To: Felicia Gaither  
Deputy Assistant Secretary for Field Operations,  
Office of Public and Indian Housing, PQ  

From: Brian T. Pattison  
Assistant Inspector General for Evaluation,  
Office of Inspector General, G  

Subject: Final Report – HUD Has Not Referred Troubled Public Housing Agencies as the Law and Regulations Require, 2019-OE-0001  

Please see the attached final report on our evaluation of the U.S. Department of Housing and Urban Development’s (HUD) referral process for troubled public housing agencies. It contains five findings and five recommendations. The report will be posted to our website within 3 days.

In your response to our draft report, you agreed with recommendations 4 and 5 and requested changes to recommendations 1, 2, and 3. Because you tied your agreement with recommendations 1, 2, and 3 to changes that we did not make, we consider your responses to these recommendations to be non-concur. Your response, along with our comments to it, are included in our report. Based on your response, we consider recommendations 1, 2, 3, 4, and 5 “unresolved-open.” We will contact your office within 90 days to begin discussing your proposed management decisions.

I appreciate the assistance you, your staff, and staff throughout HUD provided during the evaluation. Please contact Director Paul Bergstrand at (202) 402-2728 if you have any questions.

Attachment

cc  
David Vargas, Acting Deputy Assistant Secretary for the Real Estate Assessment Center, PX  
Lindsey Reames, Deputy to the Deputy Assistant Secretary for Field Operations, PQ  
Althea Forrester, Associate General Counsel for Assisted Housing and Community Development, CAHB  
Peter Schmiedel, Financial Management Specialist, Office of Public and Indian Housing, PCE  
Oscar Franklin, Acting Departmental Audit Liaison Officer, FMC
HUD Has Not Referred Troubled Public Housing Agencies as the Law and Regulations Require
**Executive Summary**

HUD Has Not Referred Troubled Public Housing Agencies as the Law and Regulations Require

Report Number: 2019-OE-0001

February 4, 2020

**Why We Did This Evaluation**

The Office of Public and Indian Housing (PIH) is responsible for monitoring public housing agencies (PHA), including those that are troubled. A troubled PHA should be given a maximum of 2 years to cure its negative conditions. If the PHA does not meet the 1- or 2-year recovery requirements, the law and regulations require PIH to refer the PHA to the Assistant Secretary for Public and Indian Housing for action.

We initiated this review as a follow-up to our evaluation of the U.S. Department of Housing and Urban Development’s (HUD) oversight of the Alexander County Housing Authority, 2017-OE-0014. During fieldwork for that evaluation, a PIH official told us that PIH did not enforce its referral requirement uniformly. Without these referrals, a PHA may remain in a troubled status longer than the law and regulations allow.

**Results of Evaluation**

PIH has not referred troubled PHAs to the Assistant Secretary for Public and Indian Housing to take them over as the law and regulations require. Without this referral mechanism, a PHA could remain troubled for an indefinite period while conditions stagnate or deteriorate. We identified 18 PHAs that remained troubled for more than 2 years without being referred.

PIH is creating a process for referring troubled PHAs, but two problems exist with its approach. First, the draft process that we reviewed in this evaluation would provide more options to the Assistant Secretary than the law and regulations allow. For example, the revised process would allow a troubled PHA to continue with an existing recovery agreement. Second, PIH cannot meet the statutory deadlines for referral of a troubled PHA without substantial changes to the assessment process or changes to the law and regulations, which PIH is not making as part of its new process. The new process would allow some troubled PHAs more time to recover than the law and regulations allow. Time lags exist between the completion of assessments and the score release. Additionally, PIH would continue to allow troubled PHAs more time to recover because PIH starts counting toward the 2-year statutory limit at the start of the next fiscal year, not when the PHA is designated as troubled.

PIH’s training that existed at the time of our fieldwork on the authority and process for declaring a PHA in substantial default and for taking PHAs into possession suggests remedies that do not fully comply with the law and regulations. These remedies are available for troubled PHAs only up to the expiration of their maximum 2-year recovery period. When a troubled PHA fails to meet the 1- or 2-year recovery requirements, the Assistant Secretary must receive a referral and then declare the troubled PHA in substantial default and (1) petition for the appointment of a receiver or (2) appoint an administrative receiver if the troubled PHA has fewer than 1,250 units.

Finally, PIH has not submitted an annual troubled PHAs report to Congress for at least 11 years as the law requires, thereby missing another opportunity to strengthen the accountability and transparency of its recovery process.

**Recommendations**

We offer five recommendations to help PIH ensure that it oversees troubled PHAs in an effective manner that aligns with the law and regulations, while fostering transparency with Congress. The status of each recommendation will remain “unresolved-open” until we receive and agree to documentation outlining PIH’s proposed management decision to address each recommendation.
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Introduction

Objective

To determine whether the Office of Public and Indian Housing (PIH) refers troubled public housing agencies (PHA) as the law and regulations require.

Background

Overview of the Public Housing Program and PHAs

PIH operates the U.S. Department of Housing and Urban Development’s (HUD) public housing programs. Public housing’s mission is to provide safe, decent, and affordable rental housing for eligible low-income families, the elderly, and persons with disabilities. PHAs own and operate the public housing developments in which such residents reside. Approximately 1 million households live in public housing units, managed by some 2,890 PHAs. PHAs are responsible for managing Federal aid and operating their housing developments in compliance with their annual contributions contract, a contract between the PHA and HUD, which outlines the applicable regulations and procedural requirements that PHAs must abide by to receive Federal funding.

HUD Provides Oversight of PHAs Using the Public Housing Assessment System

PIH’s Real Estate Assessment Center (REAC) measures the performance of PHAs using the Public Housing Assessment System (PHAS). One goal of PHAS is to ensure that units are decent, safe, sanitary, and in good repair. Using PHAS, REAC scores a PHA’s performance using four indicators – physical condition, financial condition, management operations, and the Public Housing Capital Fund program. REAC then compiles the scores into an overall PHAS score for the PHA. PHAs that score 90 percent or higher of the total 100 points available are designated as “high performing,” those with scores of 60-89 percent are considered to be “standard or substandard;” and, those scoring 59 percent or less are designated as “troubled.”

PIH’s Office of Field Operations (OFO) oversees the field offices that routinely interact with PHAs, including those that are troubled. After OFO creates its list of troubled PHAs using information from REAC’s database, it discusses the PHAs with relevant field office staff and determines which troubled PHAs should undergo the PHA Recovery and Sustainability (PHARS) Framework.¹ PIH established the PHARS Framework in 2011 as an internal approach to hold troubled PHAs accountable for their recovery.

When a troubled PHA is under the PHARS Framework, a Regional Director assigns a PHARS team comprised of PIH subject-matter experts, Office of Field Policy and Management staff, and

¹ As frequent delays in PHAS score releases occur, OFO consults with the field offices to confirm whether the troubled PHAs have fully recovered while waiting for their new PHAS scores. The Regional Directors and field offices determine the extent of the PHARS Framework implementation.
Departmental Enforcement Center staff at either the regional network level\(^2\) or field office level to lead the recovery process for the PHA. Once assigned, the PHARS team performs an initial financial management and governance assessment of the PHA. The PHARS team (1) works with troubled PHAs to assess the underlying systemic issues causing the PHA’s troubled status, (2) creates recovery agreements between the PHA and HUD, and (3) supports the implementation of the PHA’s recovery agreement and action plan to ensure the sustainability of successful PHA performance. The PHARS team continues to monitor the PHA and provide technical assistance during the implementation and recovery period.

**Troubled PHAs Are Allowed a Maximum of 2 Years To Recover**

Upon receiving initial notice of its troubled designation, a troubled PHA should be given a maximum of 2 years to improve their overall PHAS score.\(^3\) According to the law and regulations, the 2-year recovery period begins on the date the PHA receives the initial notice of its troubled designation.\(^4\) After the initial notice of troubled designation, the PHA has until its next PHAS assessment, which is at least 12 months after the initial troubled performer designation, to improve its performance by at least 50 percent of the difference between the initial PHAS assessment score that led to the troubled performer status and the score necessary to remove the PHA’s designation as a troubled performer.\(^5\) For example, if a PHA’s initial troubled score was 50, its next PHAS score should be at least 55 because 60 would remove the troubled designation. If the PHA does not improve its performance by the required score percentage, the law and regulations require referral to the Assistant Secretary for Public and Indian Housing for action at the 1-year mark, rather than allowing the PHA the full 2-year period.

After the 2-year period, the PHA must achieve an overall PHAS score of at least 60. The PHA must achieve this score by the next PHAS assessment, which is at least 24 months after the initial notice of the troubled performer designation.\(^6\)

**HUD May Take Control of PHAs Under Certain Circumstances**

HUD has different recovery options available to address critical issues at a PHA, depending upon whether the PHA has been declared in substantial default or designated as troubled.\(^7\) If PHA does not significantly improve and is found to be in substantial default of its annual contributions contract with HUD, HUD may place the PHA into administrative receivership.\(^8\)

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\(^2\) There are 6 HUD regional networks comprised of staff from HUD’s 10 regions. The first network consists of HUD Regions I, II, and III; the second network consists of HUD Region IV; the third network consists of HUD Region V; the fourth network consists of HUD Region VI; the fifth network consists of HUD Regions VII, VIII, and IX; and the sixth network consists of HUD Region X.

\(^3\) 42 U.S.C. (United States Code) 1437d(j)(3)(B)(ii)(I) and (II)

\(^4\) 42 U.S.C. 1437d(j)(3)(B)(ii); 24 CFR (Code of Federal Regulations) 902.75(d)

\(^5\) 24 CFR 902.75(d)(1); 42 U.S.C. 1437d(j)(3)(B)(ii)(I)

\(^6\) 24 CFR 902.75(d)(2); 42 U.S.C. 1437d(j)(3)(B)(ii)(II)

\(^7\) 42 U.S.C. 1437d(g); 1437d(j)(3)(A)(i) – (v); and 1437d(j)(3)(B)(ii)(I), (II), and (III)

\(^8\) HUD may (1) solicit competitive proposals from other PHAs and private housing management agents to manage all or part of the PHA, (2) petition a Federal district court for the appointment of a receiver, (3) solicit competitive proposals to oversee implementation of assistance made available from the Capital Fund, (4) take possession of all or part of the PHA; or (5) require the PHA to make other acceptable arrangements (42 U.S.C. 1437d(j)(3)(A)(i) – (v)).
Under administrative receivership, HUD takes possession of the PHA and appoints one or more HUD staff members or an outside contractor to serve as an administrative receiver. Once appointed, an administrative receiver works on site at the PHA to manage and operate the PHA’s housing operations and affairs.

Because administrative receivership is a resource-intensive recovery process, HUD views it as a last-resort option for assisting PHAs with the most severe problems. However, the law and regulations require HUD to initiate receivership of troubled PHAs under certain circumstances.

When a troubled PHA fails to comply with either of the 2-year recovery requirements,\(^9\) the law and regulations require OFO to refer the PHA to the Assistant Secretary for Public and Indian Housing\(^10\) for action. At this stage, the Assistant Secretary should act based on the number of units owned by the troubled PHA. For a troubled PHA with

- 1,250 or more units, the Assistant Secretary must declare substantial default\(^11\) and petition for the appointment of a receiver.
- fewer than 1,250 units, the Assistant Secretary must either petition for the appointment of a receiver, or take possession of the PHA, including all or part of any project or program of the agency, and appoint an administrative receiver to assume the responsibilities of the HUD Secretary for the administration of all or part of the PHA.\(^12\)

**Scope and Methodology**

We completed this evaluation under the authority of the Inspector General Act of 1978, as amended, and in accordance with the Quality Standards for Inspection and Evaluation, issued by the Council of the Inspectors General on Integrity and Efficiency (January 2012).

**Scope**

We performed fieldwork for this evaluation between December 2018 and April 2019. This evaluation covered operations within two HUD program offices – PIH and the Office of General Counsel (OGC). To determine whether the referral process and the training aligned with laws and regulations, we assessed PIH’s referral process for troubled PHAs and PIH and OGC’s collaborative training on remedies for noncompliant PHAs. We limited the scope of our

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\(^10\) Provisions of 42 U.S.C. 1437d(j) state that it is the HUD Secretary’s responsibility to petition for receivership or take possession of troubled PHAs that fail to meet the 2-year recovery requirement. However, by the delegation of authority, the Assistant Secretary for Public and Indian Housing has the authority and responsibility to act on behalf of the Secretary with regard to troubled PHAs, including referral for or appointment of a receiver for troubled PHAs that fail to comply with the 2-year recovery requirements. See 42 U.S.C. 3535(d) and 24 CFR 902.83 for delegation of the authority. See 24 CFR 902.75(g) for the regulation requiring referral to the Assistant Secretary.
\(^11\) A troubled PHA is in substantial default status if it (1) fails to execute a recovery agreement, (2) fails to comply with the terms of a memorandum of agreement, or (3) fails to comply with the 2-year recovery requirement (24 CFR 907.3(b)). The law and regulations require PIH to issue a substantial default letter to the PHA, which outlines (1) the legal bases for declaring substantial default, (2) the specific violation that constitutes the bases for substantial default, (3) the period during which the PHA may demonstrate that PIH’s bases for substantial default are not accurate, and (4) an opportunity to cure the PHA’s negative condition if PIH deems it appropriate (24 CFR 907.5).
\(^12\) 42 U.S.C. 1437d(j)(3)(D)(ii)(III)(aa) and (bb)
evaluation to administrative receiverships as Federal courts establish, monitor, and supervise judicial receiverships.

**Methodology**

To address our objective, we reviewed relevant statutes, regulations, and other documentation. We reviewed PIH’s quarterly lists of troubled PHAs that received troubled or Capital Fund-troubled designations at least once from 2011 to 2018. We also conducted 12 interviews with PIH and OGC officials. We used this information to determine (1) the roles and responsibilities of personnel involved in the process of referring troubled PHAs to the Assistant Secretary for Public and Indian Housing, (2) the criteria for referring troubled PHAs, (3) whether PIH referred troubled PHAs as required, and (4) which PHAs should have been referred to the Assistant Secretary.

We consulted with our Office of Legal Counsel to interpret the law and regulations governing the referral of troubled PHAs. We also consulted with PIH on how it calculated the 1- and 2-year recovery periods before drafting this report.
Findings

PIH Has Not Referred Troubled PHAs as the Law and Regulations Require

PIH has not referred troubled PHAs to the Assistant Secretary for Public and Indian Housing based on the 1- or 2-year recovery requirements as the law and regulations require. At the conclusion of our fieldwork, PIH had no processes for OFO to make such a referral. During fieldwork, an OFO staff member told us that instead of sending referrals directly to the Assistant Secretary as required by the law and regulations, OFO would send recommendations for action directly to the field offices that managed the PHA. Sending recommendations for action in this manner would not allow them to reach the appropriate recipient (the Assistant Secretary) and would not result in a long-term troubled PHA’s being declared in substantial default at the end of the maximum 2-year recovery period. However, when later discussing a draft of this report, OFO officials said that OFO had never sent recommendations for action directly to the field offices. Regardless of whether a referral was made to the field office, OFO officials told us that they had never made a referral of any kind to the Assistant Secretary.

Instead, PIH allowed troubled PHAs to remain troubled longer than the maximum 2-year recovery period as long as the PHAs were willing to improve and believed to be capable of improving. PIH officials told us that some troubled PHAs with severe problems could not reasonably recover within the maximum 2-year recovery period. Still, these officials said that PIH would give a troubled PHA more than 2 years to recover as long as the PHA was improving and complying with the recovery agreement established under the PHARS Framework. PIH engages in heightened monitoring and provides technical assistance to assist with a PHA’s recovery during this time. Despite these efforts, we have identified several PHAs that remained troubled for longer than 2 years. Therefore, when PIH does not refer a troubled PHA to the Assistant Secretary after the maximum 2-year recovery period, a PHA could remain troubled for a period beyond that maximum 2-year period while conditions stagnate or deteriorate.

According to a PIH official, PIH had determined that five PHAs failed to meet the 2-year recovery requirements as of April 2019. Of the five PHAs, the Alexander County Housing Authority and the Gary Housing Authority are under HUD receivership for reasons unrelated to meeting the 2-year recovery requirements. The three additional PHAs that the PIH official identified were the: (1) Bridgeport Housing Authority, (2) Irvington Housing Authority, and (3) Hoboken Housing Authority. PIH had placed the Bridgeport Housing Authority, Irvington Housing Authority, and Hoboken Housing Authority on its referral list, but none of these three PHAs have been referred to the Assistant Secretary or otherwise placed under HUD receivership. PIH could have placed the Bridgeport Housing Authority under receivership as early as September 2016, for failing to meet the 1-year recovery requirement established in the law.13

13 The Bridgeport Housing Authority received a troubled designation on September 30, 2013, by obtaining a PHAS score of 56. It failed to meet the 1-year recovery requirement because it received a score of 46 points on September 28, 2016, which is the first PHAS score the PHA received at least 12 months after its initial troubled performer designation.
We analyzed the list of troubled PHAs from fiscal year 2011 to fiscal year 2018. Based on our analysis, we agree with PIH that those five PHAs should have been referred. However, we also identified 13 more PHAs that had failed to meet either the 1-year or 2-year recovery requirements established in the law and regulations and were not referred. The 13 additional PHAs we identified are the:

1. Alexandria Housing Authority in Louisiana,
2. Emery County Housing Authority in Utah,
3. Floydada Housing Authority in Texas,
4. Gallup Housing Authority in New Mexico,
5. Highland Park Housing Commission in Michigan,
6. New Iberia Housing Authority in Louisiana,
7. New Rochelle Housing Authority in New York,
8. Peekskill Housing Authority in New York,
9. Pontiac Housing Commission in Michigan,
10. San Francisco Housing Authority (SFHA) in California,\(^{14}\)
11. Tulia Housing Authority in Texas,
12. Village of Hempstead Housing Authority in New York, and
13. Wicomico County Housing Authority in Maryland.

These results are based on the initial date on which the PHA was designated as troubled\(^{15}\) and, for year 1, the first PHAS score based on the PHAS assessment, which was at least 12 months after the PHA’s initial troubled performer designation, or for year 2, the first PHAS score based on the PHAS assessment, which was at least 24 months after its initial troubled performer designation.\(^{16}\)

The law and regulations require PIH to take specific actions when a troubled PHA fails to meet 1-year or 2-year recovery requirements, including declaring the troubled PHA in substantial default and taking specific actions to place the troubled PHA under HUD receivership. Of the 13 PHAs, 9 had recovered from their troubled status but not before the law and regulations required them to be referred for receivership, and 4 PHAs remained troubled at the conclusion of our fieldwork.\(^{17}\)

\(^{14}\) On May 9, 2019, PIH determined that the San Francisco Housing Authority was in substantial default of both its Housing Choice Voucher Program consolidated annual contributions contract, and its low rent public housing consolidated annual contributions contract. To avoid taking the San Francisco Housing Authority into HUD possession, PIH ordered it to submit all programmatic and financial functions of its Housing Choice Voucher Program and low rent public housing programs to the City of San Francisco’s control.

\(^{15}\) When REAC gives a PHA a PHAS score below 60, it notifies the PHA of its troubled status immediately by sending an automated email to the PHA. Based on REAC’s process, the designation date and the notification date should be identical.

\(^{16}\) To estimate a PHAS assessment date, we added 2 months to each PHA’s fiscal yearend date in the assessment fiscal year for PHAS scores derived from unaudited financial data submission. We added 9 months for PHAS scores derived from audited financial data submission. Then we identified the PHAS assessments that occurred at least 12 months and 24 months after a PHA’s initial troubled performer designation to determine whether a PHA had met 1-year or 2-year recovery requirements. By adding additional months to our calculation, we produced a conservative estimate of PHAs that did not meet either the 1-year or 2-year recovery requirements.

\(^{17}\) At the conclusion of our fieldwork, the following four PHAs remained troubled: (1) the Emery County Housing Authority, (2) the Highland Park Housing Commission, (3) the Pontiac Housing Commission, and (4) the Wicomico County Housing Authority.
PIH Is Creating a Process for Referring Troubled PHAs, but It Offers More Recovery Options Than the Law and Regulations Allow

Shortly after we completed our evaluation on HUD’s Oversight of the Alexander County Housing Authority (2017-OE-0014) in 2017, PIH began creating a process to refer long-term troubled PHAs to the Assistant Secretary.\(^\text{18}\) Once the process has been implemented, it will be the first time that OFO has had a process for referring long-term troubled PHAs directly to the Assistant Secretary based on the maximum 2-year recovery requirement. However, the referral memorandum in development at the time of our fieldwork\(^\text{19}\) indicated that under this new process, OFO would issue to the Assistant Secretary recommended actions that may not align with the law and regulations.\(^\text{20}\)

Under the new referral process, OFO would submit a referral memorandum to the Assistant Secretary, which would provide the following information regarding a long-term troubled PHA:

- background,
- recommended remedial actions,
- an analytical summary of the PHA’s ability to recover, and
- an analytical summary of the PHA’s and HUD’s actions for recovery.

In the referral memorandum, PIH would provide four recovery options for the Assistant Secretary’s consideration, which would include the following:

1. PIH continues to work through the current recovery agreement with an estimated recovery date,
2. PIH provides technical assistance needed for either a continuation or a transition,
3. PIH repositions the PHA (for example, placing the PHA under the Rental Assistance Demonstration Program, transferring the PHA to another housing agency, consolidating the PHAs, or placing the PHA under an alternate management), and
4. PIH declares the PHA in substantial default and places the PHA under receivership or HUD’s possession.

While options other than receivership or possession may seem practical and desirable for a given PHA and HUD considers receivership a last-resort option,\(^\text{21}\) these other options would only be available for a Troubled PHA up to the end of the maximum 2-year recovery period. Unless the PHA is in substantial default for a reason independent of its continued troubled status, the law and regulations require the Assistant Secretary to take specific actions when a troubled PHA has not substantially improved at the end of the 2-year period. The specific actions include declaring substantial default and (1) petitioning for the appointment of a receiver or (2) appointing an

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\(^\text{18}\) HUD’s Oversight of the Alexander County Housing Authority, 2017-OE-0014

\(^\text{19}\) At the conclusion of our fieldwork, OFO provided us with a draft version of the referral memorandum. During the exit conference, OFO indicated that it has continued to edit the draft memorandum since we concluded our fieldwork.

\(^\text{20}\) 42 U.S.C. 1437d(j)(3)(B)(ii); 24 CFR 902.75(g)

\(^\text{21}\) Section 1.3 of PIH’s Internal Procedures Manual for HUD Receiverships, dated April, 2017, states that “[receivership] is viewed as a last-resort option for assisting these PHAs and is usually not entered into without significant efforts for recovery prior to this approach.”
administrative receiver if the troubled PHA has fewer than 1,250 units. If HUD would like to consider receivership as a “last-resort option,” it should petition Congress for a legislative change to existing law that requires HUD to petition for the appointment of a receiver or take possession of a public housing agency in certain circumstances.

**PIH’s Current Processes Do Not Allow It To Measure PHAs’ Performance by the Deadline Established in the Law**

The PHAS assessment cycle does not allow PIH to comply with deadlines established in the law. The law and regulations define the maximum 2-year recovery period for troubled PHAs as a 24-month period from the date on which the PHA is notified of its troubled designation and outline distinct indicators for improvement at the end of each year during the recovery period.22 However, OFO’s implementation of the law and regulations allows some PHAs to remain troubled for more than 2 years—longer than the law and regulations allow.

According to the law, the maximum 2-year recovery period begins on the date PHAs receive initial notification of their troubled designation.23 When REAC gives a PHA a PHAS score below 60, it notifies the PHA of its troubled status immediately by sending an automated email to the PHA, entitled “Troubled Performer Notification.” Therefore, the 2-year recovery period begins on the date on which PHAs receive the automated email notifying them of their troubled designation from REAC.

The regulations provide the following example, which further supports starting the recovery period on the date on which a PHA was notified of its designation as troubled:

> A PHA receives a score of 50 points on the physical condition, management operations, or financial condition PHAS indicators; 60 points is a passing score. **Upon the expiration of the one-year period that started on the date on which the PHA received the initial notification of the troubled performer designation**, the PHA must achieve at least 55 points (50 percent of the 10 points necessary to achieve a passing score of 60 points) to continue recovery efforts (24 CFR 902.75(g)(3)); [emphasis added].

Despite the law and regulation, OFO uses the beginning of the next full fiscal year as the start date for the maximum 2-year recovery period. OFO uses this approach because the PHAS assessment cycle, executed by REAC, measures PHA performance on a fiscal year basis. Following subpart H of 24 CFR part 5, REAC uses each PHA’s fiscal yearend date24 to determine when the PHA is to submit data and undergo a physical inspection.25 Therefore, REAC does not begin the PHAS assessment process until after the fiscal yearend, and it may take months before a score is derived. The PHA may receive the PHAS assessment score near the end of its next fiscal yearend or even into the following fiscal year, meaning that the data it submits to REAC for the next cycle will not reflect actions the PHA might have taken to

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22 42 U.S.C. 1437d(j)(3)(B)(i) and (ii); 24 CFR 902.75(d)
23 42 U.S.C. 1437d(j)(3)(B)(ii)(I) and (II)
24 Four possible fiscal yearends for a PHA exist: March 31, June 30, September 30, and December 31.
25 According to subpart H of 24 CFR part 5, PHAs must submit their unaudited financial statements 60 days after their fiscal yearend and audited financial statements no later than 9 months after their fiscal yearend.
address the troubled designation. The PHA will not have had a chance to demonstrate improved performance when the next PHAS score is released. Additionally, time lags can exist between the completion of PHAS assessments and the PHAS score release, which can further complicate the process. Under REAC’s PHAS cycle, if OFO followed the law and regulations for 1- and 2-year recovery periods, it could penalize PHAs for circumstances beyond their control, which it cannot do by law. Without substantial changes to REAC’s PHAS process or a change to the law and regulations, OFO cannot meet the legal and regulatory deadlines for referral of a troubled PHA and also comply with the legal and regulatory requirements for the performance indicators it must use.

We offer more details about OFO’s recovery period calculation method in appendix A.

**PIH Training Does Not Fully Comply With the Law and Regulations**

In our July 2018 evaluation of HUD’s oversight of the Alexander County Housing Authority, we recommended that PIH train its officials on the authority and process for declaring a PHA in substantial default and for taking PHAs into possession. In December 2018, PIH began training its leadership on remedies for noncompliant PHAs. However, the training in place at the time of our fieldwork did not fully comply with the law and regulations.

In December 2018 and February 2019, PIH trained its leadership on remedial actions that PIH can take to assist PHAs to correct their noncompliance. The training was a collaborative effort between PIH and OGC to strengthen the recovery process for troubled PHAs. The training covered the following topics:

- remedies that PIH can administer to noncompliant PHAs without declaring a substantial default,
- bases for declaring a substantial default,
- procedures for declaring substantial default,
- remedies for PHAs in substantial default, and
- remedies for long-term troubled PHAs.

Although the training is based on the law and regulations, it does not clearly define the responsibilities of field offices, OFO, and the Assistant Secretary with regard to the maximum 2-year recovery period. Instead, directly following the sentence about the 2-year recovery requirement, the training states, “…this requirement does not limit the courses of action available to HUD for substantial default by a PHA.” This advice is incomplete in that the remedies available differ based on the grounds for declaring substantial default and the status of the PHA (i.e., troubled or non-troubled).

Additional remedies are available for troubled PHAs only up to the expiration of their maximum 2-year recovery period. When a troubled PHA fails to meet the 1- or 2-year recovery requirements, the Assistant Secretary’s available actions are limited. As discussed earlier, the

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26 42 U.S.C. 1437d(j)(1)(I)(1)
27 An assessment of REAC’s PHAS process was outside the scope of this evaluation.
Assistant Secretary must then declare the troubled PHA in substantial default and (1) petition for the appointment of a receiver or (2) appoint an administrative receiver if the troubled PHA has fewer than 1,250 units.28

**PIH Has Not Submitted an Annual Troubled PHAs Report to Congress as the Law Requires**

PIH has not submitted an annual report to Congress regarding troubled PHAs as the law29 requires for at least 11 years. The statute requires PIH to submit an annual report to Congress on troubled PHAs that

- identifies troubled PHAs,
- describes the grounds on which the PHAs received a troubled designation,
- describes the agreements that PIH entered into with troubled PHAs,
- describes the progress that troubled PHAs have made under such agreements,
- describes any remedial action that the Secretary has taken to cure troubled PHAs in substantial default, and
- describes the status of Capital Fund-troubled PHAs and specifies the amount of assistance the Capital Fund-troubled PHAs received under the Capital Fund program.

In June 2018, PIH assigned OFO and the Office of Receivership Oversight as the lead offices for preparing this annual report to Congress. However, in October 2018, PIH decided to pause efforts to prepare this report because it wanted to eliminate the requirement. PIH was not able to provide statutory grounds which allow it to not submit this annual report.

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28 Where, however, a troubled PHA has also been declared in substantial default for any other violations set out in 24 CFR 907.3(a), HUD may also pursue the courses of action available under 24 CFR part 907, or section 6(j)(3)(A) of the Act (42 U.S.C. 1437d(j)(3)(A)) to remedy any other substantial default by the troubled PHA.

29 42 U.S.C. 1437d(j)(5)
Recommendations

PIH’s process for recovering troubled PHAs must include the timely referral of long-term troubled PHAs to the Assistant Secretary for Public and Indian Housing. The referral must offer only remedial actions that would be in accordance with the law and regulations. Similarly, PIH’s training on the authority and process for declaring a PHA in substantial default and for taking PHAs relating to the 1- and 2-year recovery periods must align with the law and regulations. PIH also needs to submit an annual troubled PHAs report to Congress as the law requires. Therefore, we recommend that the Director of OFO

1. Refer Troubled PHAs Directly to the Assistant Secretary for Public and Indian Housing When They Have Not Met the 1- or 2-Year Recovery Requirements

OFO must create a process for referring troubled PHAs that do not meet the 1- or 2-year recovery requirements to the Assistant Secretary as the law and regulations require. A referral from OFO to the Assistant Secretary streamlines the process and allows PIH management to make informed and timely decisions about long-term troubled PHAs.

2. Ensure That Referrals to the Assistant Secretary for Public and Indian Housing Recommend Only Recovery Options Allowed by the Law and Regulations

PIH’s proposed referral memorandum to the Assistant Secretary provides recovery options for troubled PHAs other than those allowed by the law. PIH must align its referral process with the law and regulations governing the 1- and 2-year recovery periods. Specifically, the recovery options listed in the referral to the Assistant Secretary should align with the following requirements:

- For a troubled PHA with 1,250 or more units, the Assistant Secretary must declare substantial default and petition for the appointment of a receiver.
- For a troubled PHA with fewer than 1,250 units, the Assistant Secretary must declare substantial default and either petition for the appointment of a receiver or take possession of the PHA, including all or part of any project or program of the agency, and appoint an administrative receiver to assume the responsibilities of the Secretary for the administration of all or part of the PHA.

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30 A troubled PHA is in substantial default status if it (1) fails to execute a recovery agreement, (2) fails to comply with the terms of a memorandum of agreement, or (3) fails to comply with the 2-year recovery requirement (24 CFR 907.3(b)). The law and regulations require PIH to issue a substantial default letter to the PHA that outlines (1) the legal bases for declaring substantial default, (2) the specific violation that constitutes the bases for substantial default, (3) the period during which the PHA can demonstrate that PIH’s bases for substantial default are not accurate, and (4) an opportunity to cure the PHA’s negative condition if PIH deems it appropriate (24 CFR 907.5).
31 42 U.S.C. 1437d(j)(3)(D)(ii)(III)(aa) and (bb)
3. Update Training To Include the Actions That PIH Must Take When a Troubled PHA Does Not Meet the 1- or 2-Year Recovery Requirements

PIH’s training on remedies for long-term troubled PHAs provides the Assistant Secretary for Public and Indian Housing with several options for long-term troubled PHAs in substantial default to recover. In the revised training, PIH should clarify the distinction between remedies available to PIH when a troubled PHA has not met 1- or 2-year recovery requirements and when it has. Specifically, PIH must state that when a PHA does not meet the 1- or 2-year recovery requirements, the Assistant Secretary must declare the troubled PHA in substantial default and (1) petition for the appointment of a receiver or (2) appoint an administrative receiver if the troubled PHA has fewer than 1,250 units.

4. Provide Training on Remedies for Long-Term Troubled PHAs to All PIH Staff Members Who Routinely Interact With Troubled PHAs

After updating the training as addressed in recommendation 3, PIH should provide the training to all PIH staff members who routinely interact with troubled PHAs. Such training will ensure that all PIH staff members working with troubled PHAs have a consistent understanding of the recovery process and available remedies for troubled PHAs.

5. Submit an Annual Troubled PHAs Report to Congress in Accordance With the Statute

We are concerned that HUD has not submitted to Congress an annual troubled PHAs report for 11 years, which can undermine the transparency and accountability of PIH’s recovery process for troubled PHAs. At the exit conference, PIH officials told us that the reporting requirements specified in different appropriations acts have changed over the years, and PIH has not been able to determine whether it should submit the annual report to Congress for at least 11 years. They said that the Office of the Chief Financial Officer is in the process of determining whether PIH should submit the annual report to Congress regarding troubled PHAs. This explanation does not address why PIH had not produced this report for more than a decade or what legal authority it had for not producing a report that is required by statute. Any review should assume that the report is required until contrary evidence is found. PIH should begin submitting the annual report starting in fiscal year 2020.

32 42 U.S.C. 1437d(j)(5)
Agency Comments and OIG Response

Summary of PIH Comments and OIG Response

PIH agreed with recommendations 4 and 5 and requested changes to recommendations 1, 2, and 3. Because PIH tied its agreement with recommendations 1, 2, and 3 to changes that we did not make, we consider its responses to these recommendations to be non-concur. Based on PIH’s response, we consider recommendations 1, 2, 3, 4, and 5 “unresolved-open.”

In its response, PIH asked us to reword recommendation 1. The rewording that PIH requested would not functionally alter the intent of the recommendation. However, in its response, PIH advocated for its use of fiscal years when calculating a troubled PHA’s recovery period. In support of its request, HUD contends that OFO already calculates the 1- and 2-year recovery requirements in a manner consistent with the regulatory requirements of 24 C.F.R. § 902.75(d)(1) and (2); and, that the regulations require that HUD evaluate troubled PHAs based on the date of the PHAS assessments for the “first [and second] full fiscal year[s]” following the notification. However, neither the statute nor the relevant regulation reference fiscal year. Rather, both the statute and the regulation establish the 2-year recovery period using calendar year or a period of 24 consecutive months, not fiscal year.33

Therefore, we are concerned that if OFO develops its referral process based on fiscal year, the referral process will not align with the law and will not meet the intent of the recommendation. Further, if fiscal year is used, some troubled PHAs will have more than the maximum 1- or 2-year recovery periods. In these instances, the time residents lived in poor conditions could be extended unnecessarily. To the extent that HUD believes the use of fiscal years is most practical, HUD should petition Congress for a legislative change to the existing law that requires a calculation based on the number of calendar months from the date of notification to a PHA of its troubled status.

For example, the history of the Wicomico County Housing Authority (WCHA) shows that the use of fiscal versus calendar years in the referral process would lead to different referral statuses. Using calendar year, PIH should have referred the WCHA based on its troubled PHAS score released on August 10, 2015.34 However, when using WCHA’s fiscal year to measure its

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33 24 CFR 902.75(d)(1) and (2) state:(d) Maximum recovery period. (1) Expiration of the first-year improvement period. Upon the expiration of the one-year period that started on the date on which the PHA receives initial notice of a troubled performer designation, the PHA shall, by the next PHAS assessment that is at least 12 months after the initial notice of the troubled performer designation, improve its performance by at least 50 percent of the difference between the initial PHAS assessment score that led to the troubled performer status and the score necessary to remove the PHA’s designation as a troubled performer. (2) Expiration of 2-year recovery period. Upon the expiration of the 2-year period that started on the date on which the PHA received the initial notice of a troubled performer designation, the PHA shall, by the next PHAS assessment that is at least 24 months after the initial notice of the troubled performer designation, improve its performance and achieve an overall PHAS score of at least 60 percent of the total points available.

34 Our analysis measured the recovery period using calendar year and used the PHAS assessments that were at least 12 and 24 months after the initial designation. We used the PHAS score released on August 10, 2015 to determine whether the WCHA met the 1-year recovery requirement. This score was derived from the PHAS assessment, which was at least 12 months after the WCHA’s initial troubled designation. The WCHA received its initial
recovery period, WCHA had not failed the 1-year recovery requirement on August 10, 2015, as its first recovery period would have ended on December 31, 2015—several months later.\textsuperscript{35} This example illustrates how using fiscal years to calculate the recovery period could produce different referral statuses. Given this difference, we did not reword recommendation 1. Recommendation 1 will remain “unresolved-open” until PIH concurs, provides a corrective action plan, and sets a target date of completion to address the recommendation.

PIH said that recommendations 2 and 3 did not align with OGC’s opinion on the remedies available under Section 6(j) of the U.S. Housing Act of 1937 (42 U.S.C. § 1437d(j)) and it requested that we reword recommendations 2 and 3. During this evaluation, we asked OGC for a written legal opinion of the law and regulations, but we did not receive it. Because we do not know the details of OGC’s opinion, we do not know if deferring to it will meet the intent of recommendations 2 and 3.

Further, we agree that if HUD at any time determines a PHA is in substantial default for \textit{a reason independent of its continued troubled status}, HUD is not exclusively limited to the remedies outlined in 42 U.S.C. § 1437d(j)(3)(B)(ii)(I), (II) and (III). Nevertheless, we maintain our position that where a PHA designated as a troubled performer is declared in substantial default for its failure to show substantial improvement within 12 or 24 months, “the Secretary \textbf{shall:} 

(aa) in the case of a troubled public housing agency with 1,250 or more units, petition for the appointment of a receiver pursuant to subparagraph (A)(ii); or

(bb) in the case of a troubled public housing agency with fewer than 1,250 units, either petition for the appointment of a receiver pursuant to subparagraph (A)(ii), or take possession of the public housing agency [emphasis added].”\textsuperscript{36}

Therefore, we did not change recommendations 2 or 3. We will review and consider a written legal opinion from OGC as part of the recommendation follow-up process. Recommendations 2 and 3 will remain “unresolved-open” until PIH concurs, provides a corrective action plan, and sets a target date of completion to address the recommendations.

Recommendation 4 will remain “unresolved-open” until PIH provides a corrective action plan and target date of completion to address the recommendation.

Recommendation 5 will remain “unresolved-open” until PIH provides a target date of completion to address the recommendation.

35 The WCHA’s fiscal yearend date is December 31.
36 42 U.S.C. § 1437d(j)(3)(B)(ii)(I), (II) and (III); 24 CFR §§ 902.75(d)(1) and (2); 24 CFR §§ 902.83(a)(1) and (2); and, 24 CFR §§ 907.7(c)(1) and (2).
MEMORANDUM FOR:  Brian T. Pattison, Assistant Inspector General for Evaluation, G

FROM:  Felicia Gaither, Deputy Assistant Secretary for Field Operations, Office of Public and Indian Housing, PQ

SUBJECT:  Comments on Draft Evaluation Report – HUD Has Not Referred Troubled Public Housing Agencies as the Law and Regulations Require, 2019-OE-0001

For your consideration, the Office of Field Operations (OFO) hereby provides the following comments on the five recommendations contained in the subject report.

Recommendation 1: Refer Troubled PHAs Directly to the Assistant Secretary for Public and Indian Housing When They Have Not Met the 1- or 2-Year Recovery Requirements.

Comments

OFO is developing a substantial default referral protocol for troubled PHAs that have not met the 1- or 2-year recovery requirements under Section 6(j) of the U.S. Housing Act of 1937 (42 U.S.C. §1437d(j)), which includes procedures for referrals to the Assistant Secretary for Public and Indian Housing (PIH) in accordance with 24 C.F.R. § 902.75(g)(1). However, OFO disagrees with the OIG’s assertion in Appendix A that “OFO Defines the Maximum 2-Year Recovery Period Differently Than [sic] the Law and Regulations.” Consistent with the regulatory requirements of 24 C.F.R. §§ 902.75(d)(1) and (2), OFO calculates the 1- and 2-year recovery requirements, as stated by the OIG on Page 6 of the report, “based on the initial date on which the PHA was designated as troubled and, for year 1, the first PHAS score based on the PHAS assessment, which was at least 12 months after the PHA’s initial troubled performer designation, or for year 2, the first PHAS score based on the PHAS assessment, which was at least 24 months after its initial troubled performer designation.” The regulations require that HUD evaluate troubled PHAs based on the date of the PHAS assessments for the “first [and second] full fiscal year[s]” following the notification as stated in the OIG report.

The following example shows the consistency in result between the alternative descriptions: For a PHA with a 9/30 fiscal year end that receives its initial notification of troubled designation from REAC on 4/15/2019, the next PHAS assessment that is at least 12 months after the initial notification is for 9/30/2020. The 9/30/2020 fiscal year end assessment is also the assessment that is at the end of the “first full fiscal year” following the initial notification. Similarly, the next PHAS assessment that is at least 24 months after the initial notification is for 9/30/2021, which is also the assessment that is at the end of the second.

“full fiscal year” following the initial notification.

It is an erroneous conclusion of the OIG that such alternative description makes any difference in OFO’s implementation of 24 C.F.R. § 902.75(d). OFO will finalize its substantial default referral protocol based on the regulatory requirements.

Modified Recommendation 1 Language

Refer troubled PHAs to the Assistant Secretary for Public and Indian Housing when they have not met the 1- or 2-year recovery requirements from the initial date of designation and the PHAS scores based on the assessments that are at least 12 and 24 months after the initial troubled performer designation.

Recommendation 2: Ensure That Referrals to the Assistant Secretary for Public and Indian Housing Recommend Only Recovery Options Allowed by the Law and Regulations.

Comments

Concur but with modified recommendation language.

The OIG’s recommendation is not aligned with the opinion of HUD’s Office of General Counsel (OGC) on the remedies available to under Section 6(j) of the U.S. Housing Act of 1937 (42 U.S.C. § 1437d(j)). The OIG states that remedies for troubled PHAs that have not met the 1- or 2-year recovery requirements under Section 6(j) are limited to those listed in the OIG’s recommendation, found at 42 U.S.C. § 1437d(j)(3)(B). However, 42 U.S.C. § 1437d(j)(3)(B) states, “This subparagraph shall not be construed to limit the courses of action available to the Secretary under subparagraph [42 U.S.C. § 1437d(j)(3)][(A)],” which lists additional remedies for substantial default available “notwithstanding any other provision of law or of [sic] any contract for contributions.” Thus, if HUD at any time determines a PHA is in substantial default for a reason independent of its continued troubled status, such as a breach of the recovery agreement entered into pursuant to 42 U.S.C. § 1437d(j)(2) (and 24 C.F.R. § 902.75(b)), HUD is not exclusively limited to the remedies outlined in 42 U.S.C. §§ 1437d(j)(3)(B)(I) and (II). See 42 U.S.C. § 1437d(j)(3)(A). OFO’s Section 6(j) substantial default referral protocol will align with the opinion of HUD’s OGC on the remedies available to PIH under both 42 U.S.C. §§ 1437d(j)(3)(A) and (B).

Modified Recommendation 2 Language

Ensure that referrals to the Assistant Secretary for Public and Indian Housing recommend recovery options allowed by the law and regulations as interpreted by the Office of General Counsel.
Recommendation 3: Update Training to Include the Actions That PHH Must Take When a Troubled PHA Does Not Meet the 1- or 2-Year Recovery Requirements.

Comments

The OIG’s recommendation is not aligned with the opinion of HUD’s OGC on the remedies available to PHH under Section 6(j) of the U.S. Housing Act of 1937 (42 U.S.C. § 1437d(j)). The OIG asserts that remedies for troubled PHAs that have not met the 1- or 2-year recovery requirements under Section 6(j) are limited to those listed in the OIG’s recommendation, which are found at 42 U.S.C. § 1437d(j)(3)(B). However, 42 U.S.C. § 1437d(j)(3)(B) states, “This subparagraph shall not be construed to limit the courses of action available to the Secretary under subparagraph [42 U.S.C. § 1437d(j)(3)(A)],” which lists additional remedies for substantial default available “[n]otwithstanding any other provision of law or of [sic] any contract for contributions.” Thus, if HUD at any time determines a PHA is in substantial default for a reason independent of its continued troubled status, such as a breach of the recovery agreement entered into pursuant to 42 U.S.C. § 1437d(j)(2) (and 24 C.F.R. § 902.75(b)), HUD is not limited to the remedies outlined in 42 U.S.C. §§ 1437d(j)(3)(B)(I) and (II). See 42 U.S.C. § 1437d(j)(3)(A). OFO’s Section 6(j) training will align with the opinion of HUD’s OGC on the remedies available to PHH under both 42 U.S.C. §§ 1437d(j)(3)(A) and (B).

Modified Recommendation 3 Language

In consultation with the Office of General Counsel, revise training materials to explain required actions and other remedies available when a troubled PHA does not meet the 1- or 2-year recovery requirements.

Recommendation 4: Provide Training on Remedies for Long-Term Troubled PHAs to All PHH Staff Members Who Routinely Interact with Troubled PHAs.

Comments

Concur.

Recommendation 5: Submit an Annual Troubled PHAs Report to Congress in Accordance with the Statute.

Comments

Concur. OFO will prepare and submit the Annual Troubled PHA Report for Congress covering Fiscal Year 2019 and annually covering subsequent years until evidence of the elimination of this requirement is produced and documented.
Appendixes

Appendix A – Details of Maximum Recovery Period Calculation

The Law and Regulations Define the Maximum 2-Year Recovery Period as a 24-Month Period and Specify Recovery Requirements for Each Year of the 2-Year Recovery Period

According to the law and regulations, the maximum 2-year recovery period begins on the date on which PHAs receive initial notification of their troubled designation. The law and regulations define the PHA performance requirements for the end of each year of the 2-year recovery period. A PHA is allowed 1 year after the initial notice to improve its PHAS score by at least 50 percent of the difference between its initial troubled score and the score necessary to remove the troubled designation (that is, a score of at least 60). For example, if a PHA’s initial troubled score was 40, it must achieve a minimum PHAS score of 50 before the end of the first recovery year. By the end of the second year after the initial notice, the troubled PHA must achieve a PHAS score high enough to remove its troubled designation (at least 60). When a troubled PHA fails to meet the 1- or 2-year recovery requirements, the law requires OFO to refer the PHA to the Assistant Secretary for Public and Indian Housing. The Assistant Secretary is then to declare it in substantial default and petition for the appointment of a receiver or appoint an administrative receiver, depending on size.

OFO Defines the Maximum 2-Year Recovery Period Differently Than the Law and Regulations

The law and regulations require (1) troubled PHAs to recover within a maximum of 2 years and (2) PIH to use its performance indicators to measure the troubled PHAs’ performance during the recovery period. However, PIH officials define this maximum 2-year recovery period differently than the law and regulations to account for the REAC PHAS assessment scoring. OFO defines the 2-year recovery period by a PHA’s fiscal year because the performance indicators the law requires PIH to use are data submitted on a fiscal year basis. OFO officials told us that the recovery period should begin in the PHA’s first full fiscal year after the PHA receives its initial troubled designation so that the PHA has time to address the troubled designation and the data submitted reflect those efforts. This definition generally guides OFO’s practice for monitoring and recovering troubled PHAs.

Calculating the recovery period based on the PHA’s first full fiscal year after notification may allow a troubled PHA more than the maximum 2-year period to recover. If a PHA receives its

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40 42 U.S.C. 1437d(j)(3)(B)(i) and (ii) and (j)(1)(A) - (L)
initial designation of troubled status shortly after its fiscal yearend, the PHA’s recovery period would not start until the PHA’s next fiscal year, allowing the PHA almost 3 years to recover. For example, if a PHA with a fiscal yearend of March 31 receives its troubled designation on May 1, the PHA’s recovery period would not start until April 1 of the following year. As a result, the PHA would receive 11 more months to recover than the law allows. At the same time, if the PHA received its score near the end of its fiscal year, the data it submits for the next PHAS score release would not reflect PHA’s improvement during its first recovery period.

OFO accommodates the cycle of PHAS assessment and the time lag in PHAS score releases by defining the 2-year recovery period based on a PHA’s fiscal year. OFO defines the 2-year recovery period based on a PHA’s fiscal year for two main reasons:

1. Data submission deadlines for PHAS assessments depend on a PHA’s fiscal yearend.
2. Often a time lag exists between REAC’s completion of the PHAS assessment and the PHAS score release.
Appendix B – Acknowledgements

This report was prepared under the direction of Brian T. Pattison, Assistant Inspector General for Evaluation; Paul H. Bergstrand, Director of the Program Evaluations Division; and Lindsay Clarke Brubaker, Supervisory Evaluator. The Office of Evaluation staff members who contributed are recognized below.

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# Appendix D – Acronyms

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