U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

April 1, 2016

Dear Public Housing Authority Executive Director,

I am writing today to provide an update on HUD's response to OIG Audit 2014-LA-0004, "HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees And Did Not Adequately Monitor Central Office Cost Centers."

After a challenging two-year effort, HUD has recently reached a final resolution with the IG on the management decision for this audit. No changes are required by PHAs at this time, but we wanted to make you aware of this matter for planning purposes.

In the audit, the OIG concluded that HUD could not adequately support the reasonableness of several fee limits in the public housing program, including the management, bookkeeping, asset management and Capital Fund management fees. The audit also reported that HUD lacked adequate justification for allowing Public Housing Agencies (PHAs) to charge an asset management fee, and that HUD did not adequately monitor PHA Central Office Cost Center (COCC) fee charges. In their report, the OIG recommended that HUD:

- Eliminate the asset management fee;
- Revise the asset management policy to "re-federalize" the fees paid into the COCC; and
- Create policies and procedures for the assessment and monitoring of the fees.

Regarding the ability of PHAs to charge an asset management fee, HUD demonstrated the need that PHAs have for the asset management fee. Specifically, HUD emphasized to the OIG that PHAs use the asset management fees to fund much-needed functions, including strategic planning, risk management, asset disposition, acquisition, and development. I am pleased to report that the OIG ultimately agreed not to pursue their recommendation to eliminate asset management fees.

As for the OIG's recommendation to re-federalize fees paid into the COCC, HUD will be initiating rulemaking to implement this change. This will mean that Section 8 (HCV) and 9 (Operating Fund and Capital Fund) funded fees that paid into the COCC will be limited to authorized Section 8 and 9 uses and eligible activities. Once paid into the COCC, these fees will become fully fungible and available for any Section 8 and 9 allowable uses, providing some flexibility to PHAs. Any non-federal fees paid to the COCC will still be considered non-federal, and remain subject to state, local and PHA-allowed activities, but will need to be tracked separately. This change only affects PHAs currently utilizing a COCC, and not those using a cost allocation method.

The Department understands this is a significant change to how many PHAs account for their expenses, so HUD will provide guidance and develop written procedures, through the aforementioned rulemaking, which will begin later this year. We hope that all affected PHAs will provide comments about how these policies and procedures should be structured.

In working with the OIG on this matter, HUD reached the best agreement possible, to resolve the outstanding audit recommendations while preserving a degree of flexibility for PHAs. As the process progresses toward a final rule by no later than December 2017, please watch for additional information and for opportunities to provide comments.

Thank you again for all you do to serve the affordable housing needs of your community.

Sincerely,

Milan Ozdinec

Milan M. Ozdinec
Deputy Assistant Secretary
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