

## Ensuring NAHMA Members Receive the Latest News and Analysis of Breaking Issues in Affordable Housing

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### NAHMA Survey: Impact of New HUD Audit Procedures on NAHMA Members

In an effort to receive additional feedback from our members concerning affordable rental housing issues, NAHMA has instituted the “NAHMA Member Question of the Month”. The June “Question of the Month” dealt with the impact of the changes made to the multifamily housing HUD audit guide.

#### Background

In July 2008, several changes were made to Chapter 3 (HUD Multifamily Housing Programs) of HUD Handbook 2000.04 REV-2 CHG-7, Consolidated Audit Guide for Audits of HUD Programs. These changes, effective Dec. 31, 2008, updated the old guide and implemented new violation detection procedures in order to improve the quality and accuracy of the audits.

NAHMA submitted comments in October 2008 to the Inspector General requesting HUD re-examine their new audit approach. We felt that the expanded audit procedures required *in each situation*, regardless of whether fraud is indicated, would increase audit costs and strain on the owner/agent’s staff time and resources.

The HUD Inspector General responded to NAHMA’s concerns in December 2008. While the IG’s office acknowledged that the audit would result in additional costs, they stated, “The audit quality of multifamily project audits must be improved and the revised audit guide must be implemented as written and as scheduled.”

#### Summary

Since the Chapter 3 audit changes became effective on December 31, 2008, NAHMA members have experienced the new procedures.

In June 2009, NAHMA asked our members how the new HUD audit requirements have impacted their properties and businesses. The survey consisted of three questions and was answered by 27 NAHMA members. **The majority saw increased costs, time, and resources used in conjunction with the new HUD audit requirements. About a quarter of respondents saw no change. No members saw a decrease in costs or resources in**

**conjunction with the audit requirements.** The results are based on NAHMA members' responses to an informal survey, and have not been independently verified by NAHMA.

The actual questions and responses from members follow.

**Question 1: What is the overall impact of the new HUD audit requirements in terms of added costs and/or staff resources? Please check all that apply.**

Increased added costs.	62%
Increased staff resources.	69%
Costs have remained the same.	23%
Staff resources have remained the same.	12%
Decreased added costs.	0%
Decreased staff resources.	0%
We have seen additional changes, please specify	15%

As NAHMA suggested in our comments to the HUD IG, our members report seeing a rise in costs and time associated with performing the audit. Almost 70% of respondents reported an increase in costs or staff time and resources because of the new HUD audit requirements. Interestingly, more people saw a rise in staff time and resources than additional costs of performing the audit.

**Question 2: If you have seen an increase in costs related to the new audit requirements, by how much have they increased?**

Decrease	0%
No change	33%
\$0-50k	54%
\$50-100k	8%
\$100-200k	0%
\$200-350k	0%
\$350-500k	4%
\$500k+	0%

Over half of NAHMA members who responded to the survey reported an increase in costs, up to \$50,000. Only three members saw audit costs increase above \$50,000. One member saw an increase of \$500 per property within their portfolio. One-third of NAHMA members responded that they saw no change in costs related to the new HUD audit. Again, no one reported a decrease in audit costs.

**Question 3: If you have seen an increase in staff resources related to the new audit requirements, by how much have they increased?**

Decrease	0%
No change	19%
0-5 hrs/week	50%
5-10 hrs/week	19%
10-20 hrs/week	8%
20+ hrs/week	4%

NAHMA members reported the greatest changes in fulfilling the new HUD audit guidelines were in terms of staff time and resources. Half of NAHMA survey respondents saw the amount of time staff spent on fulfilling the new audit guidelines increase by up to five hours a week. Five NAHMA members saw staff hours spent on the audit increase up to 10 hours a week. Two respondents saw their audit staff hours increase up to 20 hours a week. One member even saw the amount of time staff spent on the audit increase above 20 hours a week.

### **NAHMA Position**

While NAHMA is pleased to learn that the new audit requirements have not become a burden in terms of additional cost and resources to all members, we still remain concerned about the increased burdens reported by almost 70 percent of NAHMA members who responded to the survey. It appears that NAHMA's concerns of the new HUD audit requirements adding additional monetary, time, and resource burdens were well founded. What remains unclear at this time is whether the quality of the financial data has significantly improved as a result of the changes and, if so, whether improvements in financial reporting could be more cost-effectively achieved.

NAHMA will keep monitoring the situation and requesting HUD to make the audit procedures less burdensome. We plan to discuss this topic further during NAHMA's Fall Regulatory Affairs Meeting this October. Please contact Michelle Kitchen or Lauren Eardensohn with additional information on how the new audit procedures have affected your properties.