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TO: David R. Ziaya, Director, Field Operations Staff, PO

FROM: Daniel G. Temme, District Inspector General for Audit, Mid-Atlantic, 3AGA

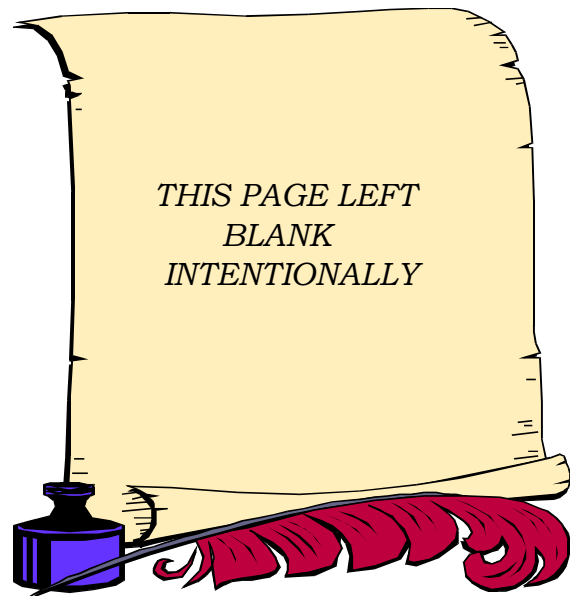
SUBJECT: Multi-location Review of HUD's Utilization of the Public Housing Assessment System

We completed a multi-location review to evaluate HUD's Utilization of the Public Housing Assessment System (PHAS). Altogether, we reviewed related operations at 10 Public and Indian Housing Hubs, Program and Community Service Centers, and 32 Public Housing Authorities. Generally, we found HUD staff has been using the PHAS scoring results in monitoring its Authority portfolio and in assisting Authorities to improve failing or low scoring components of the PHAS score. However, the Conference Report 106-988, which restricted HUD from taking any adverse action against an Authority that receives a failing PHAS score, has hindered the full implementation of the PHAS and thus limited its effectiveness in improving Authority performance, especially for the Authorities with the greatest need. Further, we identified three additional related PHAS issues.

Our report contains four findings with recommendations requiring action by your office. The four findings address recommendations to improve the effectiveness of the Public and Indian Housing operations.

Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

We appreciate the cooperation extended to us during the audit by the staff at Field Operations Headquarters, REAC, Public and Indian Housing Hubs, Program and Community Service Centers, and the Public Housing Authorities we visited. Should you or your staff have any questions, please contact Christine Begola at (410) 962-2520, Ext. 3117.



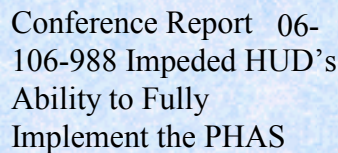
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# Executive Summary

We completed a multi-location review of HUD’s Utilization of the Public Housing Assessment System (PHAS). The objective of the audit was to determine whether the Public and Indian Housing Hubs, and Program and Community Service Centers are using the PHAS scoring results to monitor and assist Public Housing Authorities (Authorities) improve their performance, and take appropriate follow-up actions to ensure Life Threatening Exigent Health and Safety (EH&S) violations cited by the Real Estate Assessment Center (REAC) inspectors are corrected.

To accomplish our audit objectives, we selected and reviewed the monitoring activities at 10 Public and Indian Housing Hubs, and Program and Community Service Centers (collectively referred to as “Local HUD Offices”). Also, we selected 32 Authorities, where REAC inspectors previously identified EH&S violations, and performed follow-up inspections on the projects and units to determine whether the violations had been corrected within the required timeframes. The results of our review are summarized below, and detailed in the Finding section of this report.

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Conference Report 06-106-988 Impeded HUD’s Ability to Fully Implement the PHAS

Generally, we found HUD staff has been using the PHAS scoring results in monitoring its Authority portfolio and in assisting Authorities to improve failing or low scoring components of the PHAS score. However, the Conference Report 106-988, which restricted HUD from taking any adverse action against an Authority that receives a failing PHAS score, hindered HUD’s ability to fully implement the PHAS and thus limited its effectiveness in improving Authority performance, especially for the Authorities with the greatest need. Specifically, the Conference Report did not permit HUD to forward its worst performers (troubled) to one of two Troubled Agency Recovery Centers, where appropriate intervention strategies are to be developed and implemented to help troubled agencies perform at an acceptable level. Because of this restriction, Local HUD Offices have been using their limited resources to provide targeted technical assistance to these Authorities in addressing problem areas identified by the relevant PHAS indicators, using a less comprehensive approach than was provided for under the PHAS regulations. Meanwhile, the Troubled Agency Recovery Center’s role and functions in assisting troubled agencies has continued to erode with the centers now serving only 18 troubled and 29 non-troubled Authorities<sup>1</sup>.

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<sup>1</sup> Based on Troubled Agency Recovery Center’s inventory as of September 30, 2001

Authorities With Failing Management Operations Indicators Were Not Designated as Troubled Timely and Forwarded to the TARCs

Although the Conference Report 106-988 restricted HUD's ability to take adverse action against Authorities solely on the basis of the PHAS scores, HUD determined this moratorium did not apply to substandard designations that were based solely upon the Management Operations indicator. This determination was made because the indicator was a derivative of the Public Housing Management Assessment Program under which the Department had been operating prior to implementing PHAS. However, we found HUD did not always designate Authorities with failing Management Operations scores as troubled and/or forward them to the Troubled Agency Recovery Centers in a timely manner as was required under HUD requirements and existing protocol.

Authorities Are Not Correcting Exigent Health and Safety Violations

Further, we found Authorities were either not correcting or not correcting in a timely manner EH&S violations that were identified from REAC's physical inspections. Specifically, only 63 (16 percent) of the 392 deficiencies we selected for re-inspection had been corrected within the 24-hour requirement, while 111 (28 percent) of the 392 deficiencies had not yet been corrected by the time we completed our re-inspections. We completed our re-inspections anywhere from 281 to 585 days after REAC completed the inspections. Generally, we found the monitoring methods used by the Local HUD Offices to ensure Authorities corrected identified EH&S violations within 24 hours were inconsistent and not effective. Although most field offices required Authorities to provide some sort of certification that EH&S violations were corrected within 24 hours, limited actions were taken to verify if the reported results were accurate. As a result, many public housing residents are forced to live in conditions that are not decent, safe, and/or sanitary for extended periods of time.

Resident Service and Satisfaction Indicator of PHAS Is Not Being Used in HUD Monitoring of Authorities

Lastly, we found HUD was not providing assistance to Authorities that fail the Resident Service and Satisfaction indicator of PHAS. Generally, field office staff do not perceive this PHAS scoring indicator as important as the Physical, Financial, and Management indicators because of its limited scoring (10 points) value in determining the overall PHAS score (maximum 100 points), and the subjective way in which the score is determined (via resident survey). However, we feel this is contrary to the

## Recommendations

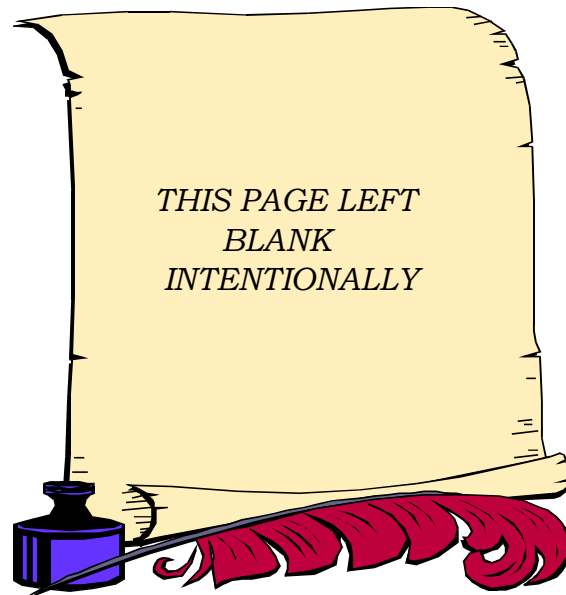
President's Executive Order 12862 in complying with customer service standards when providing significant services.

We made a number of recommendations to the Office of Public and Indian Housing (PIH) to improve HUD's use of PHAS in monitoring Public Housing Authorities. Key recommendations include:

- Within the constraints of the current PHAS regulations and Congressional directives, revise existing, and/or as may be appropriate, develop new protocol and PHAS processing guidelines to ensure Authorities with failing PHAS indicators are designated as troubled and forwarded to the Troubled Agency Recovery Center within a set timeframe.
- Implement policies that would require the Local HUD Offices to incorporate monitoring of EH&S violations into the risk assessment process and take appropriate administrative action and/or impose penalties on an Authority that falsely certifies to correcting identified EH&S violations when it has not.
- Establish consistent protocol to ensure all inspections are timely processed and entered into the system to ensure the Local HUD Offices are provided timely notification of the EH&S violations.
- Establish consistent protocol to ensure the HUD field offices are provided the proper guidance on providing technical assistance to the Authorities with low or failing Resident Assessment scores.

## Auditee Comments

We discussed the findings and recommendations with HUD staff and provided a draft of this report to the Deputy Assistant Secretary of Public and Indian Housing and other senior HUD management officials on April 3, 2002 for comment. We held an exit conference with the Deputy Assistant Secretary and other senior officials on April 13, 2002. HUD provided a written response to the draft report on April 29, 2002. Generally, HUD concurred with our findings and recommendations. We summarized and evaluated the responses in the findings and included the complete text of HUD's comments in Appendix B of this report.



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# Table of Contents

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Management Memorandum	i
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---

Executive Summary	iii
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Introduction	1
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## Findings

1 Conference Report 106-988 has Impeded Full Implementation of the PHAS	5
2 Authorities with Failing Management Operations Indicators were not Properly or Timely Designated as Troubled	15
3 HUD Monitoring Does Not Ensure Authorities Correct Life Threatening Exigent Health and Safety Violations	21
4 HUD Needs To Improve Its Oversight of Authorities with Low Resident Assessment Scores	27

---

Management Controls	31
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## Appendices

A. PHAS Implementation Timeline	33
B. Auditee Comments	35
C. Distribution Outside of HUD	37

## Abbreviations

ACC	Consolidated Annual Contributions Contract
CFR	Code of Federal Regulations
HUD	US Department of Housing and Urban Development
HUDCAPS	HUD's Central Accounting and Program System
EH&S	Life Threatening Exigent Health and Safety
GAO	General Accounting Office
LOCCS	Line of Credit Control System
OIG	Office of Inspector General
NAHRO	National Association of Housing and Redevelopment Officials
PIC	Public Housing Information Center
PIH	Public and Indian Housing
PHAS	Public Housing Assessment System
REAC	Real Estate Assessment Center
TARC	Troubled Agency Recovery Center



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# Introduction

On September 1, 1998 (63 FR 46596), HUD published a final rule, codified at 24 CFR part 902 that established a new system for the assessment of America's public housing. The PHAS was created to provide a significant oversight tool that effectively and fairly measures the performance of a public housing agency. The new PHAS replaced the Public Housing Management Assessment Program, which was largely a self-evaluation by the Authorities. The purpose of PHAS is to improve the delivery of services in public housing and enhance trust in the public housing system among the Authorities, residents, HUD, and the general public. Although the PHAS regulation became effective October 1, 1998, the final rule provided a one-year delayed implementation date. During this time, advisory PHAS scores were issued to the Authorities.

On January 11, 2000 (65 FR 1712), HUD issued an amended PHAS rule. The amendments were prompted by both statutory and administrative changes to the PHAS and comments from interested parties. The amended rule deferred full implementation of PHAS for Authorities with fiscal year end dates of September 30, 1999 and December 31, 1999. The amended rule also provided that these Authorities would receive an assessment score based only on the Management Operations indicator of the PHAS score. However, on June 6, 2000 (65 FR 36042) HUD issued a technical correction to amend Section 902.5(b) of the January 11, 2000 final rule which further delayed full implementation of PHAS for Authorities with fiscal years ending on or after June 30, 2000. Accordingly, HUD began issuing official PHAS scores for all Authorities with fiscal years ending on or after June 30, 2000. However, in HUD's fiscal year 2001 appropriations Conference Report 106-988, dated October 27, 2000, Congress directed HUD not to take any adverse action against Authorities solely as a result of their PHAS scores pending the submission of information relating to the objective evaluation of effectiveness and accuracy of the PHAS system. HUD has been operating under this directive since January 2001. The development of PHAS is also reflected in a timeline in Appendix A.

The PHAS provided for a comprehensive monitoring system of public housing operations. It also provided a consistent vehicle for portfolio oversight and for prioritizing and directing its resources to Authorities and multifamily properties. It centralized and standardized the way the Department evaluated the condition of approximately 3,200 Authorities and over 30,000 properties insured by the Federal Housing Administration and/or receiving project-based subsidy under the Section 8 programs.

Under the PHAS, HUD examines four essential areas of public housing operations to determine an Authority's performance in delivering HUD programs and services. These areas of operations are the Authority's: (1) Physical condition; (2) Financial condition; (3) Management operations; and (4) Resident satisfaction (through a resident survey) of the Authority's services.

HUD created the REAC in 1998 under the HUD 2020 Management Reform Plan to capture, standardize, improve, and evaluate the PHAS data concerning the properties that HUD monitors. REAC collects information and scores the physical condition of HUD assisted properties; financial condition of the entities that manage the properties; management capabilities of the public housing agencies; and satisfaction of the residents who reside in the properties. On the

basis of the results for the four indicators, an overall PHAS score is determined by the REAC. The score results advise Authorities of their performance and identify low scoring and failing Authorities so that these Authorities will receive the appropriate attention and assistance.

The PHAS score has a total point value of 100, which is comprised of 30 points each for the Physical, Financial, and Management Operations indicators, and 10 points for Resident Service and Satisfaction indicator. In order to receive a passing score or a “standard” performer designation, an Authority must receive an overall PHAS score of at least 60 percent and receive at least 60 percent (18 points out of the 30 points available) of the available points for each individual Physical, Financial and Management Operation indicators. A housing authority that achieves an overall PHAS score of 60 percent but fails one or more indicators for the Physical, Financial, or Management components will receive a “troubled” or “substandard” performer designation. When an Authority is determined to be “substandard or troubled”, PIH protocol provides that housing authorities receiving a “failing” score will be referred to one of two specialized Troubled Agency Recovery Centers, which will develop and implement an intervention strategy to bring the Authority’s score to a passing level. (See Finding 2).

HUD monitors Authorities to ensure that they are in compliance with the requirements of the PHAS and that effective controls are in place to prevent potential problems. The Local HUD Office uses a National Risk Assessment to identify, track, and review Authorities and help personnel analyze and plan for the technical assistance needs of a particular Authority based on its Risk Assessment score. (See Finding 1).

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### Audit Objectives

The primary objective of our review was to evaluate HUD’s utilization of the PHAS. Specifically, to determine how the Local HUD Offices are using the PHAS scores to provide technical assistance and appropriate follow-up actions to correct the EH&S violations at the Authorities.

### Audit Scope and Methodology

To achieve our objectives we:

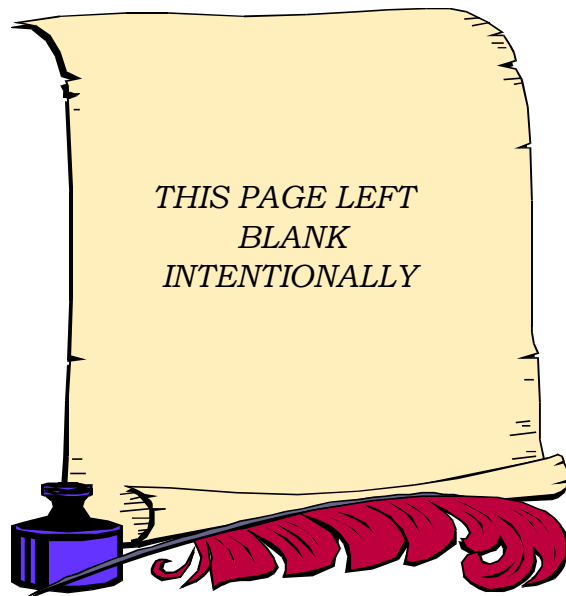
- Interviewed HUD staff (REAC, PIH Headquarters, and Local HUD Offices) and various housing authority staff at the Authorities visited during our view.
- Selected 10 Local HUD Offices to conduct our review. The selections were based on suggestions by HUD staff, housing authority inventory profiles, and the location of the office in correlation to others to ensure adequate nationwide coverage.
- Reviewed the appropriate Federal requirements, Department notices and internal directives in relation to

PHAS, and HUD's existing protocols for servicing troubled Authorities between departments and the various policies and procedures implemented at the field level.

- Discussed with GAO if any follow-up work was being completed as a result of recent audits that included PHAS related issues.
- Visited 32 Authorities and conducted follow-up inspections of 392 life threatening EH&S violations noted by REAC. We selected the Authorities based on their location to the Local HUD Office, physical score and the number of EH&S violations presented. The EH&S violations were selected randomly from the Inspection Summary sheet.

In addition we used audit related software to analyze the databases maintained by REAC to determine the sites and locations of our review.

The audit generally covered the period January 2000 through December 2000, but was expanded when necessary to include other periods. We conducted the audit in accordance with the Generally Accepted Government Auditing Standards.



## Conference Report 106-988 has Impeded Full Implementation of the PHAS

Generally, we found HUD staff has been using the PHAS scoring results in monitoring its Authority portfolio and in assisting Authorities to improve failing or low scoring components of the PHAS score. However, the Conference Report 106-988, which restricted HUD from taking any adverse action against an Authority that receives a failing PHAS score, hindered HUD's ability to fully implement the PHAS and thus limited its effectiveness in improving Authority performance, especially for the Authorities with the greatest need. Specifically, the Conference Report did not permit HUD to forward its worst performers (troubled) to one of two Troubled Agency Recovery Centers, where appropriate intervention strategies are to be developed and implemented to help troubled Authorities perform at an acceptable level. Because of this restriction, Local HUD Offices have been using their limited resources to provide targeted technical assistance to these Authorities in addressing problem areas identified by the relevant PHAS indicators, using a less comprehensive approach than was provided for under the PHAS regulations. Meanwhile, the Troubled Agency Recovery Center's role and functions in assisting troubled agencies has continued to erode with the Troubled Agency Recovery Centers now serving only 18 troubled and 29 non-troubled Authorities<sup>2</sup>. As a result, HUD's poorest performing Authorities are not receiving the level of assistance needed to develop and implement comprehensive recovery plans to improve their operations, thereby not ensuring public housing residents receive decent, safe, and sanitary housing.

Conference Report  
106-988 Limited HUD's  
Ability to Fully  
Implement PHAS

Under the directives of the Conference Report 106-988, HUD was prohibited from taking any "adverse action" against Authorities solely on the basis of the PHAS scores. Adverse action was defined as designating an Authority as troubled based upon the official PHAS composite score. With the exception of the Management Operations indicator, all Authorities designated as overall troubled or substandard Physical or Financial were affected by this directive. HUD determined that the Management Operations indicator should be excluded from this moratorium because it served as the sole assessment for public housing agencies with fiscal years ending September 30, 1999; December 31, 1999; and March 31, 2000. In addition, the Management Operations indicator was a direct derivative of the Public Housing Management Assessment Program that PHAS replaced.

<sup>2</sup> Inventory as of September 30, 2001

Finding 1

Under HUD’s Public and Indian Housing protocol, once an Authority is designated as troubled, it will be referred to one of two specialized Troubled Agency Recovery Centers, that will develop and implement an intervention strategy to bring the Authority to a passing score. If after two years in the Troubled Agency Recovery Center, the Authority has not achieved a passing score, the Assistant Secretary for the Office of Public and Indian Housing will refer the troubled Authority to the Departmental Enforcement Center to petition the court for receivership or other enforcement activity. However, because of restrictions imposed by the Conference Report, only 8 of the more than 900 Authorities<sup>3</sup> that could have been designated as troubled and transferred to the Troubled Agency Recovery Center were actually transferred in fiscal year 2001. A summary of the Troubled Agency Recovery Center’s potential and actual portfolio for FY 2000 and FY 2001 follows:

**Troubled Agency Recovery Center Portfolio FY 2000 vs. FY 2001**

	TARC Portfolio Sept 00	Authorities actually Transferred to TARC based on MASS Score in 2001 <sup>4</sup>	Authorities Transferred in/(out) of TARC in 2001 (not MASS related)	TARC Portfolio Sept 01	Authorities that could have been transferred to TARC <sup>5</sup>
Authorities Not Scored					470 <sup>6</sup>
Overall Failing PHAS Score					45 <sup>7</sup>
Substandard Physical					188
Substandard Financial					205
Substandard Management		8		8	43 <sup>8</sup>
Troubled	45		(35 <sup>9</sup> )	10	
Non-Troubled	23		6 <sup>10</sup>	29	

<sup>3</sup> Based on HUD’s inventory as of February 2001

<sup>4</sup> As of September 30, 2001

<sup>5</sup> Based on HUD’s inventory as of February 13, 2001 and if PHAS was fully implemented

<sup>6</sup> Authorities that were not scored should have been issued an overall failing score and forwarded to the Troubled Agency Recovery Centers for failure to submit their PHAS certifications timely as of FYEs of 12/31/99, 3/31/00, 6/30/00, and 9/30/00.

<sup>7</sup> Number includes scores for 10 housing authorities that also received a failing Management Operations score

<sup>8</sup> Includes 10 Authorities that also had an overall failing PHAS score and are included in the overall failing PHAS score section. Under Notice PIH 2001-5 (HUD), Conference Report 106-988 did not apply to Management Operations component

<sup>9</sup> 15 Authorities were reclassified as non-troubled Authorities and 20 formerly troubled Authorities were transferred back to the Local HUD Office

<sup>10</sup> 15 Troubled Authorities that recovered were retained by Troubled Agency Recovery Centers, 10 non-troubled Authorities were transferred back to the Local HUD Office, one non-troubled PHA was transferred from the Local HUD Office to TARC

As the table above illustrates, no Authorities that received an overall failing PHAS score or a failing score for the Physical or Financial components of PHAS were transferred to the Troubled Agency Recovery Centers for servicing in fiscal year 2001. Furthermore, of the 43 Authorities that received a failing Management Operations score, only 8 were transferred to the Troubled Agency Recovery Centers in fiscal year 2001. (Finding 2).

HUD 2020 Created  
TARCs to Assist  
Troubled Authorities

The Troubled Agency Recovery Centers were created under HUD 2020 to specifically deal with troubled Authorities. Under the reform, HUD said it recognized that it needed to take greater efforts to turn around troubled Authorities. But it also realized recovery efforts required intense staff attention and targeted assistance, which was difficult to allocate under its old organization, given the competing priorities for administering a multitude of programs with limited staff resources. Further, under the Troubled Agency Recovery Center structure, comprehensive recovery plans through a Memorandum of Agreement were to be developed and implemented to help a troubled agency perform at an acceptable level.

When the Troubled Agency Recovery Centers were established in 1998, HUD estimated 575 troubled Authorities would be identified through the REAC's new PHAS scoring process and staffed the centers accordingly. Under the PHAS regulations, Authorities with an overall failing composite score, or those failing either the Financial, Physical or Management indicators were to be automatically referred to the Troubled Agency Recovery Centers. The Troubled Agency Recovery Center in turn had the administrative discretion of sending troubled Authorities, with one failing indicator, back to the appropriate Local HUD Office for servicing.

TARC Troubled  
Authority Portfolio  
Continues to Decline

In October 1998, HUD reported the Troubled Agency Recovery Centers to be fully operational. However, an OIG survey in September 1999 found that the centers were operating at less than 10 percent of their planned capacity. The continued delays in implementing the PHAS limited the number of Authorities that were officially designated as troubled and forwarded to the Troubled Agency Recovery Centers for servicing. A subsequent OIG report (2001-AT-0002), issued in August 2001, found similar deficiencies.



As the table on page 6 demonstrates, the Troubled Agency Recovery Center's role and functions in assisting troubled agencies has continued to erode with the centers now serving only 18 troubled and 29 non-troubled Authorities<sup>11</sup>. As a result, HUD's poorest performing Authorities are not receiving the level of assistance needed to develop and implement comprehensive recovery plans to improve their operations, and thereby ensure its public housing residents receive decent, safe, and sanitary housing.

HUD Delays  
Implementation of PHAS  
due to Questions Raised  
by GAO and Congress

PHAS scores were originally scheduled to become official, starting for those Authorities whose fiscal year ended September 30, 1999. However, GAO reports had raised questions about the implementation of PHAS concerning the reliability of data, particularly in the area of physical inspections. This prompted HUD to delay making the PHAS scores official until after June 30, 2000.

HUD again delayed making the PHAS scores official when Congress directed it in a Conference Report dated October 18, 2000 (Congressional Appropriations Report 106-988), to take no adverse action against an Authority solely on the basis of PHAS scores until the results can be considered reliable. Specifically, the Conference Report for the Department's Fiscal Year Appropriations Act directed HUD to continue to assess the accuracy and effectiveness of the PHAS system, perform a statistical valid test of PHAS, conduct a thorough analysis of the results, and have the methodology and results reviewed by an independent expert before taking any adverse action against an Authority based solely on its PHAS score. Further, the conferees asked HUD to provide a report to the Committee on Appropriations by March 1, 2001, describing the results of these reviews and the steps taken to improve the accuracy and reliability of PHAS. In the interim, HUD was directed not to take any adverse action against a housing authority solely on the basis of the PHAS scores. HUD provided the Committee this report on March 1, 2001, but at the end of our audit no determination had yet been made as to whether the moratorium would be lifted.

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<sup>11</sup> Inventory as of September 30, 2001



On May 30, 2001, HUD issued a revised timetable for implementation of PHAS. While the Management Operations indicator continued to be the official assessment score for Authorities with fiscal years ending on June 30, 2000 through June 30, 2001, HUD conducted informal consultations with Authorities, public housing residents, housing advocacy representatives such as the National Association of Housing and Redevelopment Officials (NAHRO), and others to identify ways to improve HUD's procedures for assessing the Authority performance.

HUD Issues Notice to Field Staff on Implementing Conference Report Directives

In response to the Conference Report, in January 2001, HUD's Assistant Secretary for Public and Indian Housing issued a Notice PIH 2001-5 (HUD). The notice provided guidance to field staff for implementing the directives contained in the Conference Report 106-988. Under the notice, the Assistant Secretary also instructed staff that the moratorium did not apply to the Management Operations indicator because it was a derivative of the Public Housing Management Assessment Program, which was HUD's longstanding official assessment tool prior to PHAS.

HUD Issues Interim Guidance for Field Staff to Provide Targeted Technical Assistance

Further, realizing the importance of using the PHAS data in its monitoring and technical assistance activities, the Assistant Secretary for Public and Indian Housing responded to the restrictions imposed by the Conference Report by issuing an internal memorandum entitled "Interim Guidance for PHAS Scores for 6/30/00 Authorities and Management Operations Scores of Less Than 60 percent for FYEs 9/30/99, 12/31/99, and 3/31/00". The Interim Guidance instructed staff, pending the resolution of the issues raised in the Conference Report, to begin a process of providing targeted technical assistance to Authorities to address problem areas identified by the PHAS indicators. Specifically, a technical assistance strategy using a Corrective Action Plan (CAP) was to be implemented for all deficiencies for Authorities that received an overall failing score (less than 60 percent) or failed the Management, Physical or Financial indicators of PHAS. For Authorities that failed the Management Operations indicator, the field offices were instructed to forward those Authorities to the Troubled Agency Recovery Centers for servicing. The Local HUD Offices were also instructed to retain servicing responsibility for the Authority during the period from the posting of the score by

the REAC through the conclusion of the appeal process afforded the Authority.

From an inventory servicing perspective, the Conference Report and ensuing Interim Guidance maintain most of the monitoring, technical assistance and recovery efforts at the field office level. However, under HUD's 2020 reform initiative, field office resources (personnel and funding) were realigned so their primary focus would be in providing Authorities with declining performance appropriate technical assistance to prevent them from going into troubled status. The result is that many Local HUD Offices are forced to use a substantial amount of their limited resources to service troubled Authorities (overall and/or failing indicators) rather than focusing their efforts on Authorities with declining performance.

HUD used PHAS Scoring Results to Monitor and Provide Technical Assistance to Authorities

In spite of the restrictions created by the Conference Report, our review at HUD's Office of Public and Indian Housing Field Operations in Washington DC and at 10 Local HUD Offices showed that HUD was using the PHAS scoring results to develop and implement the Authority monitoring plans and in assisting Authorities to improve failing or low scoring PHAS components. Specifically, Public and Indian Housing was using PHAS scoring results to: (1) perform an Annual Risk Assessment of its Authority portfolio; (2) develop its local monitoring plans; and (3) ensure Authorities develop Corrective Action Plans to address PHAS deficiencies. Details of these issues follow.

HUD used PHAS to Complete an Annual Risk Assessment of its Authorities

A major component of HUD's monitoring strategy is to complete an Annual Risk Assessment of its housing authority portfolio. In this manner, HUD feels it can best identify and target the Authorities that have the greatest need of technical assistance and oversight. This is especially true since HUD has both limited financial and personnel resources to monitor and provide technical assistance to its more than 3200 Authorities. We found all 10 Local HUD Offices we reviewed performed an annual risk assessment of their respective Authority portfolios using the results of the Public Housing Information Center National Risk Assessment, with PHAS being the major component used in the annual risk assessment process. Furthermore, we found the Local HUD Offices generally

used these risk assessments to target the Authorities they provided technical assistance and oversight to in FY 2001.

In October 2000, HUD Public and Indian Housing completed its first National Risk Assessment of its Public Housing Authority portfolio. This National Risk Assessment was completed through a subsystem of the Public Housing Information Center. The National Risk Assessment subsystem was developed to compile, assign risk points, and rank relative Authority risks from numerous data sources including PHAS, Public Housing Information Center (PIC), Line of Credit Control System (LOCCS), HUDCAPS and other internal HUD information systems. After the subsystem generates its initial ranking of the Authorities, the Local HUD Office retrieves the scores and determines whether any local issues warrant adjustments to the initial risk ranking. These local issues may include the Authority's hiring of a new executive director, excessive tenant complaints, negative media coverage, inaccurate or late reporting to the field office, and OIG reports that have been issued on the Authority.

Local HUD Offices Used  
PHAS to Develop Local  
Monitoring Plans

Generally, we found the 10 Local HUD Offices we reviewed used the results from the National Risk Assessment in formulating their local monitoring plans. Further, when staff were aware of or identified significant local issues that were not reflected in the initial ranking, monitoring plans were appropriately adjusted and documented by HUD staff. For example, the Nashville Program Center decided to select the Waverly Housing Authority in Tennessee for an on-site monitoring review, during its risk ranking process, even though it had a moderate risk assessment score. It did so because the Housing Authority staff 1) lacked necessary skills to carryout the Authority's functions; 2) routinely missed reporting deadlines; and, 3) had excessive tenant complaints.

In another example, the Cincinnati Community Service Center selected the Warren Metropolitan Housing Authority in Lebanon, Ohio for an on-site monitoring review because, among other issues, it failed to take appropriate action to close recommendations made in an OIG audit report. This system of considering both the National Risk Assessment results and Authority local

conditions in developing a monitoring strategy, affords the local field offices the flexibility to determine the best monitoring strategy for the Authorities within their jurisdiction.

Corrective Action Plans are being Developed to Improve Low Scoring PHAS Components

Under the Conference Report 106-988 for HUD's fiscal year 2001 Appropriation Act, Congress directed HUD not to take any adverse action against Authorities solely on the basis of their PHAS scores. Consequently, HUD has not been able to forward troubled Authorities, as defined under 24 CFR 902.75, to its two Troubled Agency Recovery Centers for remedial action. To ensure HUD field staff continued to use PHAS data in their monitoring and technical assistance efforts during the moratorium, the Assistant Secretary for Public and Indian Housing issued a memorandum to staff on January 11, 2001. The memorandum instructed field offices to begin the process of providing targeted technical assistance to Authorities with failing PHAS scores or indicators immediately after the REAC posts the indicator scores on their website. For the Authorities with failed Physical and Financial indicator scores, a technical assistance strategy via a Corrective Action Plan should have been implemented for all deficiencies identified for FY June 30, 2000. The Corrective Action Plan was defined as the definitive road map to be used by the Authority to guide it to acceptable performance in the areas identified as problems. It was also defined as the instrument to be used by HUD to track the Authority's progress in meeting the identified goal.

We found all 10 Local HUD Offices we reviewed were generally implementing or in the process of implementing the Assistant Secretary's Interim Guidance. Specifically, we reviewed Corrective Action Plan requests for a sample of Authorities that were scored as of February 13, 2001 and had a failing Physical or Financial indicator. We found 15 of the 16 failed indicators, for Authorities with a year-end of June 30, 2000 and September 30, 2000, had failed Physical or Financial indicator scores and were addressed via a request for a Corrective Action Plan. In addition to a request for a Corrective Action Plan, the field office staff also utilized these scores as a basis to conduct a performance review of four of the Authorities.

Further, although the Interim Guidance targeted Authorities with a June 30, 2000 or later year-end, we found many of the Local HUD Offices were also requesting Corrective Action Plans for some of their Authorities whose fiscal year ended December 31, 1999 and March 31, 2000. Of 35 failed indicators for these Authorities, 13 indicators were addressed via a field office request for a Corrective Action Plan. Also, 12 of the failed indicators prompted the Local HUD Office staff to conduct reviews of the Authority's operations to confirm the scores. In summary, the Local HUD Offices have been using the PHAS scores as the Assistant Secretary instructed in his Interim Guidance and in some instances, exceeding the Assistant Secretary's directive by providing additional technical assistance to the Authorities outside the purview of the memorandum.

Interim PHAS Scoring  
Notice Dated March 15,  
2002 Revised PHAS  
Scoring Methods

On March 15, 2002, a notice was issued in the Federal Register (67 FR 11844) that announced Public Housing Authorities with fiscal years ending September 30, 2001 through and including September 30, 2002 will be assessed under the PHAS in accordance with interim scoring procedures described in notices published in the Federal Register on November 26, 2001 (66 FR 59080). The interim scoring notice stated the designated Authorities would receive an overall PHAS score based on the four PHAS indicator scores using the revised scoring methodologies for the PHAS Physical Condition and Financial Condition Indicators. Since the directives of the most recent notice had not yet been implemented, we could not assess what impact it would have, if any, on monitoring of the housing authorities by the Local HUD Offices and the Troubled Agency Recovery Centers. However, the Interim Scoring Notice will prevent the PHAS from being fully implemented as it was originally designed.

## Auditee Comments

HUD recommended we revise the report and either revise or eliminate the recommendation to Finding 1 due to the release of the Federal Register Notice on Interim Scoring of PHAS on March 15, 2002. HUD indicated it believed the notice allowed them to fully implement the PHAS. Further, HUD indicated the notice released them from the restriction cited in the Conference Report 106-988. HUD also requested the OIG update the table containing the Troubled Agency Recovery Center inventory balance as of 9/30/01

with the current information provided at the Exit Conference.

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OIG Evaluation of  
Auditee Comments

Based on the submitted comments, we revised the report to include a description of purpose and content of the March 15, 2002 Interim Scoring Notice. However, since the notice was just released and HUD has not yet had sufficient time to fully implement its provisions, we could not assess what impact this Interim notice would have, if any, on the monitoring of the housing authorities by Local HUD Offices and Troubled Agency Recovery Centers. This is especially true since past PHAS Notices on implementing PHAS often were later delayed. Also, we note that the most recent notice only calls for an Interim scoring for a limited time period. Thus, it is unlikely full implementation of the PHAS, as it was originally intended, can take place until at least 2003.

In addition, we reviewed the information HUD provided concerning the Troubled Agency Recovery Center portfolio as of 9/30/01. According to the information provided by the Department at the exit conference the Troubled Agency Recovery Center portfolio contained 56 Authorities not the 47 as presented in the finding. Upon further review of the information, the nine Authorities represent cases where the TARC staff provided assistance to Authorities that were not a part of the TARC portfolio. Since our chart documents the actual portfolio of the TARC, we have not adjusted our chart.

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Recommendations

We recommend the Office of Public and Indian Housing:

- 1A. Ensure its Local HUD Offices continue to implement PHAS to the maximum extent possible within the constraints of the Conference Report and the March 15, 2002 Interim Scoring Notice.

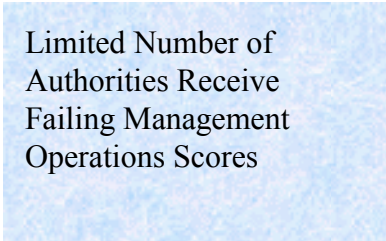


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## Authorities with Failing Management Operations Indicators were not Properly or Timely Designated as Troubled

Contrary to HUD requirements, Authorities with failing Management Operations indicators were not timely designated as troubled, and forwarded to the Troubled Agency Recovery Centers for servicing. Specifically, we found 13 of 43 Authorities<sup>12</sup> with a failing Management Operations indicator were not properly designated as troubled and forwarded to one of the two Troubled Agency Recovery Centers. Further, although 17 of the 43 Authorities with failing Management Operations indicators successfully improved their Management Operations scores through the appeal process, we noted 12 of the 17 received their final FY 2000 Management Operations score at least 220 days after the certification due date, with six receiving their final score more than 359 days past the due date. This occurred because Authorities were not timely submitting their Management Operations indicator certifications to REAC for processing; HUD did not take action against Authorities that failed to submit their Management Certification; and time frames for processing Authority appeals were not always adhered to by HUD. Consequently, Authorities with identified management deficiencies were not always provided timely technical assistance to improve deficiencies identified in their management operations.

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Limited Number of Authorities Receive Failing Management Operations Scores

As of February 13, 2001, 43 Authorities in HUD's public housing database of 3,179 received a failing Management Operations indicator [received less than 60 percent (18 points) of the available 30 points]. We found 30 of the Authorities were processed consistent with the requirements of Notice PIH 2001-5, while the remaining 13 Authorities received treatment that was inconsistent with the directions of the notice. The results are summarized in the table below:

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<sup>12</sup> Inventory as of February 13, 2001

Summary of FY 2000 Management Operations Troubled PHA Inventory <sup>12</sup>	Total Authorities
Designated as troubled and transferred to TARC	3
Designated as troubled and remanded to Local HUD Office	2
Designated troubled prior to issuance of the FY 2000 Management Operations score and subsequently transferred to the Local HUD Office	4
Designated troubled prior to issuance of the FY 2000 Management Operations score and remained in the TARC's inventory	4
Appealed and improved their FY 2000 Management Operations score to a passing score (18 points and above)	17
Received failed FY 2000 Management Operations score but were never designated as troubled and forwarded to TARC	13
<b>Total Authorities</b>	<b>43</b>

Not all Authorities with a Failing Management Operations Indicator were Designated as Troubled and Forwarded to the TARC

Under Federal Register Notice Vol. 66, No. 104 (Docket No. FR-4687-N-01) the Management Operations indicator under PHAS was the official assessment for Authorities. Further, under Notice PIH 2001-5 (HUD)<sup>13</sup>, the Assistant Secretary for Public and Indian Housing instructed the Public Housing Field Office and Troubled Agency Recovery Center staff that the moratorium under the Conference Report 106-988, that directed HUD not to take adverse action against housing authorities solely on the basis of the PHAS score, did not apply to the Management Operations indicator. Accordingly, Authorities with fiscal years ending September 30, 1999 through June 30, 2001 received an official assessment score solely on the basis of their Management Operations indicator. As such, pursuant to the Protocols for HUD servicing of troubled Authorities dated March 28, 2000, these Authorities were to be forwarded to one of the Troubled Agency Recovery Centers for servicing.

<sup>12</sup> Inventory as of February 13, 2001

<sup>13</sup> Guidance for Implementation of Direction Contained in the Conference Report 106-988 for the Department's Fiscal Year 2001 Appropriations Act



Of the 43 Authorities that received a failing Management Operations indicator for fiscal year 2000<sup>14</sup>, 13 Authorities were not properly designated troubled and forwarded to the TARC for technical assistance as was required. All of these Authorities submitted their management certifications well beyond the due date, with seven submitting their management certifications at least 115 days beyond their due dates and one 421 days late. Also, 5 of the 13 Authorities requested an appeal of their scores but none were approved.

However, we noted 10 of the 13 Authorities that failed their Management Operations indicator for fiscal year 2000 received a passing Management Operations indicator in fiscal year 2001. While the improvement of the Management Operations indicators from fiscal year 2000 to fiscal year 2001 is encouraging, HUD should have initiated appropriate action to designate Authorities that received a failing Management Operations indicator for fiscal year 2000 as troubled and forwarded them to the Troubled Agency Recovery Center for servicing according to HUD regulations, policy and established protocol.

The objective of the Management Operations indicator is to measure certain key management operations and responsibilities of an Authority for the purpose of assessing the Authority's management operations capabilities. The Management Operations score provides the Local HUD Offices a tool for identifying potential deficiencies in the Authority's management and in the Authority's ability to meet its obligation to provide decent, safe, and sanitary housing to low income individuals and families. When an Authority fails its Management Operations indicator, Public and Indian Housing is on notice that this Authority is having problems that need to be addressed in a more expeditious manner.

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<sup>14</sup> From entire PHA database as of February 13, 2001

Management Operations  
Scoring Appeals were not  
Processed Timely

According to 24 CFR 902.69, if an Authority believes that an objectively verifiable and material error (or errors) exists in any of the scores for its PHAS Indicators, which, if corrected, will result in a significant change in the Authority's PHAS score and its designation (i.e., as troubled, standard, or high performer), the Authority may appeal its PHAS score. To appeal a troubled designation, an Authority must submit a written request to the Director of the REAC no later than 30 days following the issuance of the overall PHAS score to the Authority. If REAC determines that the Authority has an objectively verifiable and material error, a Board of Review should convene to evaluate the appeal. HUD will make final decisions of appeals within 30 days of receipt of an appeal, and may extend this period for an additional 30 days if further inquiry is necessary. We found 17 of the 43 Authorities with failing Management Operations indicators successfully improved their Management Operations scores through the appeal process. However, we noted 12 of the 17 received their final FY 2000 Management Operations score at least 220 days after the certification due date, with six receiving their final score more than 359 days past the due date.

In addition to HUD not following the prescribed time frames for processing Authority appeals, we found a number of Authorities used the appeals process to correct reporting errors that initially resulted in their receipt of a failed Management Operations score. These inaccurate scores were primarily caused by data entry errors by the Authority when they submitted their management data to HUD. Although the technical assistance provided by the Local HUD Office staff to these Authorities enabled the Authorities to improve their scores, it required HUD staff to devote substantial time that could have been better used to perform monitoring activities on Authorities with real deficiencies.

Auditee Comments

As a result of release of the Notice on Interim scoring for PHAS Physical and Financial Condition Indicators dated March 15, 2002, HUD recommended we eliminate or revise our recommendations to incorporate the use of failing indicators for Physical condition and/or Financial condition as a means for designating Troubled or Troubled Substandard PHAs.

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OIG Evaluation of  
Auditee Comments

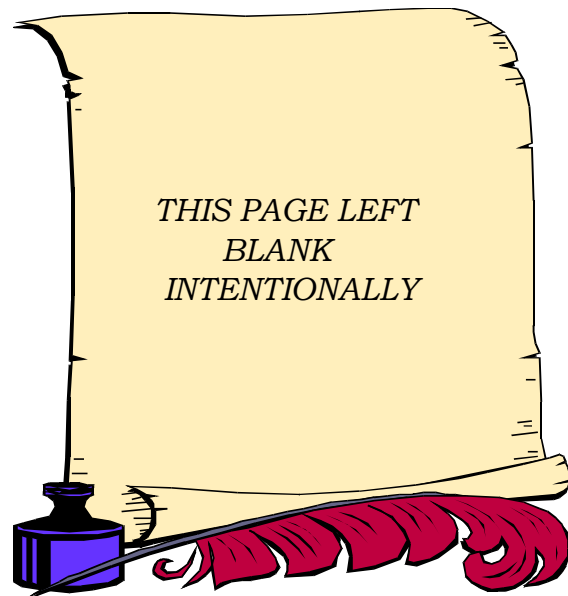
Based upon review of the Interim Guidance issued on March 15, 2002, we revised and consolidated our recommendations to include all PHAS indicators and not just the Management Operations indicator as was previously presented.

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Recommendations

We recommend the Office of Public and Indian Housing:

- 2A. Within the constraints of the current PHAS regulations and Congressional directives, revise existing, and/or as may be appropriate, develop new protocol and PHAS processing guidelines to ensure housing authorities with failing PHAS indicators are designated as troubled and forwarded to the Troubled Agency Recovery Center within a set timeframe.



# HUD Monitoring Does Not Ensure Authorities Correct Life Threatening Exigent Health and Safety Violations

We found the Housing Authorities were either not correcting or not correcting in a timely manner the Life Threatening Exigent Health and Safety (EH&S) violations that were identified from REAC's physical inspections. Specifically, only 63 (16 percent) of the 392 deficiencies we selected for re-inspection had been corrected within the required 24-hour period while 111 (28 percent) of the 392 deficiencies had never been corrected. We completed our re-inspections anywhere from 281 to 585 days after REAC completed its inspections. Generally, we found the monitoring methods used by Local HUD Offices to ensure Authorities corrected identified EH&S violations within 24 hours were inconsistent and not effective. As a result, many public housing residents are forced to live in conditions that are not decent, safe, and/or sanitary for extended periods of time.

## Physical Indicator Standards

In order to make a physical assessment of the housing authorities, the Physical Condition Indicator was implemented with the PHAS score. The objective of the Physical Condition Indicator is to determine whether an Authority is meeting the standard of decent, safe, and sanitary housing. In order to accomplish this, REAC provides for an independent physical inspection of an Authority's property to determine if the decent, safe, and sanitary standard is being met. These standards address the major physical areas of public housing: site; building exterior; building systems; dwelling units; and common areas. In addition these standards identify health and safety considerations.

## Inspection Process

Using a hand held computer to log the results of the inspection, the inspector looks for deficiencies for each inspectable item. When reviewing the health and safety concerns the inspector looks for items such as, air quality, electrical hazards, emergency and fire exits, flammable materials, garbage and debris, handrail hazards, infestation and lead-base paint. For example, the buildings must have fire exits that are not blocked and have handrails that are undamaged and have no other observable deficiencies.

Once the inspection is completed the inspector transmits the results to REAC where the results are verified for accuracy and then scored. However, to ensure prompt corrective action of the EH&S issues, the inspector gives the property representative the list of every observed EH&S violation that calls for immediate attention. The property representative acknowledges receipt of the violation report by signature. According to Title 24 CFR 901.25, the correction of EH&S violations has to be completed within 24 hours or less. Furthermore, Section 4 of the Authority's Consolidated Annual Contributions Contract (ACC) requires Authorities at all times to develop and operate each of its projects solely for the purpose of providing decent, safe, and sanitary housing for the eligible families.

Authorities are not Correcting EH&S Violations Timely

For our review, we selected 10 Local HUD Offices and visited 32 Authorities. Generally, we selected properties with the lowest score for the Physical Indicator, that also included EH&S violations. Altogether, we selected 392 EH&S violations from REAC's inspection sheets and re-inspected the units to determine if the deficiencies had been corrected and if they were done so within the 24-hour timeframe. By reviewing project work orders and discussing the deficiencies with the tenants, we found that 16 percent of the EH&S violations were corrected within 24 hours. We also found 28 percent of the EH&S violations were not corrected within 24 hours of the REAC inspection, while 28 percent of the violations were never corrected. For 27 percent of the violations we were unable to determine whether the EH&S violations were corrected within the 24-hour guideline because the housing authority did not have the proper paper work to support the correction. The result of our re-inspection is illustrated below:

### Summary of Results of Re-inspection of the EH&S Violations

Field Office	Total Deficiencies Re-inspected	Deficiency Corrected		Violations Corrected Within 24 Hours of REAC Inspection		
		Yes	No	Yes	No	Unknown
Chicago HUB	27	14	13	0	3	11
Cincinnati CSC	38	32	6	23	3	6
Denver HUB	15	15	0	6	5	4
Fort Worth HUB	65	40	25	11	20	9
Nashville HUB	30	27	3	9	17	1
Newark HUB	46	27	19	6	11	10
Philadelphia HUB	34	23	11	3	3	17
Pittsburgh HUB	16	10	6	3	3	4
Richmond PC	72	60	12	0	38	22
San Francisco HUB	49	33	16	2	8	23
<b>Total</b>	<b>392</b>	<b>281</b>	<b>111</b>	<b>63</b>	<b>111</b>	<b>107</b>

**Note:** Based on the information collected at the time of our re-inspection of 392 deficiencies identified in the REAC Inspection Summary Reports, we confirmed 63 of the 392 deficiencies were corrected within the 24-hour timeframe. We relied on the information contained on work orders, tenant responses, and observation of the deficiencies for confirmation.

#### EH&S Violations Not Timely Posted to REAC's Website

As we noted above, the inspector provides a copy of the EH&S violations to the Authority's representative and sends a copy of the deficiency report to REAC by the next day. REAC stated that the reports are available on the website eight hours after they have been submitted. However, we noted during our review that the Local HUD Offices often did not receive notice of the inspection results timely, some taking up to six months after the inspection when the results were actually posted on the REAC website. The EH&S Report provided to the Authorities upon completion of the inspection states, "The Offices of Housing and Public Housing require all exigent hazards be mitigated immediately."

#### Local HUD Staff Did Not Always Receive Timely Notice of EH&S Violations From the Authorities or REAC

Although the Office of Housing requires a written report to be filed with the local office with 72 hours of the date of inspection, the Office of Public Housing does not have this same requirement. However, on August 10, 1999, a memo providing PHAS Field Guidance went out from the General

Deputy Assistant Secretary stating that the Hubs or Program Centers were to receive a copy of the EH&S report from the Authority within 10 working days after the inspection; but we could not determine if the memo was forwarded to the Authorities to implement. In addition, this memo stated that REAC would provide the Local HUD Offices electronic or faxed notification of the EH&S violations. However, only the staff at the Philadelphia and Richmond Offices stated they received notification from REAC in this manner, and that was in relation to the notification of the release of the inspection reports not notification of the EH&S violations. Since the majority of Local HUD Offices we tested did not receive the EH&S reports timely, it is extremely difficult to ensure that the deficiencies were corrected within the 24-hour time period.

Housing Authority  
Certifications Are  
Questionable

When the Local HUD Offices finally did receive notification of the deficiencies, we found the majority of them had some plan in place to determine if the deficiencies were corrected in a timely manner. For example, several of the Local HUD Offices required the Authorities to submit a letter certifying that the EH&S violations were corrected within 24 hours and some even requested copies of the supporting work orders. However, even then the Local HUD Offices cannot be assured the deficiencies are corrected. For example, we found the Olney Housing Authority submitted a letter to the Fort Worth Office certifying it had corrected all of the EH&S violations REAC inspectors identified when it actually did not correct all the violations. The Executive Director of the Olney Housing Authority certified that all EH&S violations cited by REAC inspectors were corrected except for the fire extinguishers, as they would be serviced as soon as a fire extinguisher service company could service them. However, when we completed our re-inspection of the Olney Housing Authority properties, we found 18 of the 22 deficiencies we reviewed had not yet been corrected. Further, for all 392 violations reviewed we found violations remained open 281 to 585 days.

HUD Has No Consistent  
Policy on Monitoring  
Correction of EH&S  
Violations by Authorities

Further, we found only five of the eight Local HUD Offices, that required Authorities to provide a certification, followed up on the certifications submitted by the Authorities. These Local HUD Offices were Denver, Newark, Chicago, Cincinnati, and Fort Worth. These



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offices followed up on the Authority's certifications via site visits or by issuing a contract with the Army Corps of Engineers to complete the verifications, while some Local HUD Offices cited shortage of resources as the reason for the lack of proper follow-up. Thus, at the present time there is no effective system in place to ensure Authorities are correcting EH&S violations or they are completing them in a timely manner.

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#### Auditee Comments

HUD generally agreed with our finding and recommendations. They also indicated the Office of Public Housing is currently drafting guidance to address the verification of an Authority's correction of EH&S deficiencies.

HUD also provided an example of the revised notification protocol that was recently instituted to address deficiencies noted in the forwarding of the EH&S deficiencies to the Local HUD Offices.

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#### OIG Evaluation of Auditee Comments

We are pleased that HUD has taken the initiative to implement our recommendations prior to the issuance of the final report. Although the information HUD provided appears promising, we cannot verify at this time if the protocol has been fully implemented. This is especially important because during our review we were notified by several Local HUD Offices that they did not receive notification of EH&S violations when REAC stated they had.

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#### Recommendations

We recommend the Office of Public and Indian Housing:

- 3A. Implement a policy that would require the Local HUD Offices to incorporate the monitoring of the EH&S violations into the risk assessment process. Specifically, when completing onsite and/or remote monitoring, ensure that EH&S violations were corrected by the Authorities within 24 hours of REAC inspection.
- 3B. Implement a policy that would take appropriate administrative action and/or implement penalties if

an Authority falsely certifies to the correction of the EH&S violations (i.e. a notice on the bottom of the certification form).

- 3C. Establish consistent protocol to ensure all Physical inspections are timely processed and entered into the system to ensure the Local HUD Offices are provided notification of the EH&S violations in a timely manner.

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## HUD Needs To Improve Its Oversight of Authorities with Low Resident Assessment Scores

We found HUD was not providing assistance to Authorities that fail the Resident Assessment Subsystem component of PHAS. Generally, field office staff do not perceive this scoring component of PHAS as important as the Physical, Financial and Management components in part due to its 10 point scoring limit and the subjective way in which the score is determined (via resident survey). However, we feel this is contrary to the President's Executive Order 12862 in complying with customer service standards when providing significant services.

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### Objective of Resident Assessment Indicator

To comply with Presidential Executive Order 12862 dated September 11, 1993, on setting customer service standards, HUD implemented the Resident Service and Satisfaction Indicator portion of PHAS. The objective of the Resident Service and Satisfaction Indicator is to measure the level of resident satisfaction with living conditions at the Authority. It also promotes positive interaction and communication between Authorities and the residents. Generally, the assessment is performed through the use of a resident service and satisfaction survey and is scored based upon three components. The first component is based upon the survey results, focusing on the resident evaluation of the overall living conditions. The second component scored is based upon the level of implementation and follow-up or corrective action taken by the Authority, based on the results of the survey. The final component, which is not scored, but is a threshold requirement, is verification that the survey process was managed in a manner consistent with HUD guidance. An Authority may receive up to total of 10 points for the Resident Service and Satisfaction Indicator; however, if the Authority receives at least six points, or 60 percent of the available points they are considered passing. Anything below six points is considered failing; however, an Authority cannot be designated troubled for receiving a failing score.

Local HUD Office  
Monitoring of Resident  
Assessment Indicator was  
Limited

At each of the 10 Local HUD Offices we visited, we selected and reviewed five Authorities (for a total of 50) with the lowest Resident Assessment scores. Our objective was to determine how the Local HUD Offices were assisting the Authorities to increase the Resident Assessment scores. Our review disclosed that only one of the 10 sites (Fort Worth), had implemented some form of protocol to assist the Authorities with the lower Resident Assessment scores, while 5 of the 10 Local HUD Offices provided very limited assistance. The other four sites provided no assistance or there were no failing Resident Assessment scores at the Authorities for assistance to be provided.

HUD Staff Did Not  
Perceive Resident  
Assessment Component  
of PHAS as Important

At the Fort Worth Office, we noted that the staff had developed a technical assistance package that contained explanations of the PHAS indicators and provided guidance on how to improve the scores and the overall operations of the Authority. This package was forwarded to the Authorities that had a fiscal year end prior to June 30, 2000 to help them improve the scores for the next scoring period. For those Authorities that received a score during fiscal year June 30, 2000 and after, they requested a Corrective Action Plan be provided to document how the Authority plans on improving the score.

For the offices that provided very limited assistance, we noted it basically consisted of a staff member contacting the Executive Director at the Authority to inform them that they had a low or failing Resident Assessment indicator. When we asked program staff why little to no assistance was being provided to the Authorities with failing Resident Assessment indicator, we were often told the indicator was too subjective and the point significance of this indicator toward the overall PHAS composite score was not considered important enough to extend their limited resources in providing more assistance in this area. Other offices, such as the Nashville Program Center stated the survey structure did not provide sufficient information to determine the exact troubled area in which to apply their focus. For example, the Savannah Housing Authority received a Resident Assessment score of four. Based upon the survey, the program staff stated they could not determine if security was an issue at the Authority because the Authority did not receive any drug elimination grant

funds and the standard security or police reports usually provided in association with that grant were not available.

However, we also noted instances where an Authority was trying to make an improvement but did not receive the cooperation from HUD. For example, while on site at the Newark, NJ office we obtained a copy of the Improvement Plan presented by the Salem Housing Authority. The Authority received an overall score of 66.5, including a Resident Assessment score of 3.2. In their Improvement Plan they attempted to provide the required implementation and follow-up information to HUD, but could not do so because they never received the survey data to show what needed to be improved. A summary of the Local HUD Offices that were providing technical assistance to the various Authorities follows:

<b>HUB/PC/CSC</b>	<b>Technical Assistance Provided</b>	<b>Very Limited Technical Assistance Provided</b>	<b>No Technical Assistance Provided</b>	<b>Not Applicable (Note)</b>
Pittsburgh		X		
Richmond		X		
Philadelphia				X
Newark		X		
Nashville		X		
Cincinnati				X
Chicago			X	
San Francisco		X		
Denver			X	
Ft. Worth	X			

**Note:** The Philadelphia and Cincinnati offices did not have any failing Resident Assessment scores during our review period, thus there was no technical assistance necessary.

As stated above, the objective of the Resident Assessment indicator is to measure the level of resident satisfaction with the living conditions provided at the Authority. In order to ensure that the residents are satisfied with their overall living experience, the Department needs to take a more active role, either by issuing further protocol to the Local HUD Offices to express the importance of the indicator or by providing guidance on the type of assistance

that should be provided to the Authorities. Without this guidance, the Department is drastically missing the objective of the President's Executive Order 12862 in "putting people first", and the residents' concerns continue to be overlooked.

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Auditee Comments

HUD recommended exclusion of 2 of the 10 offices reviewed from the tally because they did not have failing Resident Assessment scores. HUD also concurs with our recommendation to establish a protocol for proper guidance on providing technical assistance to the Authorities with low or failing Resident Assessment scores, with the caveat that field office resources are limited. Additionally, HUD will take under advisement the guidance provided during the Exit Conference relating to cross referencing the Resident Satisfaction indicator with other PHAS indicators.

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OIG Evaluation of  
Auditee Comments

We have carefully considered HUD's suggestion to exclude from the tally the two offices that did not receive failing Resident Assessment scores; however, we believe the report clearly indicates that these two offices did not receive failing Resident Service scores and thus a change is not needed. In addition, HUD agreed with our recommendation to establish protocols, with the caveat that the assistance provided be limited due to staff resources. We believe a change to the recommendation is not necessary because HUD does not yet have consistent protocols to address the Resident Services Indicator. Without this guidance, the Department may not fully meet the objective of the Presidential Executive Order 12862 in "putting people first", and the residents' concerns continue to be overlooked.

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Recommendations

We recommend the Office of Public and Indian Housing:

- 4A. Establish a consistent protocol to ensure the Local HUD Offices are provided the proper guidance on providing technical assistance to the Authorities with low or failing Resident Assessment scores.

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# Management Controls

In planning and performing our audit, we considered the management controls in the Office of Public and Indian Housing to determine our auditing procedures, not to provide assurance on the control. Management controls 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.

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## Relevant Management Controls

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

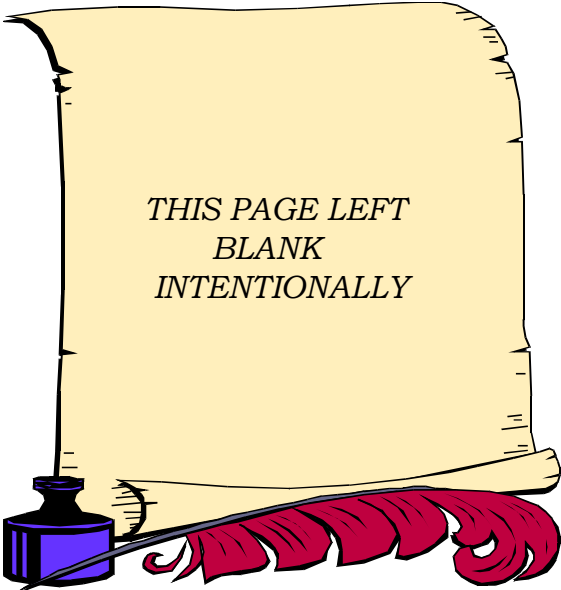
- Monitoring of Authorities to ensure compliance with program requirements and ACC provisions.
- Utilization of the PHAS scoring and referral process.
- Development and implementation of PHAS guidance.

For each of these activities, we assessed the risk, control environment, control activities, and internal monitoring and reporting functions. We made our assessment and gained our understanding through a testing of transactions in each of the activities.

## Significant Weaknesses Found

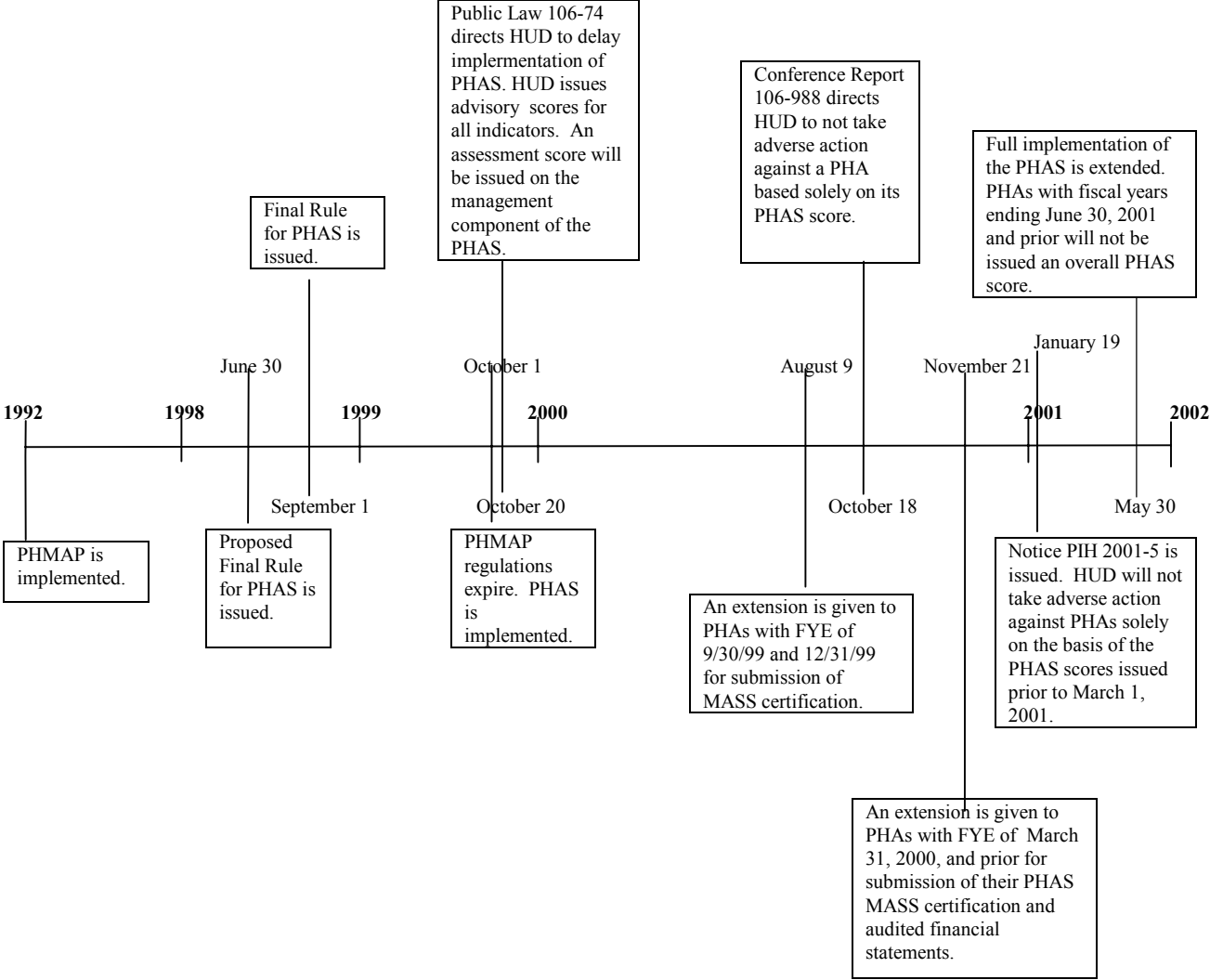
A significant weakness exists if management controls do not give reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organizations objectives.

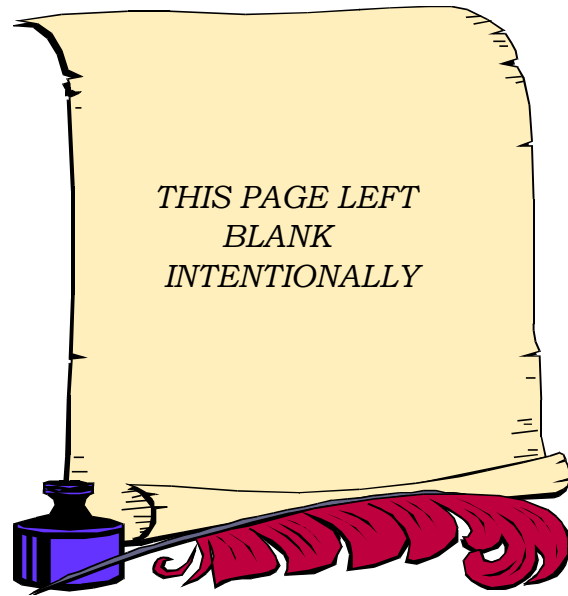
Our audit disclosed significant weaknesses with HUD's implementation of PHAS (Finding 1); compliance with PHAS program requirements and forwarding to the Troubled Agency Recovery Center (Findings 2 and 3); and compliance with ACC and HUD regulations (Findings 3 and 4).





# PHAS Implementation Timeline





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# Auditee Comments




U.S. Department of Housing and Urban Development  
Washington, D.C. 20410-5000

OFFICE OF THE ASSISTANT SECRETARY  
FOR PUBLIC AND INDIAN HOUSING

April 29, 2002

MEMORANDUM FOR: Daniel G. Temme, District Inspector General for Audit,  
Mid-Atlantic District, 3AGA

  
FROM: David R. Ziaya, Director, Field Operations Staff, PO

SUBJECT: Response to DRAFT Office of Inspector General Audit Report –  
Multi-location Review of the HUD's Utilization of Public Housing  
Assessment System

In accordance with the exit conference held on Thursday April 18, 2002 with the Office of Inspector General staff and representatives of the Office of Public and Indian Housing, I offer you the following comments to record the discussion of the recommended changes to the DRAFT Subject report.

In general, the report presented a fair picture of the landscape of the implementation of PHAS during the audit's investigative period (spring and summer of 2001). The report, however, should be updated to reflect the full implementation of PHAS, which occurred via Notice in the Federal Register on March 15, 2002 to more accurately depict the current environment. The positive comments regarding implementation of the PIC National Risk Assessment module and field office oversight of PHAS during uncertain times, is appreciated.

Specifically for each Finding and associated recommendation(s), I recommend the following modifications:

**Finding 1, Recommendation 1a:** The recommendation should be revised or eliminated to recognize that full implementation of the PHAS took place for PHAs with FYEs beginning 9/30/2001 per the interim scoring notice published on March 15, 2002. This notice announces the Department's implementation of PHAS for all indicators and released the Department from the restrictions cited in the Conference Report 106-988. The lapse in time from the audit's investigative work and report release should be noted in the introductory statement of this finding to reflect this information.

**Finding 2, Recommendations 2a and 2b:** With the full implementation of PHAS now in effect, these recommendations should be eliminated or revised to incorporate the use of failing indicators for Physical Condition and/or Financial Condition as a means for designating Troubled or Troubled Substandard PHAs. The TARC workload inventory chart should be updated to reflect the information provided by Karen Newton, Deputy Assistant Secretary for the Office of Troubled Agency Recovery to more accurately reflect the TARC portfolio.

**Finding 3, Recommendation 3a:** Please change the word “are” to “were” in the second sentence of the recommendation. The Field Operations Staff Office is currently drafting guidance to be released to the field within the next 30 days to address new Risk Assessment documentation procedures and verification of PHA correction of Exigent Health and Safety violations during on-site visits or through the use of Corps of Engineer inspectors.

**Finding 3, Recommendation 3b:** We have no specific comments on this recommendation.

**Finding 3, Recommendation 3c:** Add the word “physical” in front of the word “inspections” to differentiate the physical inspection process conducted by contracted staff versus the REAC’s collection, posting and notification to field offices of physical inspection reports. The REAC will provide information on the revised electronic notification protocol recently instituted which will address the deficiencies identified by this recommendation.

**Finding 4, Recommendation 4a:** Revise narrative to illustrate that two of the ten reviewed offices should be excluded from the tally because they did not have any failing Resident Assessment scores. The recommendation to establish a protocol for consistent oversight of the Resident Services indicator is acceptable with the caveat that field office oversight and technical assistance is restricted due to resource limitations. However, the recommendation during the exit conference discussion to provide guidance which highlights cross-referencing Resident Satisfaction Survey results with the other PHAS indicators is something PIH will take under advisement.

If you have any questions or comments regarding this response, please feel free to contact me on (202) 708-0614 extension 4212.

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