STATEMENT OF
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BEFORE THE SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON FINANCIAL SERVICES
U. S. HOUSE OF REPRESENTATIVES

RESULTS OF AUDIT ON THE HOUSING AUTHORITY OF NEW ORLEANS

Chairman Kelly, Ranking Member Gutierrez, and other Committee members, I appreciate the opportunity to appear before you today to discuss the results of our most recent audit on the Housing Authority of New Orleans. William Nixon, Assistant District Inspector General for Audit and several members of my New Orleans staff, including Senior Auditor Michelle Nuss, accompany me today.

Our most recent audit looked at three issues: First, the status of the Cooperative Endeavor Agreement; second, the Authority's progress in modernizing its housing stock; and third, how HUD had complied with a congressional request to create an Advisory Council for the Authority. I have made a copy of the report available to the Committee.

Cooperative Endeavor Agreement

Our May 2001 report noted HUD had continued the 2-year Cooperative Endeavor Agreement beyond its planned and contractual life. According to the Agreement, it should have terminated upon ***any*** of the following conditions:

1. December 31, 1996,

2. The removal of HANO from the troubled Public Housing Authority list, or

3. Agreement of the parties.

HUD removed HANO from the troubled list in December 1998. Thus, two of the three conditions have been met, and HUD should have terminated the Agreement. Yet, HUD and the City have extended it until December 31, 2003.

It is our view the Cooperative Endeavor Agreement has done little to improve HANO operations and the quality of housing has not significantly improved in the last 5 years. In fact, if HANO were a Section 8 landlord, its properties would flunk the Section 8 inspections and HUD would remove HANO as landlord. If HANO were a Section 8 landlord, HUD could prosecute it for failing to provide housing that meets contract standards.

Approximately a lustrum ago, I testified before the Subcommittee on Housing and Community Opportunity on the Housing Authority of New Orleans. At that time, the Office of Inspector General, the General Accounting Office, and many at HUD advocated the takeover of the Housing Authority. The problems cited at the time were the condition of the units, problems with procurement and modernization, Board interference, and the fact HANO had been on HUD's troubled list for the 17 years the "troubled" list had been in existence.

Instead of taking over the Authority, Secretary Cisneros entered into an unprecedented arrangement with the Mayor of New Orleans called the Cooperative Endeavor Agreement. Under the Agreement, the Assistant Secretary of HUD's Public and Indian Housing would assume the duties of the Board and HUD would contribute additional resources. The parties appointed Ronald Mason as an "Executive Monitor" to perform the Board's duties in the absence of the Assistant

Secretary. Mr. Ronald Mason was Tulane University's General Counsel. At the hearing, Secretary Cisneros could not provide an answer to the question of how long the Agreement would, or should last. To date, HUD has not provided a viable plan to indicate when it will terminate the Cooperative Endeavor Agreement.

Under a Memorandum of Understanding between the parties, HUD and HANO would reimburse Tulane for the Executive Monitor. This included salary and expenditures of Mr. Mason and his staff. In addition to the transition team and Executive Monitor, HUD also retained the services of Andersen Consulting. HUD expended a considerable amount of money to make this arrangement work. HUD's financial contributions to the CEA have exceeded $14 million.
To carry out his duties, HUD provided the Executive Monitor a budget for his salary, staff, and supplies. In January 2000, we issued a report on Moten & Associates, a subcontractor of the Executive Monitor (copy provided). The review disclosed the Executive Monitor violated federal regulations in obtaining the services of Moten & Associates. Further, Tulane paid $5,314 in ineligible travel costs and $421,760 in other unsupported costs. Neither HANO, the Executive Monitor, nor Moten & Associates could provide satisfactory evidence that Moten & Associates completed the tasks it was paid to perform. Consequently, we could not determine whether HANO derived a measurable benefit from the Moten & Associates contract.

HUD no longer classifies the Authority as troubled. However, as discussed in our report, HANO's removal from the troubled list is smoke and mirrors. After 5 years, the bottom line is there has been no significant improvement in the Authority's housing stock. HUD has confirmed HANO will again be classified as troubled under its new Public Housing Assessment System. Further, of HUD's ten conventional projects, three have qualified for HOPE VI funding because they meet the definition of distressed projects, and four qualify as Section 202 properties. As Secretary Cisneros said in 1996, HANO needs a continuous flow of modernization money to start on what he thought was an $800 million project back then.

We did not inspect units for our most recent audit; however, we did take a few photos at the conventional sites for this hearing, which I would like to share with the Committee.

1. This first photo is of an occupied building at the corner of Senate and Hamburg at St. Bernard. Half of the building is occupied; the other half, according to a resident, has been under renovation off and on since 1998 or 1999.

2. This picture shows an abandoned building at C. J. Peete. The building is located at 2905 Willow Street. Note the boards sticking up on the roof and the open and broken windows.

3. The third picture is of 508 St. Andrew Street in St. Thomas. The building's single tenant is a 70-year old woman. She has to climb three flights of stairs filled with trash and debris to enter her third floor apartment. Note that most of the windows and doors are not boarded.

4. This picture shows the ceiling of a stairwell in Iberville on Conti Street. The stairwell reeks of mildew. A resident told us dirty bath water leaks from the pipe in the ceiling anytime someone takes a bath. The leak has damaged the ceiling and walls. Water collects on the stairs, causing the stairs to rust and creating a safety hazard.

5. This stove is in a Fischer unit on Whitney Avenue. The resident told us only two burners work and that she has repeatedly reported the problem to HANO.

6. The next three images show a bathroom at another unit at Fischer, also on Whitney Avenue. The table in the bathtub is used to cover the hole in the wall. Bugs and insects were all over the bathroom when the resident removed the table for us. The smell seeping from the open spaces in the bathroom was horrible. The resident told us she has lived with this bathroom for 3 years and has repeatedly complained. She has been told HANO could not get to the problem because HANO only employs one plasterer. She also told us the smell from the bathroom walls and floor often makes her ill.

Modernization

Since 1992, HUD has made available to HANO some $800 million in total funding. We show the significant programs in the following chart.

Operating Subsidy	$313,000,000
CGP/CFP	279,000,000
Desire HOPE VI	44,000,000
St. Thomas HOPE VI	25,000,000
Fischer HOPE VI (planning)	400,000
Demolition Grant (C.J. Peete)	3,900,000
Demolition Grant (Desire)	3,000,000
Demolition Grant (Fischer)	1,600,000
Vacancy Reduction	8,500,000
Lead Based Paint Abatement	245,000
Drug Elimination Grants	20,800,000
ROC (Section 8 - regional)	1,400,000
Technical Assistance	1,155,000
Housing Assistance Payments	116,700,000
Cooperative Endeavor Agreement	14,000,000
	$832,700,000

The $800 million does not reflect the salaries and travel costs of HUD personnel and contractors of the "transition" and "target" teams and HOPE VI expeditors. I should also note, the operating subsidy includes some $1.6 million annually for "beautification" grants at the sites. With such resources available - close to $75,000 per unit, one has to question why progress is so slow. In our view, HANO's modernization and revitalization problems exceed its capacity. HANO has spent over $139 million in Capital Grant Funds in the last 8 years, but has not revitalized any of its ten conventional sites. Over half of the expenditures were for soft costs; e.g., management improvements, fees, salaries for technical and non-technical personnel engaged in the modernization of units and for other items categorized as soft costs. HANO plans to demolish 6,200 units. This will further exacerbate HANO's funding dilemma, as the demolition plan will decrease the Authority's future operating subsidies and capital funding. This may require HANO to transfer additional modernization funding to cover future operating deficits. According to the former Executive Monitor's report, demolition will reduce HANO's capital funding 18 percent. This will put increasing pressure on HANO to operate efficiently, something it has not done in the past. Further, the combinations of high soft costs to hard costs, and the inevitability of reduced capital and operating subsidy funding, further limit HANO's already diminished capacity to conduct a large-scale revitalization.

Four of HANO's conventional sites (B.W. Cooper, Fischer, Guste, and Florida) are subject to Section 202 requirements. Three sites (Desire, St.Thomas, and C.J.Peete) are already under approved revitalization and not subject to Section 202. At the Section 202 sites, HANO must relocate the residents and demolish the units. HUD has yet to formally require any HANO action regarding Section 202. However, HANO has suggested that HUD defer compliance with Section 202 for 10 years. In other words, HANO is asking its tenants at four of its sites to stay in substandard housing for 10 more years – that includes the bathroom we showed you earlier. Meanwhile, no real progress is being made at the sites approved for revitalization.

In 1998, we issued reports on HANO's Desire and St. Thomas HOPE VI projects. The audits concluded that HANO had not satisfactorily administered its HOPE VI grants. Specifically, HANO did not properly procure services, expend funds, plan its revitalization activities, or make adequate progress in implementing its revitalization and community and supportive services activities. At St. Thomas, HANO surrendered control over the developer selection. Five of the eight members on the selection panel were not Authority employees.

Advisory Council

Our report noted several problems with the Advisory Counsel. First, HUD had delayed starting the Counsel. Congress had requested the Advisory Counsel render a final report to Congress in August 2000. Instead, HUD's has delayed the process so Congress will not see the final report until December 2001. Second, HUD appointed two individuals to the counsel who were actively involved in the Authority's affairs. Thus they are in the position of advising on corrective actions when they participated in the primary decision making process. Lastly, HUD used the Advisory Council in its response to all three findings of our May report. HUD is taking the position it will wait for the Advisory Council before it takes any actions. The stated purpose of the Council is to determine whether or not HUD should seek a receiver. HUD's continuance of the Cooperative Endeavor Agreement beyond its contractual and intended life is an admission that HUD already recognizes HANO cannot operate on its own. HUD needs to make its own decision now.

Conclusion

Each successive plan since 1992, of which the Cooperative Endeavor is only one, has promised progress and claimed to have improved conditions. At the 1996 hearings, Secretary Cisneros said:

> *"This is about whether we are going to turn around public housing in our country on all our respective watches. And people don't believe us until we start building the new stuff."*

Mr. Mason, at the same hearing, said:

> *"On Desire specifically, . . . we ought to be able to start brick-and-mortar-type construction sometime, I believe, in January [1997]. But we can also start the utility work immediately [July 1996].*

Five years later, many families still live at Desire and the current planning reports are still talking about starting infrastructure work. This last photo shows an occupied building at Desire. Note the bricks are falling onto the walkway below. This is a lawsuit in waiting. We have been showing people pictures like this ***since 1983***.

HUD does not seem to know how long the Cooperative Endeavor Agreement should last. However, we think HUD should take immediate action to protect its investment. We have recommend in our latest report that HUD split HANO into more manageable housing authorities.