Issue Date
May 11, 2001
Audit Case Number
2001-FW-0001

TO: Gloria Cousar
Acting General Deputy Assistant Secretary, P

/SIGNED/

FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

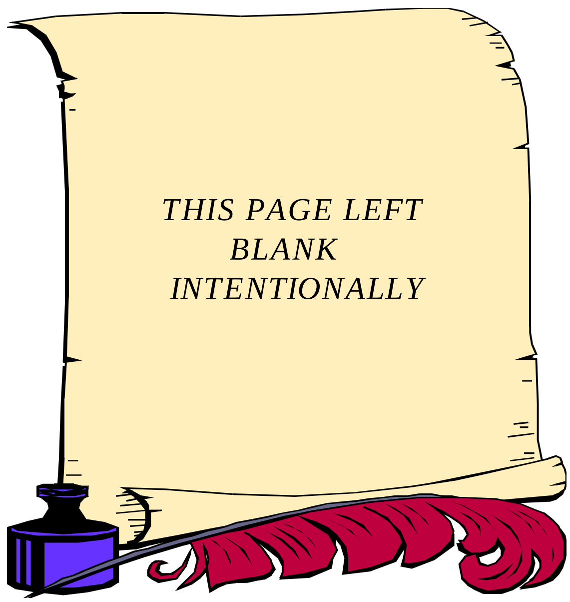
SUBJECT: Housing Authority of New Orleans
New Orleans, Louisiana

We performed an audit of the Housing Authority of New Orleans. The purpose of the audit was to determine: (1) the status of the Cooperative Endeavor Agreement; (2) the status of modernization; and (3) compliance with the Quality Housing and Work Responsibility Act of 1998.

The report contains three findings requiring follow-up actions by your office. We will provide a copy of this report to the Housing Authority of New Orleans and the Executive Monitor.

Within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

If you have any questions, please contact William W. Nixon, Assistant District Inspector General for Audit, at (817) 978-9309.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Executive Summary

We performed an audit of the Housing Authority of New Orleans (HANO) to ascertain the current status of the HANO's management structure. For the past 5 years, HANO has operated under a 2-year Cooperative Endeavor Agreement to correct long-standing problems, particularly with respect to the poor condition of its housing stock. During this time, Congress enacted the Quality Housing and Work Responsibility Act of 1998 (also known as the Public Housing Reform Act) that required HUD to create an Advisory Council which would help determine HANO's future. Our audit objectives were to: (1) ascertain the status of the Cooperative Endeavor Agreement; (2) review HANO's progress in modernizing its housing stock; and (3) determine if HUD complied with the Quality Housing and Work Responsibility Act requirement to create the Advisory Council.

Cooperative Endeavor Agreement did not cure HANO's problems.

HUD has continued the Cooperative Endeavor Agreement (CEA) beyond is planned and contractual life. HUD has continued the CEA because HANO continues to have major problems in carrying out its primary mission. Because of the poor condition of its housing stock, the most recent Cooperative Recovery Plan said HANO was "potentially troubled." HANO continues to have problems completing a modernization program at its 10 large conventional developments. HANO does not have the capacity to: (1) stabilize and renovate its viable developments; (2) demolish and dispose of units not meeting Section 202 requirements; (3) relocate residents during modernizations; and (4) construct suitable permanent housing. HANO's long-term success depends upon having an effective Section 8 Department, which HUD staff stated had been substandard for the past 3 years.

HUD delayed Advisor Council.

HUD procrastinated in establishing the required Advisory Council. As a result, HUD effectively delayed the Advisory Council's findings and recommendations. HUD must act proactively to ensure that HANO provides its 22,000 residents with decent, safe, and sanitary housing.

HUD should break up HANO.

Six year ago we urged the Secretary to take over HANO and contract out the management of its properties to as many as 12 companies. We have amended our primary recommendation made 6 years ago, and we are now urging the Secretary to take over HANO and divide the housing authority into smaller housing authorities. This would allow the smaller housing authorities to focus on the problems affecting specific sites.

HUD comments on the report.

We provided HUD with a draft report on February 27, 2001. We discussed the draft report with HUD officials, specifically the Acting General Deputy Assistant Secretary and a Senior Advisor to the Secretary, on March 22, 2001. During this meeting, we agreed to allow additional time for HUD to prepare written comments. HUD provided us with written comments on May 2, 2001. We have included their comments as Appendix A. We considered their responses in preparing our final report.

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Abbreviations

ACC	Annual Contributions Contract
CEA	Cooperative Endeavor Agreement
CFR	Code of Federal Regulations
CIAP	Comprehensive Improvement Assistance Program
CGP	Comprehensive Grant Program
GAO	General Accounting Office
HQS	Housing Quality Standards
HUD	U. S. Department of Housing and Urban Development
IRI	Institute for Resident Initiatives
MOA	Memorandum of Agreement
NOFA	Notice of Funding Availability
OIG	Office of Inspector General
PIH	Public and Indian Housing
PHA	Public Housing Authority
PHAS	Public Housing Assessment System
PHMAP	Public Housing Management Assessment Program
QHWRA	Quality Housing and Work Responsibility Act of 1998
TAI	Tucker and Associates, Inc.
TARC	Troubled Agency Recovery Center

Introduction

Background.

The Housing Authority of New Orleans (HANO), an autonomous public agency operating within the local, state, and federal laws that created it, was established in 1937. Until December 1998,[1] HANO was a perennial contender for one of the worst housing authorities in America. HUD listed HANO as a troubled agency in 1979, the first year of such designation, and HANO remained on this list until 1998. As the following chronology of events demonstrates, HUD and HANO have attempted many different solutions to correct its chronic problems. This has included providing additional technical assistance, requiring HANO to hire a management company, and replacing the Board of Commissioners with HUD's Assistant Secretary of Public and Indian Housing (PIH) and an Executive Monitor. However, considering the seriousness of the management issues and conditions of the units, HUD's actions have seemed tempered.

Audit reports from 1983 through 1994 detail poor management.

In 1983, we reported that HANO's residents lived in indecent, unsafe, and unsanitary conditions due to poor management.[2] In 1988, HUD issued a comprehensive review of HANO. HUD's review had 241 findings and reiterated that residents lived in unacceptable conditions. As with our report, HUD cited HANO's poor management for the conditions. HUD's review resulted in HANO entering into a Memorandum of Agreement (MOA) with HUD. The MOA required HANO to hire an outside management contractor.

In August 1990, we audited HANO's procurement of the management contractor. Our audit noted HANO had disregarded its own procurement policy and HUD's procurement regulations when awarding the management contract. Eventually, HUD required HANO to repeat the entire procurement process. Although HANO had a private management company, the management company operated within HANO's management and regulatory structure.

In 1991, we issued a report demonstrating that HANO could save approximately $1.7 million if HANO used individual utility meters to measure utility usage by its

[1] Date of HUD's letter to HANO stating it received a 64.96 on its PHMAP and therefore, was no longer considered troubled.
[2] Housing Authority of New Orleans, audit report number 84-FW-201-1014.

tenants. However, both HANO and the City refused to implement the recommendations.

In June 1994, we issued an audit on HANO's operations. At that time, HANO administered 13,521 low income housing units under an Annual Contributions Contract (ACC). The audit had one major finding: management of the Authority is inefficient, ineffective, and uneconomical. Our primary recommendation to HUD read:

> "Inform the Secretary that the Authority has breached its Annual Contributions Contract and commence necessary actions to take over the operations. We further suggest the New Orleans Office should contract the entire operation of the Authority to private management. We suggest the operation can be divided into as many as ten different operations for each of the conventional projects and at least two operations for the scattered sites."

The audit also contained five sub-findings:

1) Tenants live in indecent, unsafe, and unsanitary conditions.
2) Maintenance operations are ineffective.
3) Comprehensive Improvement Assistance Program (CIAP) was not effective, efficient, or economical.
4) The Authority did not follow its own procurement policy or federal requirements.
5) Emphasis, direction, and resources needed to combat crime.[3]

HUD urged to take over HANO.

In August 1994, HUD and HANO established an Executive Council as an alternative to a federal takeover or a court ordered receivership.[4] The parties agreed HANO would retain the management contractor until it finalized a recovery plan. However, HANO's Board of Commissioners terminated the management contractor the very next month.

[3] Housing Authority of New Orleans, Public Housing Operations, audit report number 94-FW-201-1005.

[4] To stabilize HANO, HUD retained the services of an Executive Director of another housing authority to assist HANO and HUD. This Executive Director was subsequently convicted for fraud at the authority that he operated.

In October 1995, a HUD consultant performed a confirmatory review of HANO's self-certified Public Housing Management Assessment Program (PHMAP).[5] In contrast to HANO's self-certified score of 60, the consultant computed HANO's score at a dismal 25.

In December 1995, in a very strongly worded memorandum, we again urged Secretary Cisneros to declare HANO in breach of its ACC and take over HANO operations. We based our recommendation on the following:

- Interference by the Board of Commissioners in HANO's day-to-day activities;
- Qualifications and integrity of executive staff;
- Disregard of procurement procedures;
- Results of the PHMAP confirmatory review; and
- 15 years of poor management resulting in slum conditions.

Instead of implementing our recommendation, HUD brought in a transitional team of HUD personnel. HUD asked our office to participate on this team by performing limited reviews and participating in meetings. Between January 1996 and June 1997, we provided several memoranda to HUD and HANO on such issues as:

- Appliance Inventory (Issued April 16, 1996) - We noted a significant discrepancy of appliances at the sites. For instance, as of March 5, 1996, the occupancy report showed 8,592 units occupied at the 10 conventional sites. For these sites, accounting records reported 9,404 ranges and 9,630 refrigerators, a difference of 812 and 1,038, respectively. We offered recommendations for HANO to better account for its appliances.
- Garbage Collection[6] (Issued July 17, 1996) - We again questioned the efficiency and economy of HANO spending over $543,000 to pick up garbage at its sites. HANO could not support its in-house cost analysis to

[5] HUD used PHMAP to measure and compare housing authority performance. It provides a score based upon various financial, maintenance, and resident initiatives components. HUD considers a housing authority troubled if it scores less than 60 on its PHMAP.

[6] Audit related memorandum number 96-FW-201-1803.

perform its own garbage collection. Further, HANO wanted to spend $130,000 to buy another garbage vehicle. We recommended HANO not purchase this vehicle and contract out the garbage collection function or negotiate with the City to perform garbage collection. To date, HANO still performs this function.

- Vehicle Allowance[7] (Issued September 30, 1996) - HANO provided certain officials with vehicles. Contrary to Internal Revenue Service regulations, HANO did not include the value of this fringe benefit in its employees' wages reported to the IRS. We recommended that HANO comply with Internal Revenue Service requirements.
- Eviction Process[8] (Issued March 20, 1997) - HANO needed to strengthen its policies and controls for eviction for drugs and criminal activity. We noted improvements by HANO in a follow-up audit memorandum in March 1998.[9]
- Review of Maintenance Overtime[10] (Issued on April 4, 1997) - HANO had serious deficiencies with the performance and accounting of maintenance overtime including poor workmanship, excessive and overlapping time charges, payroll posting discrepancies, work orders not entered into the system, ordinary work performed using overtime, and loose controls over vacant unit work.

In May 1996, the General Accounting Office (GAO) issued a report on HANO.[11] The report identified two significant operational problems: (1) providing for routine maintenance and (2) carrying out major modernization and rehabilitation work. With respect to HANO's modernization program, GAO wrote "moreover, although housing conditions have deteriorated, the housing authority has nearly $200 million in unspent modernization grants and other federal funding, representing 82 percent of all such funding to the housing authority over the past decade." Further, the GAO wrote "even HUD and HUD's oversight of the housing authority have, to date, contributed little to

[7] Audit related memorandum number 96-FW-201-1806.
[8] Audit related memorandum number 97-FW-201-1804.
[9] Audit related memorandum number 98-FW-201-1808.
[10] Audit related memorandum number 97-FW-201-1806.
[11] GAO Report RCED 96-67. HUD Takes Over the Housing Authority of New Orleans.

solving the housing authority's severe management and operational problems."

In October 1997, we issued an audit report on HANO's procurement of Tucker and Associates, Incorporated (TAI).[12] HANO hired TAI for $493,408 to assist in the development of a comprehensive strategic plan. HANO could not support its selection of TAI. It effectively sole-sourced the contract to TAI, did not perform an adequate cost analysis prior to contract award, and allowed TAI to write the scope of work. Also, apparent conflicts of interest involving HANO, City, and TAI officials and associated parties permeated the contract procurement and negotiations. Further, we questioned $43,282 in unsupported charges, $43,619 in unreasonable general administrative expenses, and $4,466 in excessive charges related to a change order.[13]

Cooperative Endeavor Agreement.

On February 8, 1996, HUD and the City of New Orleans executed a Cooperative Endeavor Agreement (CEA) that primarily provided for HUD's assumption of the duties of HANO's Board of Commissioners. The CEA appointed Kevin Marchman,[14] or his designee, as HANO's Board of Commissioners. The Secretary and the Mayor agreed that Ronald Mason, Jr.[15] " shall act as Mr. Marchman's designee in the capacity as an Executive Monitor of this Agreement, subject to Mr. Marchman's oversight." In our opinion, Secretary Cisneros entered into this agreement to placate the Mayor of New Orleans.

The CEA stated, "HUD will seek sufficient resources to develop a collaboration with Tulane and Xavier Universities" to fund the following: (1) Campus of Learning; (2) Project FULCRUM; and (3) the Executive Monitor. Subsequent to the Cooperative Endeavor, HUD provided $2 million a year for 5 years to the Tulane and Xavier Collaboration to implement a Campus of Affiliates' program.[16] HANO has spent approximately $8 million dollars since the inception of the CEA on this grant. HANO also sole-sourced its resident initiatives' program to

[12] Audit report number 98-FW-201-1002.
[13] Some of the unsupported and unreasonable expenses duplicated each other.
[14] HUD's Acting Assistant Secretary for Public and Indian Housing.
[15] A Tulane University official.
[16] The Campus of Affiliates' program replaced Project FULCRUM. Neither program is a nationwide program or is mandated by Congress.

the Tulane and Xavier Collaboration. We reported the obvious conflict of interest and violation of procurement regulations in a report to the Secretary on July 5, 1996.[17] Further, we questioned the need to use so many resources on resident initiatives when HANO clearly had more pressing needs, i.e. the terrible condition of its housing stock.

Secretary Cisneros acknowledged the facts in the report. However, he waived the provisions of the ACC "that would have otherwise have prevented HANO from entering into the arrangement with Tulane and Xavier because of Mr. Mason's continued employment with Tulane." Further, he waived "the provision of the ACC that would have prohibited Mr. Mason from exercising responsibilities with respect to this arrangement in his role as Executive Monitor of HANO." Also, because Secretary Cisneros wanted "to ensure the involvement of the New Orleans University community in the recovery effort," he approved HANO's request for a non-competitive award to Tulane/Xavier to implement and administer HANO's resident initiatives program. This involved waiving the Part 85 of the Code of Federal Regulations (CFR). HUD has not provided a copy of its published waiver.[18] To our knowledge, no other HUD Secretary has waived procurement regulations. It appears that Secretary Cuomo and HUD have relied upon this unperfected waiver during the past 3 years.

In a June 6, 2000 letter, Secretary Cuomo waived these same requirements. However, we have not seen this waiver published either. We question the wisdom of waiving basic procurement requirements for an entity that is notorious for not following regulations.

In a July 8, 1996 Congressional hearing, Secretary Cisneros stated: "This is an intricate, unorthodox relationship, but I must tell you, I accept full responsibility for having structured it this way. And this is my decision."

According to the agreement, the CEA would terminate upon any of the following conditions:

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[17] Audit related memorandum number 96-FW-202-1802.

[18] The HUD Reform Act of 1989 required HUD to publish this waiver in the *Federal Register*.

- December 31, 1996,[19]
- The removal of HANO from the troubled Public Housing Authority list, or
- Agreement of the parties.

As previously mentioned, HUD removed HANO from the troubled list in December 1998. Thus, two of the three conditions had been met, and HUD should have terminated the CEA. Yet, in June 2000, HUD and the City extended the CEA from February 1, 2000, until December 31, 2000.[20]

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 easily 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.[21] The review disclosed that both Andersen Consulting and 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.

HOPE VI.

During our nationwide review of HUD's HOPE VI Program, we reviewed HANO's HOPE VI grants.[22] HUD established the HOPE VI Urban Revitalization Program for

[19] The Secretary could renew the CEA for an additional year, December 31, 1997, by providing written notice of his intention to do so to the Mayor.
[20] According to the Executive Monitor, this agreement has been extend until 2003.
[21] Audit report number 00-FW-201-1001.
[22] Audit report number 98-FW-201-1004.

the purpose of revitalizing severely distressed or obsolete public housing developments. HUD awarded HANO implementation grants for Desire Development ($44.2 million in 1994) and St. Thomas Development ($25 million in 1996). HUD also awarded a planning grant for the Fischer Development ($400,000 in 1995). The audit 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.

During our HOPE VI work, we received a complaint regarding HANO's St. Thomas HOPE VI grant. In July 1998, we issued a separate audit memorandum on selection of the developer at St. Thomas.[23] While we did not find evidence to substantiate the complaint, we did find sufficient cause for HUD to reject the selected developer. The problems with the developer resulted from HANO's interpretation of resident participation. HANO lost control over the selection because five of the eight-member selection panel were not Authority employees. Further, the developer's interaction with certain members of the selection panel and St. Thomas residents constituted both a perceived and actual conflict of interest.

HANO's and HUD's response to the findings.

In general, HANO, HUD, and its representatives[24] have consistently disagreed with our findings and conclusions. In several instances, HANO or its representatives hired legal counsel to refute conclusions reached, obfuscate the issues, or attack the OIG. Generally, each HANO administration blamed past management for the conditions and promised that it would not happen under their management. In some instances, they have blamed the OIG for the management problems and conditions of the units.

For instance, the previous Executive Monitor blamed OIG for a lack of objectivity and a reason for HANO's lack of progress. The previous Executive Monitor had day-to-day operational control over HANO for approximately 4 years. As such, he could have: (1) implemented financial controls; (2) followed procurement requirements; (3)

[23] Audit related memorandum number 98-FW-201-1813.
[24] This includes Tulane and C.J. Brown Management Company.

obligated and expended modernization funds in accordance with federal regulations; and (4) repaired and maintained the units so that HANO provided its 22,000 residents with decent, safe, and sanitary housing.

HUD provides HANO a significant amount of funds for its operation and capital improvement. As our reports document along with the reports of other agencies such as HUD, GAO, Louisiana Legislative Auditor's office, and numerous media reports, HANO has squandered millions over the years, but has never provided its residents with decent, safe, and sanitary housing.

HANO's future uncertain.

After 5 years under the CEA, HANO's future is as uncertain as it was at the signing of the CEA. HUD recently hired Mitchell & Titus to fulfill the Assistant Secretary's duties as HANO's Board of Commissioners. In effect, HANO has three entities responsible for its operations, the Executive Director, the Executive Monitor, and Mitchell & Titus with some overlapping of duties and responsibilities.

Further, HUD's oversight of HANO is just as ambiguous. Being non-troubled, the local HUD field office has oversight responsibility for HANO. Because of the Assistant Secretary's role, HUD Headquarters is involved in monitoring HANO's activities. HANO consistently appeals unfavorable decisions by the local field office to HUD Headquarters. HUD Headquarters has a history of granting waivers and aiding HANO in its pursuit to violate HUD requirements.

After 5 years under the CEA and the praise HANO sought for no longer being troubled, the most recent Cooperative Recovery Plan defined HANO as being "potentially PHAS troubled." As a result, HUD may shift the responsibility of monitoring HANO from the local office to the Troubled Agency Recovery Center (TARC).

To further add to this uncertainty, Congress established an Advisory Council to determine what actions it should take with respect to HANO.

Divide HANO into smaller authorities.

We have amended our primary recommendation made 6 years ago. In that recommendation, we urged the Secretary to take over HANO and contract out the management of its properties to 12 companies. We now urge the Secretary to take over HANO and split the housing authority into separate housing authorities. Further, HUD and the City should work together to create nonprofit entities to administer HANO's Section 8 certificates and vouchers and carryout the provision of Public Law 104-134 regarding Section 202. This would allow the individual housing authorities to focus on the management and operations at a specific site. Further, HUD would place itself in a better position to monitor the smaller sites. We base our recommendation on HANO's lack of progress in modernization, which has a direct impact on the living conditions of the residents; HUD's inability to provide consistent oversight to HANO; and the flight of management.

Audit Objectives, Scope, and Methodology

Overall, our audit objectives were to determine: (1) the status of the CEA; (2) HANO's progress in utilizing modernization funds; and (3) HUD's compliance with the QHWRA of 1998.

To achieve the audit objectives, we:

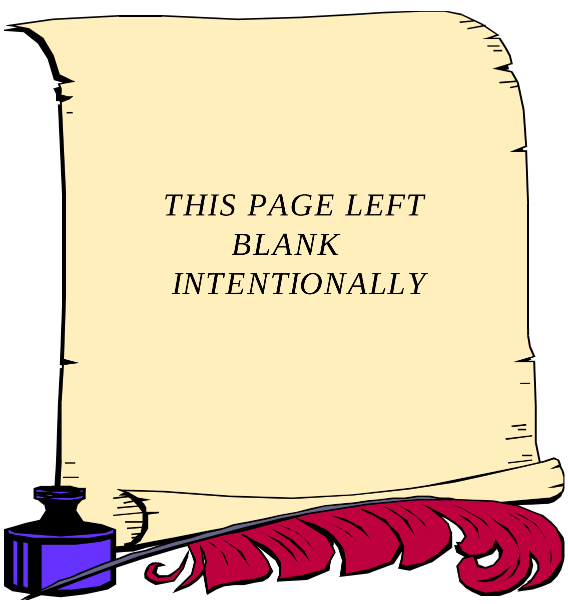
- Reviewed the QHWRA of 1998, CEA, and applicable federal regulations;

- Interviewed HUD, HANO, and Tulane personnel;

- Reviewed and analyzed HUD and HANO documents including consultant reports, contracts, vendor payment listings, electronic mails, correspondence, and others; and

- Reviewed various reports and supporting documentation on HANO including studies, audits, GAO reports, and media coverage.

We performed our fieldwork at HUD, HANO, and OIG offices from January through December 2000. Our progress during this audit was hindered by an initial lack of cooperation by the former Assistant Secretary for PIH. Throughout the audit, we obtained computer-generated data from HUD, HANO, and HUD contractors. However, we did not perform any tests on the validity or reliability of such data except as noted in the findings and management controls. The audit generally covered the period of February 1996 through December 31, 2000. We performed the audit in accordance with generally accepted government auditing standards.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HUD Needs to Take Significant Measures to Protect Its Investment

By allowing HANO to extricate itself from the troubled list and headquarters interjecting itself into program requirements, HUD has acquiesced with HANO's attempt to polish its image without making the necessary changes to the way it does business or correcting its physical structures. Although HANO managed to remove itself from HUD's troubled list in 1998, HANO continues to have major problems in carrying out its mission. HUD and HANO have operated for almost 5 years under a Cooperative Endeavor Agreement (CEA) to correct long-standing problems. With the exception of the Mayor of New Orleans (Mayor Morial), the individuals originally involved with the CEA have departed. HANO continues to have problems completing a revitalization project at its ten large conventional developments. Further, recent newspaper articles and HUD reports have detailed problems with HANO's Section 8 Department. HANO's long-term success depends upon it having an effective Section 8 Department. As discussed in Finding 3, HUD procrastinated in establishing the required Advisory Council. As a result, HUD effectively delayed the Advisory Council's findings and recommendations. Again, HANO and HUD find themselves at a crossroads; HUD must act proactively to ensure that HANO provides its 22,000 residents with decent, safe, and sanitary housing.

HUD extended the CEA beyond its proposed life.

Although the original CEA entered into by Secretary Cisneros and Mayor Morial was for either 2 years or HUD removing HANO from the troubled list,[25] the CEA has been in effect for 5 years. Furthermore, the only remaining party to the original CEA is Mayor Morial. Since 1998, HUD has extended the CEA on a yearly basis. The yearly extensions of the CEA give the impression of HUD not having a coherent long-term plan for HANO.

In February 1996, after years on the troubled list, HUD declared HANO in breach of its Annual Contributions Contract. Instead of receivership, the Mayor of New Orleans and Secretary Cisneros entered into the CEA to manage HANO. This arrangement was unprecedented. The Secretary agreed to the partnership with Mayor Morial to avoid a contested HUD takeover of HANO.[26] Under the CEA, Mayor Morial and Secretary Cisneros agreed to take

[25] Whichever came first.

[26] At a Congressional hearing in July 1996, the former Secretary stated: "…the mayor informed me that if negotiations successfully produced a meaningful partnership agreement that would work from a New Orleans standpoint, then he would work to ensure that the Board of Commissioners would deliver possession of HANO to HUD without litigation, without protest, without obstruction, as subsequently occurred. It was a peaceful transformation."

all necessary actions to improve HANO and the quality of life of HANO residents. Further, the CEA replaced HANO's Board of Commissioners with HUD's Assistant Secretary for PIH. Mayor Morial and Secretary Cisneros agreed on an Executive Monitor to oversee HANO's recovery and serve in the Assistant Secretary's absence. The Executive Monitor would have the same authority as a Board of Commissioners; in practice, the Executive Monitor held much more authority. The CEA named Ron Mason, Jr., Tulane University's Counsel to this post. HUD never provided a listing of other individuals considered for this assignment because the Secretary believed Mr. Mason to be uniquely qualified.

During this same time, HANO sole-sourced its resident initiatives to a Tulane and Xavier University Partnership. Also, HUD sole-sourced a $2 million "Campus of Affiliates" grant to this same partnership.[27] With respect to the apparent procurement and conflict-of-interest violations, Secretary Cisneros improperly waived[28] the conflict of interest saying:

> Mr. Mason is aware of the conflict potentials and, I am confident will conduct himself so as not to present even the appearance of impropriety. I further note that under the executive monitor services agreement to be executed by HANO, Mr. Mason will be required to recuse himself from any arrangements involving Tulane University.

Through a technical assistance grant with HANO, HUD has provided over $2.4 million in funds for the Executive Monitor and his staff. Also, HUD paid Andersen Consulting over $3.7 million to provide HANO with technical support services including developing a short- and long-term plan to improve HANO's operations.

Despite HUD removing HANO from the troubled list, the CEA continued.

According to the original CEA signed on February 8, 1996, the CEA "shall terminate on December 31, 1996, or upon the removal of HANO from the troubled Public Housing Authority list, or upon agreement of the parties, whichever

[27] HUD could renew the grant for 5 years bringing the total of the grant to $10 million.
[28] See Audit related memorandum number 96-FW-201-1802, Housing Authority of New Orleans, Procurement of Resident Initiatives, July 5, 1996.

comes soonest." The CEA allowed the Secretary to extend the CEA for 1 year. Despite wording to the contrary in the CEA, HUD has renewed or extended the CEA annually through December 31, 2000.[29] Throughout the renewals and extensions, HUD continued to ignore conflicts of interest and procurement violations originally brought to the attention of Secretary Cisneros. Secretary Cisneros took personal responsibility for the CEA during his testimony at a Congressional hearing in 1996. He stated:

> "…And even though I put myself at some risk by waiving some of the conflict-of-interest positions, it is the only way we can get this job done. This is an intricate, unorthodox relationship, but I must tell you, I accept full responsibility for having structured it this way. And this is my decision…"

On June 6, 2000, Secretary Cuomo acknowledged the conflicts of interest inherent in the CEA and waived applicable parts of the ACC as it related to the new Executive Monitor, Frank Nicotera. As justification for the wavier, Secretary Cuomo cited Mr. Nicotera's "substantial and unequaled knowledge of HANO's financial condition, ongoing litigation, development activities, and resident issues." He went on to explain that Mr. Nicotera could "work successfully with the Mayor and resident leaders to ensure the safe and effective operation of HANO."

HUD has not provided the appropriate waivers needed to circumvent the conflicts-of-interest provisions.

To date, HUD has not provided a viable plan to indicate when it will terminate the CEA. HANO's long-term viability is dependent upon its being able to function without HUD's extraordinary involvement, both in terms of oversight and financial contributions.

HUD has attempted to make the CEA work.

HUD has gone to extraordinary lengths over the past 5 years to correct the conditions at HANO. In addition to expending a tremendous amount of money, HUD has waived regulations and allowed the Executive Monitor to engage in questionable procurement and payment practices.

[29] According to HUD officials, HUD has extended the CEA until 2003.

In order to remove HANO from the troubled list, HUD Headquarters even gave HANO an unusual adjustment to inflate its PHMAP score and prevented the local HUD office from performing a confirmatory review of HANO's performance.

A breakdown of HUD's costs, excluding the operating subsidy and other grants, such as the Comprehensive Grant Program (CGP), Vacancy Reduction Grants, and HOPE VI, show HUD has contributed over $14 million to this arrangement:[30]

Description	Amount
Andersen Consulting	$ 3,703,627
Campus Affiliates Program	8,000,000
Executive Monitor	2,404,297
HANO Inspector General	150,000
Total	**$14,257,924**

For the first 2 years of the CEA, HANO, with HUD approval, sole-sourced the contract for HANO's resident initiatives to a Tulane and Xavier University partnership called Institute for Resident Initiatives (IRI). For the remaining years, HANO solicited proposals and IRI received the contract. IRI has received over $9.9 million for these contracts (approximately $2 million a year). Prior to the contracting out of resident initiatives, HANO budgeted approximately $1 million dollars a year on Resident Initiatives. Management, including the newly appointed Executive Monitor, argued that the additional expenditure on Resident Initiatives was needed to correct failing grades on HANO's PHMAP score. In fact, HUD and HANO could have, and eventually did, correct the failing PHMAP scores by simply passing Board resolutions. Further, the conditions that precipitated HUD's entering into the CEA related to the physical condition of HANO's housing stock and management's inability to operate HANO effectively and efficiently. As stated in 1996, HANO should have directed these resources to repairing and correcting the long list of problems with its physical structures.

[30] The figure above does not include amounts for consultants, expediters, or the outsourcing of HUD staff.

Under the CEA, procurement problems still persist.

Under the CEA, HANO has repeated poor procurement practices that the CEA was to correct. For example, in an audit of a contractor hired by the Executive Monitor under the CEA, we noted that the Executive Monitor violated procurement regulations in awarding this contract and could not provide support for $421,760 in labor charges for this contractor. Based upon the documentation and the contract, we could not determine whether HANO derived a measurable benefit from the contractor.[31] Contrary to Executive Monitor Services Agreements where it required the Executive Monitor to recuse himself from any contracts or arrangements made by Tulane, the Executive Monitor interjected himself in the procurement and payment of this contract.

Top officials have departed.

Top officials from HUD, HANO, and Tulane responsible for carrying out the duties in the CEA have left HANO leaving others to implement their plans. The lack of continuity of top management has caused many difficulties in the past. It appears the difficulties arise because of differences in management philosophy, especially as it relates to planning and modernization. Each time a new management team is put into place, it restarts the planning phase over giving the appearance of perpetual planning or stagnation. Another similarity is that the management team usually blames either the past management team, HUD, or increasingly, OIG for the problems and promises not to make the same mistakes. Though there is a natural tendency not to hold current management responsible for the problems created by their predecessors, no such luxury exists for residents who live in the conditions created or perpetuated by actions of previous management. During the past 10 years, the management teams have expended a considerable amount of resources on planning. HUD's former Assistant Secretary for PIH explained, "HANO loves to plan. Their problem is implementation. There is none." Although neither HUD nor HANO can compel people to work for it nor should it implement bad plans, HUD and HANO should ensure that plans turn into implementation rather than continue the existing cycle of planning.

[31] Housing Authority of the City of New Orleans, Executive Monitor Contract with Moten and Associates, audit report number 00-FW-201-1001, issued January 19, 2000.

HANO, HUD, and Tulane have all experienced turnovers at their highest levels. The following serves as an illustration of the changes at HUD, HANO, and Tulane.

Changes at HUD.

At the time of the signing of the cooperative endeavor, Mr. Marchman served as HUD's Acting Assistant Secretary of PIH and was appointed by the CEA to serve as HANO's Board of Commissioners. After Mr. Marchman's departure, a Deputy Assistant Secretary for Troubled Agency Recovery Center fulfilled HUD's responsibility under the CEA. Since December 1998, another Assistant Secretary of PIH, served in the capacity of the Board of Commissioners.

HUD has the primary role of monitoring HANO. With the Assistant Secretary for PIH serving as Board of Commissioners it gives the appearance to the public that HUD is not an independent monitor of HANO. This arrangement will always jeopardize HUD's role of monitoring HANO. HUD staff is put in the implausible position of monitoring their boss. This might explain Headquarter's refusal to provide the local field office with $5,000 in travel funds to perform a confirmatory review on HANO. Furthermore, it is still unclear who provides the monitoring of HANO, whether it is the local field office, Headquarters, or the TARC.

In August 2000, HUD hired a contractor to serve as HANO's Board of Commissioners. An official with HUD's Office of Troubled Agency Recovery pointed to the conflict of the Assistant Secretary as justification for the contract.

Recently, HUD's leadership changed again due to HUD having a new Secretary.

Changes at Tulane.

In November 1999, the Executive Monitor announced his resignation as HANO's Executive Monitor and Tulane's General Counsel. His departure raised immediate questions about the governance of HANO.

Shortly thereafter, HANO's General Counsel resigned, and Tulane hired him to take on the position of the Executive Monitor. Secretary Cuomo's June 6, 2000 letter justified the General Counsel's assumption of the Executive

Monitor's position. However, neither Secretary Cisneros nor Secretary Cuomo mentioned other individuals considered to fulfill the position of Executive Monitor.

Changes at HANO.

In December 1999, shortly after the announcement of the Executive Monitor's resignation, HANO's Executive Director since 1995 announced his resignation. He accepted a position at another housing authority.

In early February 2000, Assistant Secretary Lucas appointed HANO's Director of Operations to serve as the interim Executive Director.

HANO has also lost its Directors of Modernization and Section 8. Although we have not conducted any audits of HANO's administration of its Section 8 Program, significant problems have surfaced.

With so many changes at the top level, it appears that HANO has a new management team even though many of the individuals participated under the previous management team. The new Secretary should terminate the CEA.

Success of the CEA is disputable.

The success, specifically the long-term success, of the CEA is disputable. Obviously, the parties associated with the CEA have a vested interest in promoting the successes of it. However, many of the continuing problems in modernization; the condition of the housing stock; the possibility of significant problems in its Section 8 Program; and the failing PHAS scores on HANO's finances directly contradicts the successes trumpeted.

In a January 25, 2000 message, HUD staff wrote that the current Executive Monitor had said the progress of HANO has been negligible over the past 3 years. He also noted major problems in both their Development and Construction/Maintenance programs. On the modernization subject, HUD's Field Office Director wrote to HUD's Director of Capital Improvements "that the progress at HANO has been an orchestrated smoke and mirrors operation with Madison Avenue slick presentations." He continued, "everything is now suspect as to any progress at this authority".

Considering the $14 million in additional resources and the condition of HANO at the beginning of the CEA, such statements should be shocking. Many of the accomplishments promoted by HANO appear to be cosmetic triage and not accomplishments that will have a long-term effect on HANO or its residents. For example in the August 1999 Executive Monitor Report, the Executive Monitor highlighted the following as progress:

- Removal from the troubled list for the first time since 1979.
- Chamber of Commerce Resolutions of support.
- PHMAP Confirmatory Review.
- Local Media.
- Independent Resident Survey.
- HUD increased contract threshold to $1 million.

After 4 years under the CEA, the former Executive Monitor declared the condition and improvements at HANO as "fragile."

HANO must make long-term changes to the housing stock so that it provides residents with decent, safe, and sanitary housing. This includes expending funds on hard costs, i.e. renovating housing units at the viable developments, rather than what HUD considers as soft costs or "management improvements." As discussed in Finding 2, during the 5 years of the CEA, HANO has not successfully implemented a large-scale revitalization project at one of its conventional developments.

Current actions by HUD.

Presently, it does not appear that HUD has a coherent plan to improve HANO's long-term operations and ensure that it provides decent, safe, and sanitary housing to its 22,000 residents.

In August 2000, HUD hired Mitchell & Titus, LLP, to serve as "HANO's Board of Commissioners" to "facilitate and monitor the timely accomplishment of the goals/tasks cited in the CEA." According to the contract, HUD would pay Mitchell & Titus, LLP, $109,391 for the period August through December 2000. HUD could extend it for another year.

In explaining this contract, Assistant Secretary Lucas wrote on October 13, 2000, to Mayor Morial "with the imminent change in administration, it is important to provide continuity for HANO. The Department has determined it is best to utilize experienced contractors rather than HUD staff to function as Boards of Commissioners, when needed. HUD cannot abrogate its responsibilities and it is vital, at this time, that the Department provide HANO with a knowledgeable Board."

Since the signing of the contract, the person designated by Mitchell & Titus, LLP, to fulfill its obligation has taken another job and Mitchell & Titus, LLP, has designated another individual to fulfill its role as HANO's Board of Commissioners.[32] It is unknown what effect Mitchell & Titus, LLP, will have on HANO's operation.

HUD allowed HANO to manipulate itself off the troubled list.

HUD should have never removed HANO from the Public Housing Management Assessment Program (PHMAP) troubled list for its 1997 PHMAP. HANO used an unusual adjustment factor and misled HUD on the closing of audit findings to obtain passing scores under PHMAP. Despite HANO's history, HUD Headquarters would not allow the field office to perform a confirmatory review of HANO's 1998 PHMAP score. HANO has gradually increased its PHMAP from a low of 28.75 in 1995 to the current 85.16 in 1998. However, under HUD's new system for evaluating housing authorities, HANO fails.

PHMAP. - PHMAP scored housing authorities based upon self-certified information on eight factors including vacancies, financial, and resident initiatives. PHMAP used independent information to assess the housing authorities' modernization program. HUD used this information to assign a numeric grade to housing authorities from 0 to 100. HUD considered a housing authority troubled if it received less than 60 on its PHMAP and a high performer if it received a 90 or higher. HUD also used a PHMAP indicator to determine if a housing authority has problems with its modernization program, i.e., its ability to effectively renovate units. If a housing authority scored less than 60 on the modernization indicator, HUD considered the housing authority as modernization troubled.

[32] Mitchell & Titus, LLP's work plan listed Mr. Kevin Marchman as a project advisor. It is unclear what his role will be under the contract.

HUD gave HANO the necessary points to remove itself from the troubled list in 1997.

In 1997, HANO self-certified to a PHMAP score of 66.25. HUD's confirmatory review of HANO scored it at 57.82. HANO appealed the score requesting an unusual adjustment factor based on surrounding neighborhood economic conditions. As a result, HANO managed to obtain the needed 2.38 points to bring its score to 60.2, sufficient for HUD to remove HANO from the troubled list. HANO and the Executive Monitor used HANO's removal from the troubled list as an affirmation of the success of the CEA.

However, HANO still remained modernization troubled with a score of 55.70. On July 21, 1998, HANO appealed its score for modernization and adequacy of contract administration citing clearance of Finding 4 in the OIG's 1994 audit as its basis.[33] HANO based its appeal on false information that HUD had cleared the finding. In a July 28, 1998 letter, the local HUD field office notified HANO that it did not provide sufficient justification for the appeal and denied its request.

However, on November 12, 1998, HUD Headquarters overruled the local office finding sufficient justification to approve the appeal and gave its approval. HUD's letter appears to confuse the issue rather than justify the Assistant Secretary's position. The Assistant Secretary signed the approval letter just months before taking over the responsibility as HANO's Board of Commissioners. On December 16, 1998, HUD Headquarters instructed the local HUD office to inform HANO of its score of 64.70.

Further, on its 1997 PHMAP, HANO self-certified to $10.5 million in reserves, but HANO did not have a sufficient audit trail to support the $10.5 million in reserves that it certified to in its PHMAP submission.[34] HUD determined HANO had overstated its reserves by $7 million. Because it had at least $3 million in reserves, it maintained its grade of "A". However, had HANO offset its reserve with the estimated $7.7 million of legal liability, HANO would be insolvent. According to HANO's independent auditors, "HANO's policy is to recognize losses related to the self-

[33] Recommendation 4C of OIG audit report number 94-FW-201-1005 read, "Disallow and recover the $3,308,060 of unsupported costs that the Authority cannot provide adequate justification or support."

[34] PHMAP Indicator #6 (6A).

insurance programs and litigation based on the annual budget for such claims rather than recording the estimated liabilities when losses occur, as required by generally accepted accounting principles."[35]

In an apparent contradiction of the CEA, the removal of HANO from the troubled list did not terminate the CEA. Further, it did not suspend the funds that HUD poured into HANO as a result of the agreement. HUD's actions to remove HANO from the troubled list appeared to be motivated by public relations rather than substantive accomplishments. Under the CEA, HUD served as HANO's Board of Commissioners and contributed large sums of funding as a result of the agreement. HUD had a vested interest to ensure the success of the CEA. Therefore, we question whether HUD based its decision to award HANO the points needed to remove itself from the troubled list on purely substantive issues.

HUD Headquarters would not let the field office perform a confirmatory review.

Based upon HANO's self-certification, HUD computed HANO's 1998 PHMAP score at 85.16 and 64.70 for overall and modernization, respectively. However, HUD Headquarters denied the local field office's request to perform a confirmatory review of HANO's PHMAP score. In a plea to Headquarters, the HUD's Field Office Director requested a confirmatory review of HANO because:

> The department needs to verify the self-certification of the Housing Authority of New Orleans. New Orleans has had a checkerboard and fitful history of false starts relative to getting themselves out of the 'toilet' of public housing. It is difficult for the average man on the street to hear about the self-certification scores in the local press and then look at the physical stock and make a correlation between the two.... The New Orleans Office prior to my arrival has been beat about the head and shoulders for not keeping a watchful eye on HANO... Additionally, the Department has spent over $14 million over the years to assist in the clean up of HANO. If somebody in [Headquarters] has a problem with making

[35] 1998 Financial Audit of HANO by Bruno & Tervalon.

> sure that the money has been well spent and that HANO continues on its improvement program/cooperative endeavor agreement - then they should stop by my office and I will personally give them an on-site briefing of some of the most deplorable housing in the country.

HUD's Field Office Director requested that personnel from other offices perform the review due to their experience and the workload of the New Orleans office. This action would have also given the appearance of additional objectivity. The Director summed up his request by stating, "Hopefully, this will give you enough reason for helping us get $5,000 to pay for the travel of the staff that would perform the confirmatory review."

Headquarters responded that it "got the drift, but given the climate up here in terms of our assisting with the funding, I'm not sure you lay out a sufficient case yet." Headquarters went on to explain that HANO had made tremendous strides during the past 3 years and was no longer troubled. Headquarters could not understand why the confirmatory review was necessary or why the local field office could not do it with existing resources. Later, Headquarters contended that the local field office waited too long before requesting to perform the confirmatory review and had sent out a final notification of the PHMAP, and therefore, the local office could not perform one.

In our opinion, considering the millions of dollars that HUD provided to HANO, $5,000 seems a nominal amount to confirm HANO's status as a standard performer.

PHMAP may not be the best way to evaluate HANO's performance.

A primary mission of a housing authority is to provide decent, safe, and sanitary housing to residents. Although the PHMAP used the number of units meeting HQS to score a PHA, i.e., HUD's definition of decent, safe, and sanitary, it is possible to have a higher PHMAP score than the percentage of units meeting HANO's primary mission. In an apparent inconsistency, HUD would not allow HANO to pay landlords if their units did not meet HQS but still provides millions of dollars to HANO when its units do not meet HQS. The following table shows the number of units meeting HQS and HANO's PHMAP score. The current administration inherited a housing stock with severe problems, and these problems cannot be corrected over night. Though we did not perform any HQS inspections during this audit, we would question whether 66.85 percent of HANO's units meet HQS. Our opinion is based upon past work and site visits to several developments: Desire, Fischer, Guste, and St. Thomas, among others.

PHMAP Indicator	*1996*[36]	*1997*	*1998*	*1999*[37]
Indicator 5b. Total units under ACC		13,114	11,969	11,798[38]
Percent of units meeting HQS	32.24%	Unknown because HANO did not supply	53.70%	66.85%
Score[39]	48.18	64.96	85.16	

Under HUD's new assessment criteria, HANO fails.

Both HUD and the OIG have noted problems with HUD's PHMAP Program. In July 1996, we reported that PHMAP was an unreliable and inaccurate system, and should not be used to any significant degree to assess PHA's management performance. Further, PHMAP did not give an accurate picture of the PHA's overall management and operation.[40] For instance, with respect to financial management, PHMAP has only two components that housing authorities self-certify to: cash reserves and energy consumption. In 1999, HUD implemented the Public Housing Assessment System (PHAS). PHAS evaluates housing authorities in four areas: physical conditions, financial stability, management, and customer service. According to departmental literature, "the new system will answer previous criticisms of PHMAP by placing greater emphasis on: (1) physical conditions of properties: (2) objective evidence and third party verification; (3) basic real estate functions; and (4) input from those served directly by the system (the "customers")."

Under PHAS's scoring, HUD would consider HANO troubled. A former Assistant Secretary confirmed this.

[36] The 1996 PHMAP form did not require HANO to put down the number of units under the ACC or the number of units meeting HQS.
[37] From HUD's Management Assessment for Public Housing Agencies.
[38] Only 8,936 inspected using the Uniform Physical Condition Standards.
[39] HUD's final score.
[40] Audit related memorandum number 96-PH-101-0801.

Further, he indicated that PHAS would reveal a deeper level of problems. According to April 25, 2000 data, HANO would receive a total score of 51.6 under the new assessment system. Though it received high marks in the management and resident components,[41] HANO received a 17.4 and 0 points out of 30 points for physical and financial components, respectively.

HUD should split HANO into separate housing authorities.

Although the former Executive Monitor claimed the CEA successful upon his departure, HANO still has many of the same obstacles to overcome as it did when HUD and HANO entered into the CEA in 1996. Over the last 20 years, HUD has tried various management methods and systems to correct the problems at HANO. As discussed in the introduction, over the last 10 years, HANO has tried to operate with the following types of management structure:

- Autonomously – Executive Director reporting to a Board of Commissioners.
- Private Management Company – A private management company assumed the responsibilities of management and worked concurrently with HANO staff. They reported to the Board of Commissioners.
- HUD transitional team – A group of HUD and other Housing Authority employees worked with HANO staff to resolve systemic problems.
- Quasi-receivership – HUD assumed the responsibilities of the Board of Commissioners and appointed an Executive Monitor to ensure HANO made progress.

None of the arrangements have had the desired long-term effect intended. HUD needs to recognize that due to many problems within and outside of its control that the existing HANO cannot manage the 11,798 units.[42] Further, HUD has not been able to adequately monitor and provide sufficient oversight of HANO. HUD should split HANO into smaller housing authorities.

Smaller housing authorities and nonprofits.

Each smaller housing authority would have its own Board of Commissioners, management structures, and ACCs. The smaller housing authorities would be forced to correct existing problems or would revert to HUD's TARC.

[41] Both self-certified.

[42] During our 1994 audit, HANO had about 13,500 units. In the last 7 years, HANO has demolished some of its dilapidated units.

Further, due to the impact that Section 202 will have on HANO, we would recommend the creation of a separate nonprofit for the implementation of Section 202 including the relocation of the residents, demolition of the buildings, and the disposition of the land. This nonprofit should have set timeframes for completion with it being dissolved upon completion and its assets returned to the smaller housing authorities, the nonprofit, or HUD. HUD and the City should work together to create a separate nonprofit agency to manage HANO's existing Section 8 certificates and vouchers.

HUD Comments

The Acting General Deputy for Public and Indian Housing stated:

PIH concurred with the draft recommendation of putting HANO under the supervision of the TARC and seeking receivership. The response stated that the National Advisory Council will "provide a final finding to the Secretary and to the Congress following the closure of Council business in December 2001." "Based on that and other significant performance measures, receivership could be one of the options considered for HANO."

The response also cited PIH's designated contractor as HANO's Board of Commissioners as providing governance and oversight of HANO's day-to-day operations.

PIH non-concurred "with the recommendation to divide HANO into smaller authorities and non-profits. PIH does not agree with proliferating the creation of small entities to fragment HANO activities."

OIG Evaluation of HUD's Comments

HUD said it agreed to the draft recommendation 1B, which we have since withdrawn. That recommendation would have placed HANO under the supervision of the TARC and HUD would have sought a receivership. However, in its response, HUD deferred any decision until the National Advisory Council makes its final conclusions in December 2001. Thus, HUD actually has made no decision. HUD has a negative history of delaying or taking restrained actions to correct HANO's long-standing problems. Over the 8 years, HUD and HANO have attempted to correct HANO's problems using an outside management company, a new Board of Directors, a "dream team," new executive directors, and an "Executive Monitor." These attempts have all failed to provide a well-managed housing authority. We believe the problems faced by HANO are too vast for one agency to correct, while still performing its basic housing functions.

We disagree that dividing HANO into smaller operational units would "fragment HANO activities." To the contrary, we believe it would allow the smaller housing authorities and nonprofits to better manage their specific developments.

Recommendations

We recommend that HUD:

1A. Divide HANO into more manageable smaller authorities and nonprofits. This includes completely separate ACC, Board of Commissioners, and employees.

1B. Terminate the CEA.

HANO's Modernization and Revitalization Problems Exceed Its Capacity

HANO cannot overcome the years of neglect that its housing stock has endured. During the last 5 years, HANO has not completed one revitalization project at any of its conventional sites. The only major physical improvement HANO can claim is the demolition of some dilapidated housing. HANO does not have the internal capacity, specifically, an adept Section 8 Department, or the ability to coordinate amongst its various departments to carry out the revitalization of its conventional sites. As a result of existing legislation, a changing HUD perspective, and previous HANO management teams underutilizing limited modernization funds, HANO has permanently jeopardized its critical mission of providing decent, safe, and sanitary housing to its residents.

Even the best management team with favorable fiscal and organizational conditions would have a difficult time with three daunting tasks facing HANO's management team:

1) **Stabilizing and renovating its viable developments;**
2) **Demolishing and disposing of those units not meeting Section 202, including the relocation of residents; and**
3) **Constructing suitable permanent housing.**

As previous reports have stated, HANO may have had at any one time individuals with the skills needed to carry out one of the above tasks; however, it has never had the necessary team of individuals to address all of the tasks. To rejuvenate its housing stock, we recommend that HUD and the City work together to split HANO into more manageable housing authorities and develop a nonprofit organization to achieve the requirements of Section 202. Also, HUD and the City should create a nonprofit to administer HANO's approximately 7,000 Section 8 certificates and vouchers. HUD should ensure that HANO properly obligates and expends its capital funding timely. If HANO cannot, then HUD should recapture these funds. HUD should force HANO to implement Section 202.

Condition of the housing stock.

Reports by HUD, Andersen, Abt and Associates, and the former Executive Monitor used terms such as "terrible," "deplorable," "poor," and "horrible" to describe HANO's housing stock. Some developments such as Desire have become a poster child for uninhabitable places. In his 1996 testimony, Secretary Cisneros stated, "Desire maybe the worst of the worst, but St. Thomas and Guste and Cooper and others follow quickly…" In its 1999 advisory PHAS score, HANO has received a failing grade in modernization. According to its 1999 PHMAP self-certification submission, only 66.85 percent of HANO's units meet the uniform physical standards.[43] Many of HANO's developments are over 50 years old and need substantial renovations and de-densification. The former Executive Monitor stated that HANO's operating subsidy was "inadequate and unrealistic in light of conditions. The old stock is more expensive to maintain…" Overall, HANO plans on demolishing approximately 6,200 units and performing substantial renovations of the remaining units at the conventional sites.

In order to complete such substantial renovations, HANO needs to effectively coordinate its development, relocation, procurement, financial, management, and maintenance departments. In the past, consultants and HUD have reported serious problems with many of these departments. While the technical ability of HANO has increased through the hiring of upper management and retention of consultants, it still does not appear that HANO has the organizational capacity to complete the renovations while tending to its numerous other duties.

HANO has not spent its capital funding on physical improvements.

To its long-term detriment, HANO has used a significant amount of its modernization resources on "soft costs" such as funding operating deficits, planning, re-planning, consultants, and management improvements. Since 1992, HANO has received millions of dollars yearly for the modernization and revitalization of its housing stock. HUD annually provides approximately $34 million to HANO under its Capital Funding Grant.[44] Since 1992, HANO has received $243,082,971 in CGP and has expended $139,496,421 (57.39 percent).[45] These amounts do not include the $69.5 million in HOPE VI grants, $8.5 million in vacancy reduction grants, and $8.5 million in demolition grants to repair, demolish, or replace HANO's housing stock.

Despite this infusion of funding for modernization, HANO has only spent approximately half of its capital funding for physical improvements. From 1992 to 1999, HANO received and spent the following Capital Grant Funds**:**[46]

[43] According to HANO, it only inspected 8,936 of its 11,798 units (75.75 percent).
[44] Previously HUD provided this funding under the Comprehensive Grant Program (CGP).
[45] As of June 30, 2000.
[46] HANO's Performance and Evaluation Report dated June 30, 2000.

HANO's Capital Grant Funds					
	Funds Granted	Total Funds Expended	Soft Costs Expended	Hard Cost Expended	Percent of Hard Cost to Total Expended
1992	$ 30,664,933	$ 30,018,287	$13,343,905	$16,674,382	55.5%
1993	28,422,606	27,681,203	12,005,693	15,675,510	56.6%
1994	33,658,151	33,326,529	13,483,356	19,843,173	59.6%
1995	33,954,510	17,798,391	11,011,352	6,787,039	38.1%
1996	27,790,559	15,973,185	12,471,694	3,501,491	21.9%
1997	26,401,893	13,237,149	6,323,571	6,913,578	52.2%
1998	27,769,211	1,461,453	719,907	741,546	50.7%
1999	34,421,108	225	225	0	0.0%
Totals	**$243,082,971**	**$139,496,422**	**$69,359,703**	**$70,136,719**	**50.3%**

Despite spending $139,496,422 over the last 8 years, HANO has not revitalized one of its conventional sites. According to the HUD Field Office Director's June 30, 2000 presentation to HANO's Advisory Council, "our data shows that whenever possible, HANO moved Capital Grant funds to its operating account to cover management improvements, fees, salaries for technical and non-technical personnel engaged in the modernization of units and for other items categorized as soft costs." While HUD permits these "soft costs," this reduces the funds available for badly needed physical improvements.

To exacerbate HANO's funding dilemma, HANO's current demolition plan will decrease its 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, HUD will reduce HANO's capital funding by approximately 18 percent as a result of HANO's demolition. This will put increasing pressure on HANO to operate efficiently, which it has not done in the past. Further, this combination of high ratios of soft costs to hard costs and the inevitability of reduced capital and operating subsidy funding further limits HANO's already diminished capacity to conduct a large-scale revitalization.

HUD gave HANO special treatment in obligating capital funding.

HUD's special treatment of HANO gave the false appearance that HANO had obligated its capital funding by a required deadline. The Quality Housing and Work Responsibility Act of 1998[47] required HANO to fully obligate any funds appropriated to it for Fiscal Year 1997

[47] Section 519(j)(4)(B).

or prior years by September 30, 1999. If HANO did not, HANO faced possible sanctions including:[48]

a) HUD not releasing any Fiscal Year 2000 capital funds until the unobligated funds are obligated by the housing authority and HUD has reviewed and confirmed the obligation documents and

b) HUD would notify the housing authority of Annual Contributions Contract default and recapture the outstanding unobligated balance.[49]

At that time, the Deputy Assistant Secretary viewed the latter sanction as a last resort. HUD extended HANO's and other housing authorities' deadline to obligate the funding twice to March 30, 2000. In April 2000, HUD confirmed HANO had obligated all of its 1997 and prior year's capital funding. Both HUD and HANO relied upon development agreements as an obligation to meet the deadline.

According to an August 12, 1999 HUD report, HANO had an unobligated balance of $53,943,351 for its 1997 and prior year's capital fund.[50] HUD, HANO, and its outside legal counsel managed to obligate this funding by using a fungibility exercise and entering into development agreements.

Through fungibility, HUD allows housing authorities to move money and corresponding projects between years. Fungibility is merely a paper transaction that allows a housing authority to more quickly close out older capital grant years. HANO's use of fungibility did not result in any additional funds being obligated or expended. Also, HANO's use of fungibility did not result in the closure of any of HANO's 1992 through 1999 capital funding grants. Further, HANO's use of fungibility may cause difficulties for HANO when it reports on or needs to reconcile its capital funding grants.

48 In our March 2000 Attempt to Audit HUD's Fiscal Year 1999 Financial Statement (00-FO-177-0003), we reported that HUD's policy with respect to unobligated Fiscal Year 1997 and prior year public housing modernization funds was not in compliance with the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998.

49 *Federal Register* Volume 64, Number 2457, dated December 22, 1999.

50 This amounted to 92 percent of the balance for all Louisiana housing authorities and approximately 36 percent of the balance for all housing authorities.

To meet the obligation deadline, HANO entered into three development agreements totaling $36,774,684. HUD claimed to have issued a legal opinion stating the development agreements constituted obligations. To date, no one has been able to provide such an opinion. Information obtained indicated a HUD Office of General Counsel member reviewed the agreements and determined that two created obligations, but the third, Desire, did not. HUD staff suggested to HANO's outside legal counsel ways to amend the Desire agreement to result in a $10 million obligation. Just 3 days before the deadline, HANO's Board of Commissioners approved an amendment changing the wording of the development agreement to read: "The Authority hereby agrees to provide loans to the Owner Entities, which in the aggregate, do not exceed $10,000,000 from the PHA Fiscal Year 1996 Comprehensive Grant Program Funds…" HUD considers this change as sufficient to create an obligation.

In our view, HANO's creative legal maneuvering did not meet QHWRA. HUD should hold HANO to the same standard as other housing authorities and should not aid HANO in giving the illusion of timely obligating these funds. In general, the QHWRA requires housing authorities to obligate capital funds within 2 years and expend within 4 years from the date of availability. HANO should timely obligate and expend its capital funds or HUD should recapture the funds.[51]

Section 202 will have a major impact on HANO's future.

According to HANO, if HUD required HANO to comply with Section 202, it would "adversely affect the agency's ability to meet its fundamental mission."[52] Abt and Associates, a HUD consultant, concluded four of HANO's conventional sites failed to meet Section 202 requirements.[53] As a result, HANO must relocate the residents and demolish the units at these sites. HANO's demolition plan will decrease HANO's operating subsidy and capital funding.[54] Despite the magnitude of Section 202, HUD has not made a decision on how HANO should implement Section 202. Further, HANO has suggested that HUD defer compliance with Section 202 for 10 years.

[51] As of June 30, 2000, HANO had not obligated $58,849,962 of its 1998 and 1999 capital funding grants.
[52] HANO's response to Abt and Associates' report.
[53] Part of B.W. Cooper and Florida and all of Fischer and Guste.
[54] HANO has benefited in the past by collecting operating subsidy and capital funding on vacant, uninhabitable units.

Section 202. - Public Law 104-134, Section 202, [55] required housing authorities to identify certain distressed public housing developments that cost more than Section 8 rental assistance and cannot be reasonably revitalized. Section 202 required HANO to relocate residents of the distressed units to other decent, safe, sanitary, and affordable housing which is to the maximum extent practicable, housing of their choice.[56] After HANO relocates the residents, the distressed developments for which no reasonable means of revitalization exists will be removed from the public housing inventory. Section 202 covers developments that: (1) are on the same or contiguous sites; (2) contain more than 300 units; (3) have a vacancy rate of at least 10 percent for units not in funded, on-schedule modernization programs; (4) cannot be revitalized through reasonable programs; and (5) are more expensive than tenant-based assistance. These developments must be removed from the public housing inventory within 5 years.

Abt and Associates, a HUD consultant, concluded four of HANO's conventional sites are subject to Section 202 requirements. These sites include B.W. Cooper, Fischer, Guste, and Florida. HUD approved a revitalization or mixed-finance plan for three developments in order to remove them for further consideration under Section 202.[57] The report "revealed serious viability concerns at each of these sites…" To further complicate matters, HANO has requested a demolition rescission of 866 units while the consultant recommended 1,416 demolitions beyond those units already approved for demolition.

If sites meet the Section 202 requirements, HANO must relocate the residents and demolish the units at the sites. Although the consultant issued its draft report in January 2000, HUD has yet to formally require any HANO action regarding Section 202.[58] Despite the magnitude of Section 202, HUD has not made a decision on how HANO should implement Section 202. Further, HANO has suggested that HUD defer compliance with Section 202 for 10 years.

[55] Enacted on April 26, 1996.
[56] HANO can offer the residents another public housing unit.
[57] Desire, St. Thomas, and C.J. Peete.
[58] Aside from the Conversion Plans requested in Abt's report.

HUD should force HANO to comply with the law and implement Section 202. HUD should work with the City to establish a nonprofit organization to implement Section 202 for HANO. All properties and units not meeting Section 202 requirements will be deeded to this not-for-profit along with an appropriate amount of HANO's existing capital funding. The non-profit would be responsible for the relocation of any residents living in the units, demolish the units, and dispose of the property in accordance with HUD requirements. Any assets remaining would be remitted to either HUD or the other New Orleans housing authorities.

HANO's Section 8 Department will hinder its modernization programs

The problems associated with HANO's Section 8 Department will adversely affect any modernization project. Under its existing plan, HANO will undertake three major revitalization projects: C.J. Peete, Desire, and St. Thomas, as well as modernization projects at other developments and will need to relocate hundreds of residents. As such, HANO's relocation effort is considered the cornerstone of HANO's modernization and revitalization effort. HANO's primary relocation resource is Section 8 vouchers. Recently, HANO's Section 8 Department has been defined as a failure. It has problems utilizing its existing certificates and there is a very limited supply of private sector apartments.[59] In a report to HUD, the former Executive Monitor acknowledged HANO did not have sufficient resources to take on the massive relocation needed to accommodate its revitalization plans. Thus, any effort by HANO to perform a large-scale renovation will be hampered by its Section 8 Program.

HUD hired a national expert to review HANO's Section 8 Program. The expert concluded in an April 18, 2000 memorandum that the former Section 8 Department head[60] did not have the expertise to run the program. Additionally, the expert listed the following weaknesses in HANO's Section 8 Program:

- The prior program administrator apparently never implemented any of the recommended improvements and changes.

[59] According to a November 1999 report, HANO utilized only 61 percent of its 6,985 vouchers and certificates and has only a handful of landlords listed on its rolls.
[60] The Director resigned in March 2000.

- HANO's new Section 8 Program administrators will need time to determine which program problems still exist, what recommendations are still viable, etc. In addition, an assessment to uncover any additional problems will need to be conducted and will add further lag time.
- Chronic under-leasing has created a significant workload just to get the regular Section 8 Program leased up. This will likely impact relocation activities also.
- Financial status of the program may be poor because of chronic under leasing. It is not clear that there is adequate administrative fees being earned to support existing staff and the staff that may be necessary to undertake relocation efforts.
- Staff is civil service. This may negatively impact efforts to change staffing, privatize, etc.
- Market supply problems for units that meet HQS and are within the Fair Market Rent.

HANO has contracted with CVR & Associates for $900,000 to correct problems in its Section 8 Department. This is another example where HANO has ignored problems or denied that they exist and then spends thousands of dollars on a consultant that may or may not fix the problems.

In our opinion, HANO lacks the capacity to operate an efficient development program. It cannot renovate units; demolish non-viable units; build and manage new units; and address the relocation problems all at the same time. HUD and the City should recognize this and divide HANO into smaller more focused housing authorities and nonprofits.

HUD Comments

HUD concurred with the recommendation that HANO contract out Section 8 Program functions and said it was occurring. HANO has awarded a contract to complete Section 8 inspections and is in the procurement process to locate a responsible and responsive vendor to process the Section 8 waiting list.

However, HUD did not agree with the recommendation to create "small housing authorities and non-profits to partition Section 202 activity or to further dilute the allocation of Capital Funds." HUD stated that it would "consider, again based on the outcome of the National Advisory Council's final finding and performance measures, placing specific developments under private management that incorporates project based budget and accounting. The Department must take into consideration that HANO's employees are subject to Louisiana's Civil Service laws and regulations."

OIG Evaluation of HUD's Comments

HUD's response stated that HANO has awarded a contract to complete Section 8 inspections and is in the procurement process to locate a responsible and responsive vendor to process the Section 8 waiting list. However, these actions will still require HANO to monitor and administer these contracts. HANO has not demonstrated an ability to monitor and administer contracts.

Due to the potential impact of Section 202, HUD should immediately require HANO to comply with the law and implement Section 202 requirements. In our view, a separate nonprofit agency would allow HANO to more quickly and effectively implement Section 202 requirements. By doing this, HANO would eliminate two of its conventional developments and parts of two other conventional developments from its purview. This would free HANO or the smaller housing authorities' resources to focus on correcting other problems and managing the existing units. HUD should divide HANO into smaller housing authorities and nonprofits. HUD disagrees with this solution and cites potential problems with diluting capital funds and Louisianan civil service laws. However, HUD did not explain the potential problems and we are not aware of any reason why HUD cannot break HANO into smaller parts.

As a result of HUD's response, we reworded our recommendations and added new recommendations to clarify our position.

Recommendations

We recommend HUD:

2A. Force HANO to immediately comply with the law and implement Section 202 requirements.

2B. Review the appropriateness of HANO's last minute obligation of funds by using the development agreements. HUD should recapture any funds that HANO did not properly obligate under these development agreements.

2C. Work with the City to create a nonprofit responsible for complying with Section 202. The nonprofit's responsibility would include the relocation of the tenants, demolishing and restoring of the site, and disposition of the assets. The nonprofit would receive its share of existing funds and would seek other funding.

2D. Work with the City to create a nonprofit responsible for all of HANO's existing Section 8 certificates and vouchers. The nonprofit should work closely with HUD officials to ensure full utilization of certificates and vouchers.

2E. Devise an equitable allocation of HANO's existing capital funds to the smaller housing authorities.

2F. Require the smaller housing authorities to timely obligate and expend capital funds or recapture the funds.

2G. Comply with the QHWRA and recapture any existing funds not obligated or expended within the statutory guidelines.

HUD Delayed the Appointment of a Required Advisory Council for Over a Year

HUD did not establish the Congressionally mandated Advisory Council for HANO until April 2000, 15 months after the law required it to do so. The Quality Housing and Work Responsibility Act of 1998 (QHWRA)[61] required the Secretary to establish a HANO Advisory Council within 90 days after the date of the enactment of the Act, i.e. January 19, 1999.

HUD could not provide an explanation for the delay but effectively delayed the Advisory Council required report to Congress. Further, the Advisory Council has not reported to Congress as required. We recommend that the Advisory Council comply with the QHWRA. Due to their past involvement with HANO, we recommend also that the Secretary replace two members of the Advisory Council.

According to the QHWRA the Advisory Council was to:

- Establish standards and guidelines for assessing the performance of HANO in carrying out operational, asset management, and financial functions.
- Provide advice, expertise, and recommendations to HANO about the management, operation, repair, redevelopment, revitalization, demolition, and disposition of public housing developments.
- Report quarterly to Congress about HANO's performance.
- Make final recommendations to Congress about the future of HANO within 18 months upon the appointment of the Advisory Council. If the Advisory Council finds that HANO is not substantially improved in its performance, HUD must petition for the appointment of a receiver.

HUD established the Advisory Council in April 2000, almost 18 months after the enactment of the law.[62] It held a meeting in June 2000, that included presentations by HANO and HUD staff of its operations and a tour of its

[61] Public Law 105-267, Section 567.
[62] By law, a representative of the Office of Inspector General must sit on the Advisory Council. Inspector General Gaffney appointed the Deputy Inspector General to represent OIG. The Deputy Inspector General has not been directly involved in any audits of HANO.

properties, but at the time HUD officials did not consider this an "official meeting."[63] The Council met again in November 2000.

HUD has provided no explanation why it delayed the establishment of this Advisory Council. From December 1999 through March 2000, the Assistant Secretary for PIH continually informed our office that HUD was in the process of establishing the Advisory Council.

By delaying the establishment of the Advisory Council, HUD effectively delayed the Advisory Council's report to Congress. If HUD had followed the law and appointed the Advisory Council within 90 days, the Advisory Council would have already made its recommendation to Congress.[64] The law required the Advisory Council to consider whether HANO has made sufficient progress in the demolition and revitalization of the Desire Homes project, the revitalization of the St. Thomas Homes project, the appropriate allocation of operating subsidy amounts, and the appropriate expending of modernization amounts. The Act required the Advisory Council to report to the Congress and the Secretary at least every 3 months regarding the performance of HANO and any progress of the authority in improving its performance and carrying out its functions. As of December 31, 2000, the Advisory Council has not reported to Congress. HUD should ensure that the Advisory Council complies with the law. Also, the Secretary and Congress should urge the Advisory Council to make its recommendation as quickly as feasible, even if it includes meeting more regularly.

The Secretary should replace two of his appointments to the Advisory Council.

Due to their involvement with HANO under the CEA, we recommend the Secretary replace the appointment of two members of the Advisory Council. Both members had an active role in the CEA and HANO. One Advisory Council member is HUD's Deputy Assistant Secretary for the TARC. This employee served as HANO's Board of Commissioners during the period June 1998 through January 1999. As a member of the Advisory Council, she might be evaluating decisions that she made as the Board of

[63] A local newspaper article on the meeting suggested that the meeting violated public meeting laws by not allowing access by the public and the press or preparing minutes.

[64] HUD should have appointed the Advisory Council by January 21, 1999, and the Advisory Council would have made its recommendation within 18 months or by August 2000.

Commissioners. Further, depending upon HUD's actions and the Advisory Council's recommendation, HUD could place HANO under the TARC's responsibility and therefore, put the employee in the dual role of advising HUD and Congress while also monitoring HANO.

The Secretary should replace the Executive Assistant to Mayor Morial. This individual was Mayor Morial's designee to fulfill all the necessary duties of the City under the CEA. Again, the Secretary has placed this member in the role of evaluating decisions that he was involved with or made. Further, the Advisory Council may not objectively address the City's role and responsibility for HANO.

In our opinion, the Advisory Council members should not include individuals who have made or were in the position to make management decisions resulting in HANO's current position. Further, it provides critics of the Advisory Council's decision with unnecessary ammunition. The Secretary should replace both of these members with individuals who have not had an active role in management decisions at HANO.

HUD Comments

HUD agreed with the recommendation that the Advisory Council should comply with the law and stated HUD had sent the overdue quarterly reports to Congress.

With respect to recommendation 3B, HUD stated: "…the HUD representative on the National Advisory Council is acceptable, provided she does not serve in a policy making capacity related to troubled agency recovery efforts or funding for HANO's programs. Therefore, PIH has instituted a separation of duties for the Deputy Assistant Secretary for Troubled Agency Recovery and has obtained her recusal from matters pertaining to HANO, other than the National Advisory Council."

OIG Evaluation of HUD's Comments

We acknowledge that HUD has recently taken steps to ensure that the Advisory Council reports to Congress.

However, this action does not negate the 15 months that HUD delayed in complying with the law.

HUD's response to our recommendation to replace two members only stated it would obtain a recusal from its Deputy Assistant Secretary of TARC in addressing the possible bias. A recusal does not change the Deputy Assistant Secretary's past involvement with HANO. Further, a recusal does not address the potential role of the Deputy Assistant Secretary TARC may have with HANO. HUD did not address the appointment of the Executive Assistant to Mayor Morial. As stated in the finding, these individuals expose HUD and the Advisory Council to potentially unnecessary criticism of bias. We amended our recommendation to specifically recommend the replacement of these two individuals.

HUD has used the Advisory Council in its response to all three findings in this report. HUD is taking the position it will wait for the Advisory Council before it takes any actions. This prompts us to add a recommendation to dissolve the Council. HUD not only delayed creating the Council for 15 months, but appointed individuals to the Council that were previously involved with HANO, creating a conflict of interest negating the work of the Council to date. The stated purpose of the Council is to determine whether or not HUD should seek a receiver. HUD's continuance of the CEA 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.

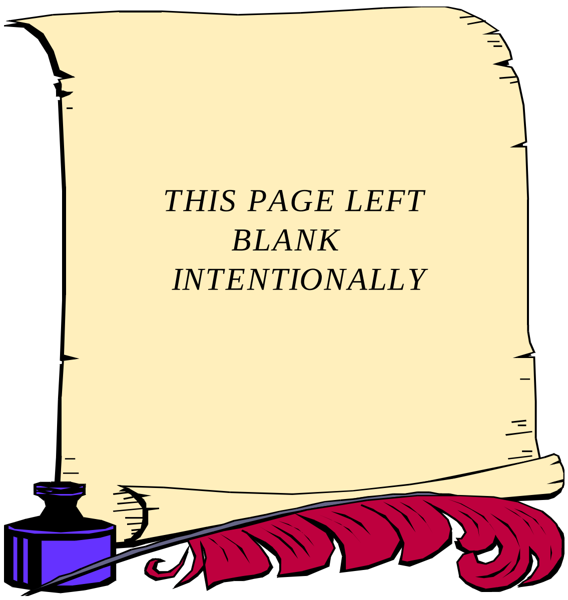
Recommendations

We recommend that HUD:

3A. Take measures to ensure that the Advisory Council complies with the law including making the required reports to Congress.

3B. For the two members discussed in the finding, HUD should replace them. Review the other Advisory Board selections and ensure the members do not have a vested interest in the Advisory Council's report to Congress.

3C. Decide on a course of action for HANO now. As noted in Findings 1 and 2, we highly suggest the Authority be split into smaller segments.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Management Controls

In planning and performing our audit, we obtained an understanding of the management controls relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined the following management controls were relevant to our audit objectives:

- Compliance with Federal Regulations
- Segregation of Duties
- Safeguarding of Assets
- Resolution of Audit Findings

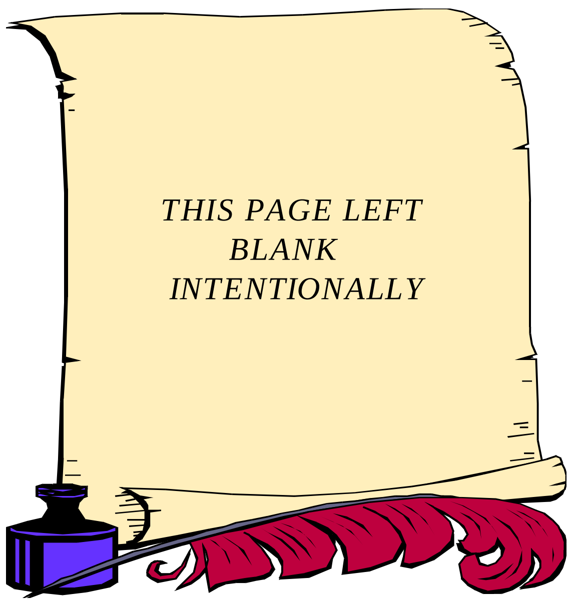
It is a significant weakness if management controls do not give reasonable assurance that resources are used consistently with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports. In our opinion, HUD management cannot assure that HANO complies with the regulations. We noted several instances where HUD management provided HANO with preferential treatment.[65]

Based upon our review, we believe the following items are significant weaknesses, in that HUD management lacks the controls to ensure:

- Safeguarding of assets (Finding 1);
- Efficient use of capital funding (Finding 2);
- Compliance with federal regulations including the Quality Housing and Work Responsibility Act of 1998 (Findings 1 and 3).

These weaknesses are more fully described in the findings section of this report.

[65] See Finding 1.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Auditee Comments

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

MAY - 2 2001

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: D. Michael Beard, District Inspector General for Audit, 6AGA

FROM: Gloria Cousar, Acting General Deputy Assistant Secretary, P

SUBJECT: Response to Draft Audit

The following response is provided to the draft audit report of the Housing Authority of New Orleans (HANO), issued February 27, 2001.

Recommendation 1:

A. Divide HANO into more manageable smaller authorities and non-profits. This includes completely separate ACC, Board of Commissioners, and employees.

B. In lieu of the above, HUD should put HANO under the supervision of the TARC and seek a receivership.

PIH Response:

PIH concurs with recommendation 1B, and in fact, the National Advisory Council will render a determination of significant improvement or not, following the 18 month period of Council activities. Based on that and on other significant performance measures, receivership could be one of the options considered for HANO. PIH, however, nonconcurs with the recommendation to divide HANO into smaller authorities and non-profits. PIH does not agree with proliferating the creation of small entities to fragment HANO activities.

Action Planned/Completed:

The Department has appointed the National Advisory Council which will provide a final finding to the Secretary and to the Congress following the closure of Council business in December, 2001. Additionally, PIH has designated a contractor, as noted in the draft audit report, as the Board of Commissioners for HANO, providing governance and oversight of HANO's day-to-day operations through December, 31, 2001.

Recommendation 2:

A. **Work with the City to create a non-profit responsible for complying with Section 202. The non-profit's responsibility would include the relocation of the tenants, demolishing and restoring of the site, and disposition of the assets. The non-profit would received its share of existing funds and would seek other funding.**

B. **Work with the City to create a non-profit responsible for all of HANO's existing Section 8 certificates and vouchers. The not-for-profit should work closely with HUD officials to ensure full utilization of certificates and vouchers.**

C. **Devise and equitable allocation of HANO's existing capital funds to the smaller housing authorities.**

D. **Require the smaller housing authorities to timely obligate and expend capital funds or recapture the funds.**

PIH Response:

PIH concurs with the recommendation that HANO contract out Section 8 program functions, which in fact, is occurring. HANO has awarded a contract to complete Section 8 inspections and is in the procurement process to locate a responsible and responsive vendor to process the Section 8 waiting list. However, PIH does not agree to create small housing authorities and non-profits to partition Section 202 activity or to further dilute the allocation of Capital Funds. The Department will consider, again based on the outcome of the National Advisory Council's final finding and performance measures, placing specific developments under private management that incorporates project based budget and accounting. The Department must take into consideration that HANO's employees are subject to Louisiana's Civil Service laws and regulations.

Action Planned/Completed:

The Advisory Council established preliminary standards and baseline measures to assess the agency's performance, assessed HANO's performance through the quarter ending December 31, 2000 and established additional measures for HANO which include:

- Quarterly milestones to track obligation and expenditure of Capital Funds within the statutory guidelines;
- Quarterly milestones for Section 8 department reorganization, including a decision on whether to outsource further program functions;

- Development schedules and quarterly milestones for HOPE VI and major modernization projects, including the relocation of families in redevelopment sites; and

- Quarterly milestones to reduce the agency's reliance on self-insurance and in managing current and future liability.

Recommendation 3:

A. Take measures to ensure that the Advisory Council complies with the law including making the required reports to Congress.

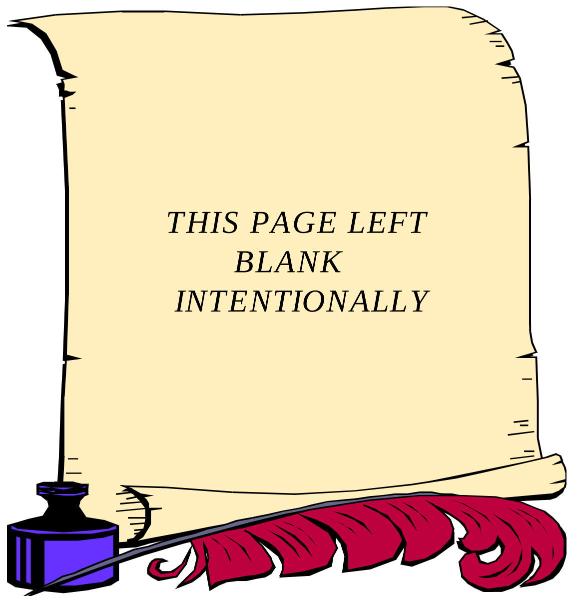
B. Review the Advisory Board selections and ensure the members do not have a vested interest in the Advisory Council's report to Congress.

PIH Response:

HUD concurs with recommendation 3A. With respect to recommendation 3B, it is the Department's understanding that the HUD representative on the National Advisory Council is acceptable, provided she does not serve in a policy making capacity related to troubled agency recovery efforts or funding for HANO's programs. Therefore, PIH has instituted a separation of duties for the Deputy Assistant Secretary for Troubled Agency Recovery and has obtained her recusal from matters pertaining to HANO, other than the National Advisory Council.

Action Planned/Completed:

The Quarterly Report for the Two Quarters ending December 31, 2000, has been transmitted to the Secretary and the Congress. The Quarterly Report for the Quarter ending March 31, 2001, has been completed and the transmittal letter is in the signature process.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Steve Redburn, Chief, Housing Branch, Office of Management and Budget
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