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District Inspector General for Audit

June 1, 1999

**Audit Related Memorandum
No. 99-PH-202-0801**

MEMORANDUM FOR: Karen A. Newton, Director, Office of Troubled Agency Recovery,
PB

FROM: Edward F. Momorella, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Receivership
Chester Housing Authority
Chester, Pennsylvania

INTRODUCTION

We have completed a review of selected operations of the Chester Housing Authority (CHA). The CHA has been operating under court appointed receivership since 1994, and the Receiver and the current CHA staff have made substantial progress in improving the CHA's operations. This memorandum addresses the CHA receivership and discusses the issues of: 1) the need for continuing the receivership, 2) the degree of Receiver services still required by the CHA, and 3) whether a receivership fee adjustment is warranted due to reduced services by the Receiver.

Considering our review, we are recommending that HUD, in concert with the Receiver and CHA, identify the areas of CHA operation that still need the Receiver's attention and effect a plan, with time frames, to raise CHA performance to acceptable levels in these areas. Upon successful completion of the plan, HUD would petition the court to terminate the receivership. We believe steps to bring the receivership to a close are appropriate at this time because:

1. HUD confirmed that the CHA's performance scores have improved enough to remove the CHA from the troubled agency list.

2. Capable CHA employees now fill management positions once performed by the Receiver staff.
3. HUD confirmed significant CHA progress in improving the living conditions of its residents.

Also, while the Receiver has reduced the resources he has provided to the CHA from approximately 20 full and temporary staff to one full time position, the fee the CHA pays the Receiver remains at \$761,280 a year. This in our opinion, is not an appropriate expenditure for the degree of services provided.

SUMMARY

The Receiver and his staff, and later the CHA staff hired by the Receiver, have been instrumental to improving the CHA's operations. Based upon HUD's Public Housing Management Assessment Program (PHMAP) confirmatory review, the CHA has progressed from a troubled housing authority, to a standard performing authority. In addition, the CHA's current staff has demonstrated that it has the capacity to administer the CHA's operations effectively. Therefore, we believe that HUD, the Receiver and the CHA, need to establish a plan for terminating the receivership. The plan would identify the CHA areas of operations that still need the Receivers attention, the steps to be taken to raise the CHA's performance to acceptable levels in those areas, and a timeframe for successfully achieving the plan. Further, we believe HUD and the court should reevaluate the Receiver's fee given the significant decline in the level of the Receiver's resources and services directed to the CHA. CHA hires have replaced the temporary support staff the receiver brought to the CHA. The CHA now has a permanent executive director, deputy director, and directors of finance and other CHA departments. However, the Receiver's fee for administering the CHA's operations has not been reduced commensurate with the reduced level of the Receiver's resources and services at the CHA.

We provided copies of this Audit Related Memorandum in draft form to program officials for comment. We received comments on the conclusions and recommendations presented in the memorandum and made changes as we considered appropriate. Generally, the office of Public and Indian Housing agreed with the recommendations. We included the full comments in Attachment A.

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

BACKGROUND

In October 1990, a class action suit was filed in U.S. District Court claiming that HUD permitted and approved the de facto demolition of CHA units. The suit sought a receivership for the CHA and rehabilitation of the housing units. On April 17, 1991, HUD declared that the CHA was a “troubled” public housing agency, and on November, 5, 1991, HUD declared the CHA in breach of its Annual Contribution Contract (ACC). The Mayor, Board of Commissioners, and the Executive Director voluntarily turned over control of the CHA to HUD. HUD delegated a member of its Philadelphia Office of Public Housing in sole charge of the CHA. On August 31, 1994, Judge Norma L. Shapiro of the U.S. District Court for the Eastern District of Pennsylvania, appointed Robert C. Rosenberg, at the time Chairman and Chief Executive Officer of Grenadier Realty Corporation, as the CHA Receiver. Mr. Rosenberg continues to serve under this appointment.

Finding - HUD, the CHA and the Receiver Should Plan for Ending the Receiver’s Services to the CHA

The November 1998 HUD confirmatory review at the CHA showed substantial improvement in all major operating areas. The HUD confirmed PHMAP scores show the CHA’s transition from a troubled, substandard performing housing authority to a standard performing authority. The Receiver and his staff, and later the CHA management staff hired by the Receiver, were instrumental in causing the CHA’s turnaround. However, due to the CHA’s turnaround in performance, and because the CHA now appears to have capable management to administer its operations, we believe it is time to examine whether the CHA should continue in receivership. Also, as the CHA has progressed, the level of effort and resources devoted by the Receiver to the CHA’s operations has declined considerably. However, this has occurred without a corresponding change in the Receiver’s compensation. We believe that HUD and the court need to reassess the compensation being paid the Receiver so that adjustments to the compensation can be made to more adequately reflect the level of services and resources the Receiver is devoting currently to the CHA.

Can the CHA Operate Effectively Without the Receiver?

Paragraph E of the August 31, 1994, Order of Appointment of Receiver, provides that “The Receiver’s appointment shall be terminated when the court determines, either sua sponte or upon petition by the Receiver or any party, that the CHA has cured all breaches of the ACC that led HUD to take possession of the CHA, provided the court is satisfied that the CHA will be operated in accordance with the covenants and conditions to which CHA is subject. ... The court shall consider any application by HUD or the parties that the Receivership be terminated and possession and control returned to CHA. ... At such time as the court deems appropriate, but before the Receiver’s appointment is

terminated, the court shall select an Executive Director after consultation with the Receiver and the parties.”

During the term of the Receiver’s service to the CHA, the overall PHMAP score earned by the CHA has improved by 98 percent. From a 1995 PHMAP score of 41.97, the CHA has improved operations to score 83.23 percent in 1998. The CHA scored A’s for the PHMAP indicators Work Orders, Inspections, Resident Services and Community Building and Security. HUD findings included:

Work Orders - the CHA completed 99.85 percent of its emergency work orders within 24 hours and took an average of 4.49 days to complete non-emergency work orders.

Inspections - The CHA inspected 100 percent of its units.

Resident Services and Community Building - the CHA provided HUD with reports and records showing it adopted policies related to resident services, communication and community building.

Security - the CHA effectively implemented policies to help ensure its developments would be free of residents who engage in criminal activities.

The rent collections indicator remains one the CHA needs to improve by strictly enforcing its tenant lease and repayment agreements. The CHA has received an F grade for rent collections every year since 1992 as has Tenant Accounts Receivable, until HUD eliminated it as an indicator in the 1998 PHMAP Report. The HUD 1998 confirmatory review team recommended the CHA continue to design and implement strategies to reduce the level of rent uncollected. HUD noted that it would monitor CHA effectiveness in implementing its strategies.

Aside from the need for improved CHA rent collections, we are unaware of existing major violations by the CHA of its ACC or other arguments that the CHA is not yet able to perform capably without the oversight of the Receiver. Further, HUD staff responsible for monitoring the CHA has told us there are no ACC violations that would require the Receiver’s continued oversight. Also, HUD staff noted significant improvement in the living conditions of the CHA’s residents.

The Receiver has hired for the CHA an executive director, a deputy executive director and managers for the major components of the CHA’s operations. Based on the CHA’s performance over the past two years as a standard performing PHA under the day to day oversight of its own management, it appears the Receiver has been successful in accomplishing the long term goal of helping the CHA operate effectively on its own. The CHA staff appear to be well prepared and to possess the potential to maintain and operate the CHA’s housing developments in compliance with all applicable laws

following termination of its receivership status. Under these very positive circumstances, HUD, together with the Receiver and the CHA, should identify the areas of CHA operations that still need the Receiver's attention and design a plan that will cause the CHA to improve its level of performance in these areas to acceptable levels. HUD should monitor the CHA's progress to make sure it is on track in raising its performance levels in the stipulated areas of operations. Upon the CHA achieving the plan, HUD would petition the Court to terminate the CHA's receivership.

Receiver Compensation

Presently, we believe that HUD and the court should revisit the amount of compensation being paid to the Receiver for services provided to the CHA. We believe the Receiver's compensation today is too generous for the scope of services the receivership renders to the CHA currently.

On August 31, 1994, the U. S. District Court for the Eastern District of Pennsylvania appointed as Receiver of the CHA, the Chairman and Chief Executive Officer of the Grenadier Realty Corporation. The scope of services listed the Receiver's long term goal as enabling the CHA to carry out its work using only its staff and to ensure that after the termination of the receivership, the CHA will continue to maintain and operate its developments in compliance with all applicable laws.

On April 4, 1995 the U.S. District Judge authorized \$68,280 as the monthly fee (\$819,360 annually), for the Receiver's services. This fee was calculated at \$40 for each of the CHA's 1,707 units per month. The 1,707 units included occupied and vacant units. The fee took into consideration:

- the estimated time the Receiver would spend on CHA affairs;
- the cost of two full time Grenadier employees to serve as the CHA Executive Director and Director of Modernization
- the estimated time spent by Grenadier Realty Corp. staff on CHA business to include: executive managers, property managers, and officers to handle public affairs, community relations, human resources, security, data processing, and financial management. These personnel provide technical assistance for the CHA's reorganization and supervision for the CHA's on-going operations.

All told, over 20 Grenadier staff were to work at the CHA. The Receiver's monthly fee was the funding source to pay the cost of the full time and part-time employees.

Over time, the CHA hires have succeeded the Grenadier staff. In December 1996, the CHA hired a permanent Executive Director to replace the Grenadier Acting Executive Director. In January 1997, the CHA hired a Deputy Director. At December 1997, the

annual salaries of the executive director and his deputy were \$79,825 and \$66,950 respectively. The CHA pays the salaries of the executive director and his deputy. Other key positions filled by CHA hiring and paid by the CHA include: Director of Finance, Director of Property Management, and Director of Public Safety. The shift in services, from the staff brought to the CHA by the Receiver to employees hired by the CHA to replace them, continued with internal audit, computer systems, resident and community relations and human resources.

Though there has been a substantial shift in the level of services, from the Receiver and his temporary supporting staff to the CHA and its permanent staff, there has not been a corresponding change in the compensation paid to the Receiver. While the Receiver is still responsible for overseeing the CHA's operations and periodically reporting progress to the court, the degree of oversight required by the CHA has lessened with the hiring of capable CHA staff and the resulting improved CHA operating performance. Also, the only Receiver employee who continues to serve the CHA is a full time Director of Modernization; and the CHA should explore filling this position with a CHA hire. As the CHA's performance has improved, the resources expended by the Receiver to serve the CHA have declined. However, the Receiver's fee has not declined in proportion to the reduction in the Receiver's services. Today, the Receiver's compensation is \$63,440 per month (\$761,280 annually), which is the result of \$40 per unit for 1,586 units. During the period 1995 through 1998, the CHA has paid the Receiver in excess of \$3 million for his services. This level of compensation is greater than that paid to executive directors serving on a full time basis in the most problem ridden housing authorities in the country.

We believe the Receiver should be compensated fairly, but commensurate with current responsibilities and the personal services and other resources the Receiver brings to the CHA as it operates today. Continuing to pay the Receiver substantial fees takes away from the tenants unnecessarily, the scarce funds the CHA needs to keep improving the tenants' living conditions.

Office of Public and Indian Housing Comments

The Office of Public and Indian Housing generally agreed with the conditions and recommendations presented in this Audit Related Memorandum. The full comments are located in Attachment A.

Recommendations

We recommend that HUD:

- 1A. In discussion with the receiver and the CHA, identify the areas of CHA operations that still need the Receiver's attention. These would include existing conditions/efforts, where the CHA staff still do not have the expertise to perform at an acceptable level. Also, the CHA would need the Receiver's participation and support in the establishment of a Board of Commissioners to oversee the CHA. HUD, in agreement with the Receiver, will set time frames for the Receiver raising CHA staff knowledge in unfamiliar programs/activities to an acceptable level and for establishing the Board. HUD should submit the plan to the Court for approval.
- 1B. Monitor the Receiver's and CHA's progress in reaching the goals and time frames set as a result of recommendation 1A. Provide assistance as needed to assure the Receiver and CHA meet the goals effectively and timely.
- 1C. Upon completion of the plan's goals, petition the Court to terminate the CHA Receivership.
- 1D. If the Court denies HUD's petition to terminate the receivership, explore the possibility of terminating operating assistance for payment of Receiver's fees.

Also, regarding the current level of the Receiver's compensation, HUD should immediately:

- 1E. Evaluate the compensation now being paid to the Receiver to determine if it is greater than justified by the level of Receiver's services to the CHA and the resources the Receiver is utilizing at the CHA. If the compensation is not commensurate, petition the Court to adjust the compensation to an amount that corresponds to the level of services and resources the Receiver is providing to the CHA.

Attachments

Attachment B

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