
CHAPTER 15. PROJECT MONITORING

Section 1. Introduction

15-1. INTRODUCTION. The owner of a HUD-assisted project is responsible for providing management and maintenance of the project in conformance with HUD regulations, the subsidy contract, and administrative requirements. The contract administrator must provide oversight management of the project owner and management agent to assure compliance with the terms of the subsidy contract, HUD Regulatory Agreement, applicable HUD regulations, and other administrative requirements. The contract administrator must monitor the owner/management agent to assure that the owner has complied with the requirements as described in this Handbook and other handbooks referenced herein. A Checklist for Monitoring Projects with Subsidy Contracts that must be used by both State Agency/PHA and HUD as contract administrator is found in Appendix 14. This Checklist should be updated each time an action item is completed on the project and a copy should be maintained in the project file. It is not necessary to create a new Checklist each time an action item is completed.

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Section 2. Administrative Fees

15-2. GENERAL. These instructions are published for the purpose of providing a method for adjusting the Section 8 contract administrators fee for the remainder of the 1994 fiscal year, as well as a method to determine any increases in administrative fees in the future. These instructions apply to Section 8 New Construction and Substantial Rehabilitation (under Parts 880, 881, 883, 884 and 885) projects. Part 883 allows a State Agency a reasonable fee for administering a contract on Section 8 New Construction or Substantial Rehabilitation projects provided there is no override on the permanent loan granted by the Agency to the owner for a project containing assisted units.

15-3. BACKGROUND. Prior to publication of these instructions, administrative fees were determined by applying 3 percent to the most recent published Section 8 New Construction Fair Market Rents (FMRs) for a two-bedroom unit in the area where the project is located. HUD has not published FMRs for Section 8 New Construction and Substantial Rehabilitation projects since April 1991.

Subsequent to 1991, there has been no method for increasing administrative fees for contract administrators.

- 15-4. ESTABLISHING BASE FOR DETERMINING ADMINISTRATIVE FEES FOR THE CONTRACT ADMINISTRATOR'S 1994 FISCAL YEAR. To determine the "base" for the remainder of the contract administrator's 1994 fiscal year, the contract administrator must use the unweighted average of the Section 8 New Construction FMRS published in April 1991 for two-bedroom units in the area where the project is located and apply the Section 8 Annual Adjustment Factor (AAF) for the years 1992, 1993, and 1994 (See hypothetical calculations shown in Exhibit 15-1). During the remainder of the contract administrator's 1994 fiscal year, the monthly administrative fee per unit per month is established by applying 3 percent to the base. The contract administrator may charge this new administrative fee for the remaining months in the contract administrator's 1994 fiscal year.
- 15-5. DETERMINING ADMINISTRATIVE FEES FOR THE CONTRACT ADMINISTRATOR'S 1995 FISCAL YEAR. To determine administrative fees for the contract administrator's 1995 fiscal year, the contract administrator will apply the Section 8 AAF in effect on the first day of the fiscal year to the 1994 base to establish the base for the 1995 fiscal year. The administrative fee per unit per month for 1995 is determined by applying 3 percent to the base for 1995 (See hypothetical calculations shown in Exhibit 15-2).
- 15-6. DETERMINING FUTURE ADMINISTRATIVE FEES. Future adjustments shall be effective upon the first day of the beginning of the contract administrator's fiscal year. The monthly administrative fee for each unit under HAP contract is determined by, first, multiplying the fee base for the contract administrator's preceding fiscal year by the AAF in effect on the first day of the fiscal year, and second, applying 3 percent to this amount. The contract administrator must follow steps outlined in paragraph 15.5. above and as demonstrated in Exhibit 15-2.

Section 3. Owner Responsibilities

- 15-7. OWNER RESPONSIBILITIES. Responsibilities of the owner shall include, but not be limited to:

- A. MARKETING units and selecting families in accordance with HUD occupancy guidelines as described in HUD Handbook 4350.3, and a HUD-approved Affirmative Fair Housing Marketing Plan;
- B. MAINTAINING AND OPERATING the project in a decent, safe, and sanitary manner, and in conformance with housing quality standards;
- C. VERIFICATION OF TENANT INCOME and social security numbers; including annual and interim, where necessary, and reexamination of family income and composition;
- D. COLLECTION OF TENANTS RENTS:
- E. ESTABLISHMENT AND MAINTENANCE OF PROJECT ACCOUNTS, books and records in accordance with HUD requirements;
- F. ACQUIRE AND MAINTAIN FLOOD INSURANCE in force on projects located in special flood hazard areas.
- G. COMPLIANCE WITH REGULATORY REQUIREMENTS governing the management of HUD-insured and HUD-assisted projects.

Section 4. Contract Administrator Responsibilities

15-8. CONTRACT ADMINISTRATOR RESPONSIBILITIES. In addition to the responsibilities described in this Handbook, the contract administrator must:

- A. ASSESS THE PROJECT'S OPERATING POLICIES and procedures, and interview management agent and project employees to be sure that the owner/management agent and staff understand their roles and responsibilities to the project. The contract administrator, through on-site visits, interviews with the owner, management agent, and project staff, should:
 - 1. determine if the owner/management agent has a management plan, operating manuals, job descriptions, and/or internal memoranda describing employees and project staff responsibilities;
 - 2. determine if there is evidence that actual management practices differ from written instructions and/or the management plan;

- 3. determine if the owner/management agent has an

adequate system of recordkeeping. Expenditures should be documented with the appropriate invoices;

4. determine if the owner/management agent has a procurement policy and is using cost-cutting measures, such as bulk purchasing and is taking advantage of discounts.
 5. assess the owner/management agent's current level and pattern of staffing to determine if there are sufficient staff and supportive services to provide adequate management and maintenance of the project. Is staff adequately trained in their area of responsibility, provided with the necessary HUD Handbooks and written office procedures and instructions?
 6. determine if copies of the applicable HUD program Handbooks (e.g., 4350.1, Insured Servicing Handbook, 4350.3, Occupancy Handbook for Subsidized Projects, 4350.2, Section 8 Loan Management Set Aside, etc.) are available and accessible to staff, and are being used by staff.
- B. DETERMINE IF THERE ARE KNOWN OR SUSPECTED FRAUDULENT practices, waste, or mismanagement. If the contract administrator discovers waste, fraud, and/or mismanagement, the owner must be notified of corrective actions that must be implemented within established timeframes. If the owner does not respond within the timeframes established, the contract administrator must inform the owner of regulatory violations, and determine the appropriate enforcement tools that could be used to bring the owner into compliance, including, but not limited to, denying withdrawals from the reserve for replacement account, or requesting the HUD Field Office to temporarily deny or suspend the owner's or management agent's participation in HUD Programs.
- C. ENSURE THAT RENT INCREASE REQUESTS ARE SUBMITTED in a timely manner. The contract administrator must verify that the owner/management agent has submitted all of the appropriate supporting data for budgeted rent increases.

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- D. REVIEW PROJECT OPERATING BUDGETS, to determine if expenditures are exceeding the amounts established in

the approved project budget.

- E. REVIEW PROCEDURES FOR COLLECTING RENTS, and be sure the owner/management agent identifies and tracks delinquencies, follows up on delinquent accounts, and evicts delinquent tenants when necessary.
- F. DETERMINE IF THE VACANCY RATE is comparable to other projects in the area. If there is high turnover, the contract administrator should review tenant selection and screening policies, management's responsiveness to tenant complaints and repair requests, and the quality of management provided to the tenants.
- G. REVIEW THE REQUESTS FOR RESERVE FOR REPLACEMENT withdrawals. If the requests for withdrawals from the replacement funds are more frequent than projects of comparable size in the market area, the contract administrator should review the project's preventive maintenance procedures and the quality of goods purchased.
- H. VERIFY THAT THE OWNER/MANAGEMENT AGENT IS SCREENING and selecting tenants in accordance with instructions and requirements set forth in HUD Handbook 4350.3, Occupancy Handbook for Subsidized Housing.
- I. VERIFY THAT THE OWNER IS MANAGING THE MANDATORY MEALS program in accordance with instructions in HUD Handbook 4350.1, Chapter 31. The contract administrator must review the meals agreement and verify that the project owner is charging tenants the amount approved by the HUD Field Office, and that the owner provided the tenants with a 30-day advance notice of approved increases in the meals charge.
- J. VERIFY THAT HOUSE RULES FOR PET OWNERSHIP have been established at projects for the elderly or handicapped in accordance with instructions in HUD Handbook 4350.1, Chapter 32. Verify that the owner has included in the lease agreement, provisions for pet ownership, inspections, and health and safety issues related to pet ownership. Verify that the project owner is requiring the tenants to pay the appropriate refundable pet deposit.

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- K. REVIEW FORM HUD-52684, REPORT ON SECTION 8 PROGRAM UTILIZATION, for each project, along with rent rolls,

monthly vouchers, and other project records, to determine the amount of assisted units and Section 8 contract authority used by the project owner. In cases where the project owner is not utilizing 100% of the Section 8 contract authority, verify that all unused funds have been returned to HUD.

- L. VERIFY THAT DISTRIBUTIONS TO THE PROJECT OWNER are in accordance with the provisions described in HUD Handbook 4370.1 Rev-1, Reviewing Annual and Monthly Financial Reports.
- M. REVIEW THE ADJUSTMENT OF UTILITY ALLOWANCES and verify that the adjustment has been calculated in accordance with instructions in HUD Handbook 4350.1, Chapter 7.
- N. REVIEW AND APPEAL PROJECT PROPERTY TAX levels as necessary.
- O. ENSURE CURRENT PURCHASE OF FLOOD INSURANCE UNDER THE NATIONAL FLOOD INSURANCE PROGRAM for those projects with subsidy requiring such flood insurance. Under Section 102(a) of the Flood Disaster Protection Act of 1973, purchase of such insurance is required during the economic or useful life of the project (or, in the case of a loan or loan insurance, the term of the loan), under programs of financial assistance for acquisition or construction purposes (including rehabilitation).
- P. REVIEW SECTION 8 SPECIAL CLAIMS VOUCHERS in accordance with Chapter 6 of HUD Handbook 4350.3. Appeal of a denial of a request for vacancy losses is initiated at the field Office level. The first appeal is submitted to the Field Office which initially processed the denial, but to an official of the Field Office at least one level higher than the denying official. The second level of appeal is to the Regional Director of Housing. Any appeal rendered by the Regional Director of Housing will be final and will not be subject to further appeal above that level.

15-9. ON-SITE REVIEWS of HUD-subsidized projects must be conducted in accordance with Chapter 6 of HUD Handbook 4350.1. The on-site review is essential to the contract administrator's monitoring of the project owner and must be performed on

HUD-insured and HUD-subsidized projects. The on-site review must be a comprehensive examination of the project's

operations through management reviews and physical inspections. On-site reviews will assist the contract administrator in identifying deficiencies in the project's physical condition and/or operating procedures. The project owner is responsible for providing appropriate management services, maintenance and repair of the project. The contract administrator must ensure compliance of owners and management agents with the regulatory requirements of HUD programs, especially regarding the physical condition and management of HUD insured and HUD assisted properties. The results of the on-site reviews can also provide documentation to support enforcement actions when owners and management agents will not voluntarily implement corrective actions. The contract administrator must perform the following types of on-site project reviews: 1) physical inspections, 2) management reviews, and unit inspections.

A. MANAGEMENT REVIEWS. On-site management reviews will focus primarily on the efficiency and effectiveness of the project's operating policies and procedures. Management reviews evaluate the procedures for directing and overseeing project operations and the adequacy of both the procedures for carrying out day-to-day, front-line activities (e.g., maintenance, security, leasing, occupancy, financial management, and general management practices). The contract administrator must use Form HUD-9834, Management Reviews of Multifamily Projects (Appendix 15), to summarize and report findings and to convey the review findings and recommendations to the owner/agent. In addition to scheduled management reviews, the contract administrator should conduct an on-site management review:

1. following a change in management agent;
2. when the result of remote monitoring desk reviews or other servicing activities indicate that physical, financial, or management problems exist and the extent or cause of the problems is not immediately apparent;
3. when the project is managed by an agent whose lack of performance is causing problems at other projects;

4. prior to approving a rent increase, or providing any mortgage relief;

5. prior to giving approval of a transfer of physical assets application;
 6. prior to approval of flexible subsidy funds; or
 7. as necessary, to monitor the owner's implementation of any required corrective actions or project improvement resulting from other reviews.
- B. PHYSICAL INSPECTIONS. The purpose of the physical inspection is to determine whether the owner is providing decent, safe, and sanitary housing. The physical inspection examines the condition of the project's buildings, grounds, and mechanical systems and assesses whether project management is completing preventive and corrective maintenance in a timely fashion. The contract administrator must use Form HUD-9822, Physical Inspection Report (Appendix 2), to summarize and report findings and to convey the physical inspection findings and recommendations to the owner/agent. If the owner fails to implement the required corrective actions and/or fails to comply with housing quality standards within the prescribed timeframe, the contract administrator may exercise any of its rights or remedies under the Section 8 HAP contract, including offsetting of housing assistance payments or termination of the Section 8 HAP contract.
- C. UNIT INSPECTIONS. A unit inspection must be performed annually on Section 8 units to determine compliance with housing quality standards as required under Section 8 Regulations. The unit inspection is intended to identify physical deficiencies in the unit that affect the health and safety of the occupants. Projects that do not meet housing quality standards will not be eligible to continue receiving Section 8 assistance. The unit inspection is not intended to identify all routine or preventive maintenance needs, nor to require the owner to modify schedules for routine replacement of items subject to normal wear and tear. The unit inspection must cover all vacant units and, at a minimum, 25% of occupied units. If the results of the review of the vacant units or of the 25% of project units indicate there are repeated violations

administrator must complete a unit inspection on 100% of the units. The Multifamily Unit Inspection Form (Form HUD-9602) found in Appendix is intended to be used primarily by the contract administrator conducting management reviews, physical inspections, or Section 8 Housing Quality Standards (HQS) inspections. The contract administrator may use a form equivalent to the Multifamily Unit Inspection Form, but it must include, at a minimum, those items listed on Form HUD-9602. The owner or management agent may choose to record the results of move-in and move-out inspections on the unit inspection form. Copies of the unit inspection reports must be maintained by the contract administrator for no less than three years for review by HUD Field Office and/or Headquarters staff during their monitoring of the contract administrator.

1. Multifamily projects were built or rehabilitated to HUD standards in effect when the project was approved for insurance or assistance. Therefore, the inspection process is not intended to require the owner to provide amenities that were not approved or required when the project was initially approved. However, owners must comply with requirements that affect the health and safety of project residents.
2. All amenities and components provided for when the project was approved for insurance or assistance must be in working condition. For example:
 - a. appliances must be in working condition;
 - b. windows designed to be opened must open and those that are accessible from the outside must have working locks;
 - c. HVAC system must provide adequate heating, cooling and ventilation;
 - d. plumbing system must be operable;
 - e. walls, ceilings, and floors must be free from hazardous conditions;

- f. smoke detectors must be present and in operating condition (see Handbook 4350.1 REV-1, Ch. 35, entitled Smoke Detectors, for

- specific HUD requirements in this area);
- g. all electrical outlets must work and be free from hazards;
 - h. entry doors, handrails, and guard rails must be sound and secure.
3. The inspector must use the inspection form to rate unit conditions in one of four categories:
- a. Good. This rating is intended to be used to identify elements that are in notably good condition.
 - b. Acceptable. The contract administrator is required to determine if the condition of the elements listed are acceptable or require one of the actions identified in Action Required or Immediate Action Required described below.
 - c. Action Required. This category includes unit deficiencies that should be repaired or replaced but do not represent an immediate hazardous condition. Examples of such deficiencies would be minor leaks, some burners not working on a stove, windows cracked or not weather tight, etc.
 - d. Immediate Action Required. This category includes unit deficiencies that pose an immediate threat to the health or safety of unit occupants. Examples of such deficiencies include: electrical hazards, tripping, or falling hazards; unit not secure, etc.
4. For each deficiency, the inspector must establish a target date for completion of repairs. The target dates should be discussed with the owner or management agent in an exit meeting before the inspector leaves the project.

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- a. For Action Required items, 30 days is the generally accepted practice. The time may be extended if the owner can demonstrate that the action is scheduled within a reasonable period as part of an overall maintenance

program or provide other good reason for an extension.

- b. For Immediate Action Required items, 72 hours is the generally accepted practice. If a serious condition covering health and safety items cannot be corrected immediately, consideration must be given to relocating the resident to another unit.
 - c. If correction of all unit deficiencies will take more than 30 days, the inspector must specify dates for periodic status reports on the owner's progress in making corrections.
5. When corrections have been made, the owner must notify the contract administrator and certify that the required corrections have been made and the date the corrections were made.
 6. The owner is responsible for correcting deficiencies, even if they were the result of tenant neglect or abuse. In accordance with the tenant's lease, the owner may require the tenant to pay for the cost of the repairs.
 7. The owner must send a letter to the tenant identifying the corrective actions that have been taken and informing the tenant that continued damage, abuse or neglect constitutes material non-compliance with the lease. A copy of this letter to the tenant must be attached to the certification of completion.
 8. The contract administrator must establish and maintain a tracking system for periodically following up on required corrections.

15-10.REMOTE MONITORING. Information received from remote monitoring (desk reviews of certain documents, such as, but not limited to, annual financial statements, rent increase requests, requests for withdrawal from reserve for

replacements, tenant complaints regarding project management, occupancy/vacancy reports, monthly accounting reports, operating budgets, etc.) must be analyzed and used to assess the performance of the owner and management agent. Effective remote monitoring by frequent desk reviews of

these various reports will enable the contract administrator to measure the project's overall performance and possibly prevent problems before they arise. In addition to the scheduled on-site reviews, if the results of the remote monitoring indicate a need for an on-site review, the contract administrator must schedule and conduct the appropriate review.

- A. ANNUAL AUDITED FINANCIAL STATEMENTS must be prepared in the form as described in IG Handbook 2000.4, Consolidated Audit Guide for Audits of HUD Programs. The owner must submit the annual financial statement to the HUD Field Office within 60 days after the end of the project's fiscal year. The report must be audited by a certified public accountant or an independent public accountant. The annual audited financial statement must be received and reviewed by the HUD Field Office staff in accordance with instructions contained in HUD Handbook 4370.1, Reviewing Annual and Monthly Financial Reports. The review of the annual financial statement must a) determine how reasonable project expenses are, b) evaluate management's rent collection practices, and c) analyze the project's liquidity and cash flow. If review by the contract administrator discloses adverse findings, such as misuse of project funds, unauthorized owner distributions, inadequate recordkeeping, etc., the Field Office must notify the owner and recommend corrective actions. A list of corrective actions and enforcement tools is found in HUD Handbook 4370.1, Chapter 2.
- B. ALLOWABLE DISTRIBUTION IN SECTION 8 PROJECTS. The review of the annual audit report should include a determination that the project owner has taken the appropriate owner distribution. As long as the project owner is in compliance with the provisions of the Section 8 HAP contract, project funds may be distributed to limited dividend owners and profit-motivated owners semi-annually or at the end of each fiscal year of project operation, after all project expenses have been paid and reserve for replacement

requirements have been met. Instructions for the computation of surplus cash, distributions, and residual receipts are found in HUD Handbook 4370.1 Rev. 1, Reviewing Annual and Monthly Financial Reports. Non-profit project owners are not entitled to

distributions of project funds.

- C. MONTHLY ACCOUNTING REPORTS, where applicable, must be submitted by the owner under the conditions described in Chapter 3 of HUD Handbook 4370.1. The contract administrator must review the monthly accounting reports to, among other things, measure rent collection practices, analyze cash flow, track vacancies and delinquencies, determine when tenants' security deposits are underfunded, recognize increases in accounts payable, etc. If it is determined that the owner is not in compliance with HUD requirements, or performance problems are noted, or questionable disbursements exist, the contract administrator must notify the owner of the results of the review and recommend the appropriate corrective actions. A list of corrective actions is found in HUD Handbook 4370.1, Chapter 3.

- D. OCCUPANCY REPORTS and rent rolls should be reviewed to measure the turnover and vacancy rate at the project and to determine how effective the management agent is in readying vacant units for occupancy. If the actual rents collected have consistently failed to meet rent potential, the contract administrator must require the owner to 1) explain the cause of the vacancies and/or turnover and 2) describe what corrective action is planned to address the problem(s).

- E. TENANT COMPLAINTS regarding the performance of the owner and management agent must be reviewed by the contract administrator. If it is determined that persistent problems exist and repeated complaints are received from the tenants, the contract administrator must contact the owner to determine the appropriate corrective action. The contract administrator should actively monitor the owner's response to tenant complaints to ensure prompt resolution.

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EXHIBIT 15-1

Fiscal Year 1994: Example of Method for Establishing the Fee Base and Administrative Fees for a 100 unit Section 8 New Construction or Substantial Rehabilitation project

Average Section 8 New Construction and Substantial Rehabilitation Fair Market Rent for two-bedroom unit in project area as of 1991

\$500.00

1992 Annual Adjustment Factor for project area	x	1.02	
			<hr/>
		=	\$510.00
1993 Annual Adjustment Factor for project area	x	1.03	
			<hr/>
		=	\$525.30
1994 Annual Adjustment Factor for project area	x	1.04	
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Base for 1994		=	\$546.31
Administrative Fee (3%)	x	3%	
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Administrative Fee per unit per month			\$16.39
Number of units in project under contract	x	100	
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New Monthly Administrative Fee for 1994			\$1,639
	x	12	
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New Annual Administrative Fee for 1994			\$19,668

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EXHIBIT 15-2

Fiscal Year 1995: Example of Method for Establishing the New Base Rent and Future Administrative Fees for a 100 unit Section 8 New Construction or Substantial Rehabilitation Project

Fee Base Rent for 1994		\$546.31
Annual Adjustment factor for 1995 (e.g., 1.05)	x	1.05
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New Fee Base for 1995		\$573.63
Administrative fee (3%)	x	3%
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Administrative fee per unit per month		\$17.21
Number of units in project under contract	x	100
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New Monthly Administrative Fee	\$1,721
	x 12
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New Annual Administrative Fee	\$20,652