



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

February 7, 2001

MEMORANDUM FOR: Performance-Based Section 8 Contract Administrators

THROUGH: Multifamily Hub Directors
HUD Contract Administration Oversight Monitors

FROM: Fred Tombar, Director
Office of Housing Assistance and Contract Administration Oversight

SUBJECT: Modification of Procedure for Payments under Multifamily Housing's
Performance-Based Section 8 Annual Contributions Contracts

In the course of developing instructions and systems support for a year-end settlement procedure for Multifamily Housing's performance-based Section 8 Annual Contributions Contracts (PB-ACCs), the Office of Multifamily Housing reevaluated the current process for disbursing scheduled payments and performing year-end settlements under its Section 8 performance-based ACCs. The current procedure of making monthly payments from a HUD-approved estimate, established via form HUD-52663, requires certain cumbersome accounting adjustments to assure accuracy of payments to project owners and to HUD's Loan Accounting System for contracts with offsets for mortgage payments. With the exception of adjustments for application of interest earned on Section 8 resources, these adjustments can be eliminated if HUD's payment is based on the actual subsidy due the owner instead of the HUD-52663 estimate.

Accordingly, Multifamily Housing plans to implement a modified procedure for managing payments under Multifamily PB-ACCs, which can be accommodated with minor modifications to current system capabilities. The revised procedures outlined in Section 3.0 of this memorandum will simplify the payment process, improve accounting control and eliminate complications associated with reconciling estimated payments to actual subsidies and mortgage loan offsets.

Contract administrators operating under statewide performance-based ACCs are hereby notified of modified payment procedures effective for the monthly vouchers payable April 1, 2001. Your immediate attention is directed to the revised procedures outlined in Section 3.0 below. Since April vouchers are submitted by project owners in advance, note that the new procedures will impact processing in the month of March 2001. Payment and year-end settlement procedures for ACCs other than Multifamily Housing's statewide performance-based contracts will not be affected by the procedural changes outlined in this memorandum.

The opportunity for comment and discussion of these modified payment procedures will be accommodated at the meeting of the National Council of State Housing Agencies in Washington, DC on February 7, 2001. If your agency will not be represented at this meeting and you would like to make comments, please send them by e-mail to HSNM_MF_FINANCIAL @ hud.gov. HUD will consider and respond to any comments received by Wednesday, February 14, 2001.

1.0 Current Payment Procedure

Currently, performance-based contract administrators (PB-CA) submit an annual requisition via form HUD-52663, Requisition for Partial Payment of Annual Contributions, for each Section 8 Housing Assistance Payments (HAP) contract assigned to the PB-CA under the PB-ACC. The HUD-52663 estimates monthly HAP subsidy payments based on the project's rents and average contributions from households in the project assisted under the HAP contract.

The PB-CA enters each HUD-52663 on-line in HUD's Line of Credit Control System (LOCCS) and the documents are approved by the Contract Administrator Oversight Monitor (CAOM) in the Multifamily Hub office responsible for the respective state jurisdiction. LOCCS schedules monthly payments to the PB-CA according to the monthly amounts on the approved requisition. Until modified by another approved requisition or contract action, LOCCS automatically pays the PB-CA on the 1st of every month according to the monthly estimates on the approved HUD-52663.

The PB-CA receives monthly requests for subsidy payments from each assisted project's owner/management agent (OA). After verifying accuracy of the requested subsidy payment, the PB-CA is responsible for paying the OA's monthly voucher from funds disbursed by LOCCS under the approved HUD-52663 annual requisition schedule. The actual OA payment approved by the PB-CA is not referenced by LOCCS and has no impact on the scheduled payment. However, the PB-CA must send the actual approved subsidy amount to Multifamily Housing's Tenant Rental Assistance Certification System (TRACS) Voucher/Payment Subsystem for information, budgeting and monitoring purposes.

At the end of the PB-CA's fiscal year, a year-end settlement is required to correct any differences between the LOCCS scheduled payments and the actual subsidy payments to OAs made by the PB-CA. A LOCCS year-end settlement process was planned using LOCCS payment data and supplemented by data entered by the PB-CA and data from TRACS.

2.0 Issues with the Current Procedure

In the current payment process, the HUD-52663 annual requisition schedule must be reviewed frequently and modified throughout the year to minimize the difference between cumulative annual contributions to the PB-CA and actual subsidy payments approved by the PB-CA and paid to the OA. The HUD-52663 reviews avoid the potential for substantial overpayments to a PB-CA where the annual requisition exceeds actual HAP subsidies calculated during the PB-CA's required review of the OA's monthly vouchers. CAOMs are responsible for monitoring disbursements under the HUD-52663 to assure that they are not outrunning actual payments to OAs by more than 5%.

Since a separate requisition exists for each HAP, these revisions to the HUD-52663 are likely to be a substantial workload for both PB-CAs and HUD. PB-CAs are required under contract performance standards to revise requisition schedules in LOCCS as frequently as necessary, and at least quarterly, in order to keep the Department's disbursements against the HUD-52663 compared to actual payments due the OA within the 105% maximum. Each revision to a HUD-52663 requisition in LOCCS must be approved in LOCCS by the HUD CAOM. Notwithstanding, the adjustments are deemed necessary for several reasons, including HUD's responsibility to ensure that payments under federal programs are not excessive and the need for consistency with the conservative methods by which HUD Budget resources for Multifamily Section 8 amendments and renewals are computed and allocated. Failure to keep scheduled PB-ACC annual contributions in line with actual subsidy payments would precipitate excessive cost amendments and obligations under amendment or renewal agreements which must be funded to cover HUD-52663 payment schedules.

The current process also adds to HUD and PB-CA workload by introducing the need for adjustments from LOCCS to the Loan Accounting System (LAS) for uncollected offsets. The need occurs whenever the amount approved and paid to an OA by the PB-CA is less than HUD's disbursement to the PB-CA against the annual requisition schedule and less than the amount of the offset to LAS for the mortgage payment. The difference between the approved subsidy payment to the OA and the offset amount transferred to LAS requires an adjustment that current procedures and systems do not support.

A series of adjustments are also required when the monthly estimate under a requisition schedule is less than the subsidy payment to the OA approved by PB-CA and that monthly estimate is less than the offset to LAS. A revision to the HUD-52663 is necessary when cumulative disbursements under the requisition schedule is less than cumulative approved subsidy payments to the OA. And since the offset is based on the scheduled disbursement to the PB-CA, an adjustment is required to LAS for the difference between the scheduled disbursement and the mortgage offset, limited by the actual subsidy payment approved. There may also be a separate collection from the OA required to satisfy a mortgage offset that is greater than the subsidy payment approved.

Another issue with the current procedure arises from the fact that annual requisitions and year-end settlements are based on the PB-CA's fiscal year, not on HUD's fiscal year. The timing of necessary cost amendments and contract renewals consistent with both of these budget cycles further complicates Housing's funding process, requiring greater effort on HUD's part to avoid delayed contract funding and payments. To add to the funding complexity, contract renewals are funded annually according to the anniversary date of the contract renewal, which is usually different from the PB-CA's fiscal year and the HUD fiscal year.

Finally, the potential exists for late payments during the transition between contract administration by HUD and assignment of the project to a PB-CA. Until a HUD-52663 requisition schedule is approved for a contract assigned to a PB CA, subsidy payments to the OA continue to be paid directly through the TRACS Voucher/Payment Subsystem and its interface with the LOCCS system. If the OA submits a current monthly voucher before a requisition has been approved, the voucher will be sent to LOCCS for payment to the OA. If the CAOM approves the requisition with disbursements scheduled in the same voucher month for which the OA has already submitted a voucher to TRACS, the pending payment is canceled and the scheduled disbursement is made to the PB-CA. But, the PB CA will not have the voucher to pay because the OA has sent the voucher directly to TRACS.

3.0 Revised Payment Procedures for PB-ACCs Effective for April, 2001 Payments

HUD plans to change the manner in which payments are made to PB-CAs under PB-ACCs beginning with disbursements for the month of April 2001. As of April 1, 2001, HUD will no longer automatically release payments to PB-CAs based on HUD-52663 Requisitions for Partial Payment of Annual Contributions approved in the LOCCS system. Instead, HUD will pay the PB-CA the amount which has been approved for payment to the OA and submitted to HUD by the PB-CA via the TRACS system. The PB-CA should receive payment on the 1st day of the applicable voucher month provided that the Monthly Activity Transmission for voucher payments (MAT-30) is received by TRACS by the 3rd business day prior to the 1st of the month. For transmissions received too late for payment on the 1st of the month, the PB-CA will receive payments on approximately the 3rd business day following TRACS receipt of the MAT-30 transmission.

The procedural changes outlined in this memorandum pertain exclusively to Multifamily Housing's performance-based ACCs awarded in Fiscal Year 2000 or after for statewide administration of Section 8 HAP contracts formerly administered by HUD. These changes do NOT apply to non-performance-based ACCs managed by the Department's Kansas City Financial Management Center and paid through the HUDCAPS accounting system.

Owner/agents are required to transmit Section 8 vouchers to the PB-CA in the TRACS MAT-30 format by the 10th of the month preceding the month to which the voucher applies. PB-CAs are required to review the OA's voucher, determine the actual amount to be paid to the project, and transmit the results of their voucher reviews to HUD's TRACS system. Under this revised procedure to be effective for April 1, 2001 disbursements, the PB-CA's transmission of the approved subsidy amount will trigger HUD's payment to the PB-CA. HUD will pay the approved monthly voucher total instead of the subsidy estimate on the HUD-52663 annual requisition.

Because vouchers for Section 8 subsidy are received in advance, this procedural change will affect processing in the month of March 2001. PB-CAs should receive OAs' vouchers for April 2001 subsidy payments by March 10th. **Under this revised procedure, the PB-CA must transmit approved April vouchers to HUD as soon as possible after voucher review. Voucher transmissions received by TRACS from the PB-CA by the 3rd business day prior to April 1st will be processed for payment on April 1st.** If an OA's voucher is received by the PB-CA after March 10th with insufficient time for the PB-CA's voucher review and submission to HUD by the deadline for HUD payment on April 1st, then HUD will make the disbursement on approximately the 3rd business day following receipt of the approved voucher from the PB-CA.

Scheduled disbursements under forms HUD-52663 in LOCCS will no longer be made as of April 1, 2001 for Section 8 contracts administered under Multifamily Housing's statewide performance-based ACCs. Only NON-performance-based ACCs managed by the Department's Kansas City Financial Management Center and paid through the HUDCAPS accounting system will continue to be paid according to their HUD-52663 requisitions.

Notwithstanding the change in payment source for monthly HUD disbursements under PB-ACCs, the approved form HUD-52663 in the LOCCS system remains a requirement. The annual requisition is the means by which the PB-CA informs HUD of anticipated subsidy requirements for budget and funding purposes. No payments will be made by HUD to a PB-CA under the PB-ACC for voucher months in any given PB-CA fiscal year unless and until there is an approved HUD-52663 annual requisition in LOCCS for that fiscal year. HUD-52663 forms for Section 8 HAP contracts administered under the PB-ACC should be entered in LOCCS 90 days before the beginning of each PB-CA fiscal year. The requirement that the form HUD-52663 annual requisition not exceed 105% of actual subsidy payments for the entire housing authority fiscal year will also remain; however, the current requirement to meet the 105% test on a quarterly basis will be eliminated as of April 1, 2001.

Implementation of the revised procedure described in this memorandum should not have a significant adverse effect on operations or the timeliness of Section 8 payments under PB-ACCs. The requirement for PB-CAs to submit actual vouchers to TRACS already exists and the capability to do so was a qualifying requirement in the Request for Proposal (RFP) under which the PB-ACCs were awarded. However, the revised procedure does place added importance on the timing and timeliness of the PB-CA's voucher reviews and TRACS MAT-30 transmissions. A summary of the changes announced in this memorandum is attached for your convenience.

4.0 Anticipated Benefits of Revised Procedures

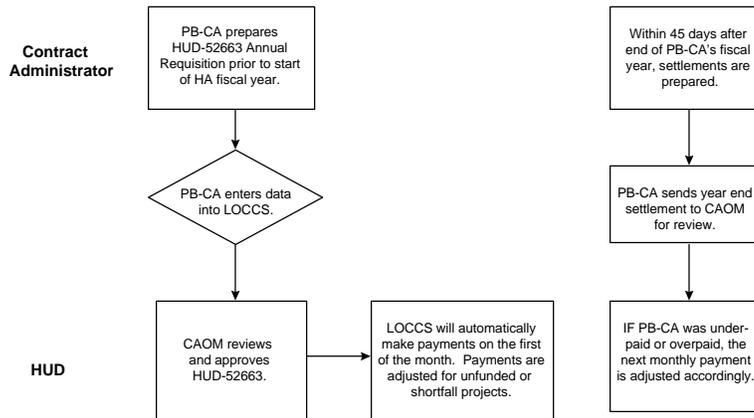
The changes in procedure outlined in this memorandum will be beneficial in several respects. Among them are these:

- Substantial reduction in workload required to modify form HUD-52663 throughout the year.
- Differences between HUD payment to PB-CA and amount due to the project are eliminated. The need to monitor and reconcile differences is also eliminated.
- Adjustments for occasions when approved payments to project owners are greater than HUD payments to PB-CA under form HUD-52663.
- No need for cumbersome long-term procedures to adjust for approved payments that are less than corresponding offset amounts.
- Smoother transition of contracts from HUD-administered to PB-CA administration because LOCCS can pay any vouchers pending from the owner/agent, with notification to OA through current messaging system that future vouchers must be submitted to TRACS through PB-CA.
- Less complicated HUD funding procedures.

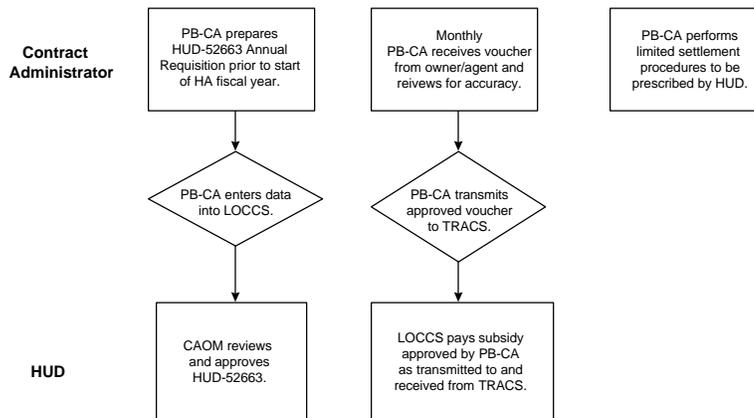
We believe that the benefits of the planned change in procedures are worth the effort required to make the change. Your cooperation in making the transition is greatly appreciated.

Attachments

**Flow of Current Payment Procedure for
Performance-Based Annual Contributions Contracts (PB-ACCs)**



**Flow of Modified Payment Procedure for
Performance-Based Annual Contributions Contracts (PB-ACCs)**



SUMMARY OF CHANGE IN PERFORMANCE-BASED ACC PAYMENT PROCEDURES EFFECTIVE APRIL 1, 2001

CURRENT PROCEDURE	REVISED PROCEDURE (for 4/1/2001 PB-CA Advances)
For each PB-CA fiscal year, Form HUD-52663 Annual Requisition must be approved in LOCCS for payments to be made to PB-CA under PB-ACC.	(No change) For each PB-CA fiscal year, Form HUD-52663 Annual Requisition must be approved in LOCCS for payments to be made to PB-CA under PB-ACC.
Payments to PB-CAs are according to monthly schedule on approved HUD-52663 in the LOCCS system.	Payments to PB-CAs will be based on actual approved subsidy reported by the PB-CA via monthly TRACS MAT-30 voucher transmissions.
PB-CAs are required to submit subsidy amounts approved for payment to project owners via TRACS Monthly Activity Transmission format (MAT-30). Actual approved payments do not affect LOCCS scheduled disbursements to PB-CA against HUD-52663.	PB-CAs are required to submit subsidy amounts approved for payment to project owners via TRACS Monthly Activity Transmission (MAT-30). However, HUD pays PB-CA the approved voucher amount within approximately three (3) business days after MAT-30 receipt or the 1 st of the voucher month, whichever is later. The MAT-30 must be received from PB-CA in order for HUD to make monthly disbursement; HUD-52663 no longer controls HUD payments to PB-CA.
Cumulative payments under HUD-52663 must be reviewed at least quarterly against actual subsidy approved for PB-CA payment to project owner and must not exceed 105% of corresponding actuals as of the end of each quarter.	Quarterly performance standard that payments under HUD-52663 not exceed by more than 5% actual subsidy approved for PB-CA payment to project owner is no longer required. 105% test is performed and required at the end of fiscal year only.
HUD-52663 must be revised and approved by CAOM each time the quarterly review reveals that payments under a HUD-52663 will exceed 105% of actual payments, and perhaps more frequently if the HUD-52663 monthly estimate is insufficient to cover actual subsidy payments.	The requirement for reviews and revisions of HUD-52663 so that estimated subsidy payments do not exceed actual PB-CA approved payments to project owner by more than 5% is reduced to one time annually.
CAOMs must retrieve reports from TRACS and LOCCS and review on a monthly basis for determination of PB-CA fee LOCCS payments under the HUD-52663 schedule against approved PB-CA payments to project owners as reported by the PB-CA to TRACS.	Since LOCCS disbursements to PB-CA are determined by PB-CA's submission to TRACS of subsidy amounts approved for payment to project owners, the need for monthly comparison of TRACS and LOCCS data is eliminated.

Year-end settlement is required for each HAP contract under the PB-ACC in order to reconcile HUD payments against HUD-52663 to actual PB-CA subsidy payments to project owner. Year-end settlement procedure results in additional payment by HUD to PB-CA or HUD reimbursement by the PB-CA.

Requirement for annual reconciliation of HUD payments to PB-CA for each HAP contract under the PB-ACC to actual PB-CA subsidy payments to the project owner via Year-End Settlement, and resulting additional payment to PB-CA or HUD reimbursement by PB-CA, is no longer required. HUD will publish a revised year-end settlement procedure for PB-CAs far more limited in scope than the current settlement. The MAT-30 format is being revised for reporting and offset of interest earned on deposits of annual contributions as a miscellaneous entry on the voucher transmitted to TRACS.