notified promptly of outstanding or incomplete annual reexamination reports from tenants, and instructed to issue 30-day notices to vacate to those tenants as the penalty for failure to comply. Further, although the tenant loses any retroactive credit to which he may have been entitled had he reported promptly, any debit is retroactive.

Recommendation

Improve tenant income verification by coordinating with other District agencies, and by establishing a system to verify dates and amounts of income changes.

Response

Since 10-1-76 we have been obtaining from DHR quarterly print-outs listing persons receiving public assistance grants who are tenants of NCHA. We are exploring the expansion of this to include all recipients, since this would be an economical and efficient way to verify income from that source for applicants as well as tenants, and would eliminate issuance and preparation of forms and very considerable numbers of telephone calls to case-workers.

As mentioned above, we are aware, and have revised our re-examination schedule to take advantage of regularly scheduled across-the-board changes in OASI, SSI and RRR. We plan to reopen discussions with other agencies handling benefits to

determine whether they will furnish available data to us. Fortunately, we have always had excellent cooperation from private employers and payroll offices of Government agencies.

URBAN RENEWAL

Recommendation

Establish a policy to charge the maximum rents allowed by legislation.

Response

The Department is now reviewing policies for establishing rents for property owned by the Redevelopment Land Agency. Some basic steps have already been taken, i.e., (1) to centralize all urban renewal property rent establishment and adjustment in the Real Estate Division of the Housing and Business Resources Administration; (2) to establish a procedure whereby all rent establishment or adjustment actions are referred from Property Management Administration to the Real Estate Division; (3) to initiate a review of all rents previously established (discussed below); and (4) to establish a regular schedule for periodic reviews of all rents, as follows:

- (a) Family and institutional properties: Annually.
- (b) Housing for the Elderly: Every two years.
- (c) Businesses: Every six months.

The revised policy will specify that maximum rents should be established pursuant to law and regulations. Rents shall be established in accordance with appraisals (but not exceeding 25% of gross income of residential tenants), will be adjusted for specific and documented reasons (such as changes in financial condition of the tenant), and will be reviewed periodically (as shown above). The issue of allowances for utilities is discussed in the separate section on utilities, below.

The revised policy is expected to be published in the D.C. Register within the next sixty days.

Recommendation

Implement detailed procedure to assure consistent application of rent establishment policies.

Response

As mentioned above, some basic procedural changes have already been made. Others will follow final adoption of the revised policy, and will assure consistent application of the policy.

Recommendation

Require the use of current property appraisals in the rent establishment process.

Response

Independent fee appraisers employed by the Department in connection with the acquisition of additional property have been instructed to furnish EFMR's with all future appraisals. As mentioned above, the Department has already begun a review of rents for all RLA tenants. We are compiling all of the necessary data for present commercial and residential tenants of RLA (such as current family income, dwelling unit size and locations, etc.) and undertaking analysis of this data to determine the Estimated Fair Market Rental (EFMR) for all space leased by the Department. Analysis of this nature has been completed for Department-owned commercial parking areas leased to private entrepreneurs; and the leases were amended December, 1977. Evaluation of the residential properties in the 14th Street Urban Renewal Area will be completed within a month and we anticipate that a review of all properties will be completed by June, 1978.

Recommendation

Improve its system for assuring that tenants' rents do not exceed 25% of gross monthly income by obtaining all required income data from tenants, coordinating data maintained by different DHCD offices, and using income data in establishing rents.

Response

The Real Estate Division of Housing and Business Resources Administration has been assigned the function of coordinating data collected by the several DHCD offices relative to setting rents, and recommending the amount of rent to be set for all RLA properties. Income data (income verification forms) are obtained from tenants by the Family Resources Division and the Business Resources Division, and will be reviewed periodically as part of the current review in accordance with the schedule shown above.

Recommendation

Review rents periodically for possible adjustment.

Response

See above.

Recommendation

Require adequate documentation for all rent actions.

Response

The basic records on income, to support rent actions, will be maintained by the Family Resources Division, Business Resources Division (HBRA). Property Management Administration will continue to maintain lease records. The necessary data will be furnished to the Real Estate Division (HBRA) in conformance with the schedule shown above and at other times on an as-needed basis to make rent determinations and adjustments. The Real Estate Division will maintain the documents on rent actions.

Recommendation

Include temporary tenants in all rent establishment and adjustment procedures.

Response

Temporary tenants are included in the rent establishment procedures mentioned above.

UTILITIESRecommendation

Periodically update utility allowances.

Response: Public Housing

PMA increased utility allowances effective April 1, 1977, under the NCHA Order No. 77-3. The procedures provide for increases in utility allowances, whenever the utility companies are granted increases in rates.

Response: Urban Renewal

Utility allowances for tenants on meters with other tenants will be for private utilities (not sewer and water which will continue to be paid by the Agency). Such allowances will be updated as part of the current review, and at the time of the periodic review of rents.

Recommendation

Base urban renewal tenants utility allowance on consumption instead of rent.

Response: Urban Renewal

The revised rent establishment policy and procedures will address basing utility allowances, for those who pay for their own utilities, on consumption instead of rent.

Recommendation

Assure that tenants pay for their own utilities, whenever possible.

Response: Public Housing

The PMA staff is currently making a cost-benefit analysis to determine whether individual metering is economically feasible. Preliminary findings indicate that it is, and that it will result in substantial benefit following the initial conversion. It is anticipated that the analysis will be completed in February, after which the findings will be submitted to HUD, and an action plan developed.

Response: Urban Renewal

We will analyze the impact of requiring tenants in units separately metered to pay their own private utilities, in the future. The current review will include consideration of changes needed in prior practices. With respect to multi-tenant single-meter situations, separation of meters would not appear to be cost effective because of the temporary nature of our management of these properties. However, utility consumption will be considered in setting the appraised or fair rent.

There is a serious issue with respect to utility charges and allowances that must be resolved as part of the policy revision. This issue is a potential conflict in the GAO

recommendations of (a) increasing rent by basing them on appraisals, making tenants pay their own utilities, and giving utility allowances based on consumption; and (b) the requirement that residential tenants must pay no more than 25% of income for rent. Typically, the residents of acquired property have low or very low incomes. The rent at 25% plus utilities could result in a very high percentage of income being paid for shelter. The rent reduced by a utility allowance to a total of 25% could in view of the high cost of utilities result in no rent and the utility cost alone exceeding 25% of income.

This issue will require intensive legal and management attention, and will be addressed as part of the policy and procedure revision.

Recommendation

Charge tenants who do not pay their own utilities for consumption above normal, such as for additional major appliances.

Response: Public Housing

The NCHA lease was revised effective July 9, 1976 (NCHA Order No. 76-12) with a provision authorizing charges for tenant supplied appliances. The rates for the extra charges were published in the D.C. Register on June 10, 1977, as an emergency adoption. The final regulation was adopted as NCHA Order No. 77-9 and published in the D.C. Register September 30, 1977. The program for assessing charges to tenants' accounts was implemented on September 1, 1977, as part of the standard policies and procedures of NCHA.

Response: Urban Renewal

As stated above, consumption experience will be a basis for utility charges as part of rent paid by tenants who are not on separate meters. However, in view of the temporary nature of urban renewal property management, a sur-charge system for additional major appliances may not be cost-beneficial, but will be considered in the revision of the policy and procedures.

Recommendation

Complete cost-benefit studies for converting master metering in buildings to individual or check meters and establish an action plan to implement the most beneficial findings.

Response: Public Housing

See above.

Response: Urban Renewal

See above.

PRINCIPAL DISTRICT OF COLUMBIA
OFFICIALS CONCERNED WITH ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
MAYOR (note a): Walter E. Washington	Nov. 1967	Present
DIRECTOR, DEPARTMENT OF HOUSING AND COMMUNITY DE- VELOPMENT: Lorenzo W. Jacobs	July 1975	Present
EXECUTIVE DIRECTOR, NATIONAL CAPITAL HOUSING AUTHORITY (note b): Monteria Ivey, Sr. (acting) James G. Banks	July 1971 May 1971	July 1975 June 1974
EXECUTIVE DIRECTOR, D.C. RE- DEVELOPMENT LAND AGENCY (note b): Melvin A. Mister	Jan. 1973	July 1975

a/Position was entitled Commissioner until Jan. 2, 1975.

b/Agencies were consolidated into Department of Housing and Community Development in July 1975 under District of Columbia Reorganization Plan III.