



Issue Date	April 8, 2009
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Audit Report Number	2009-AO-0003
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TO: Deborah Hernandez, Deputy Assistant Secretary, Office of Field Operations, PQ

FROM: *Rose Capalungan*
Rose Capalungan, Regional Inspector General for Audit, New Orleans, Gulf Coast Region, GAH

SUBJECT: HUD Could Not Demonstrate That Its Receivership Improved the Housing Authority of New Orleans' Performance

HIGHLIGHTS

What We Audited and Why

At the request of two United States senators, we initiated an audit of the U.S. Department of Housing and Urban Development's (HUD) administration of the Housing Authority of New Orleans (Authority) to determine the effect of HUD's receivership on the Authority's performance. Specifically, we wanted to determine whether HUD had taken action to improve the Authority's post-Hurricane Katrina performance while under HUD receivership by determining whether HUD had an adequate recovery plan to return the Authority to local control and adequately monitored the Authority while under receivership. This report is the third and final of three reports to be issued regarding HUD's management of the Authority.

What We Found

HUD could not demonstrate that its receivership improved the Authority's performance following Hurricane Katrina because it did not establish a clear chain of command for the receivership or require periodic reporting after it took over the Authority in 2002. HUD did not properly monitor the Authority or, until

recently, ensure that the receivers had an adequate recovery plan. Further, it was unclear how HUD intended to guide the Authority while under receivership after the last formal memorandum of agreement expired in 2003.

What We Recommend

We recommend that the Deputy Assistant Secretary, Office of Field Operations, establish an organizational structure for receivership that outlines responsible officials and their duties and appoint a monitoring team, independent of the receiver, to ensure that the Authority progresses toward local control. In addition, the Deputy Assistant Secretary should have the monitoring team consistently review and verify documentation pertaining to the Authority's progress and ensure that the Authority meets the target dates in the strategic improvement plan that it implemented in July 2008.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a copy of the draft report to the Deputy Assistant Secretary, Office of Field Operations on February 20, 2009 for official comments and discussed the report with her at an exit conference held on February 26, 2009. She provided a written response on March 25, 2009.

The Deputy Assistant Secretary generally agreed with the findings and provided documentation to support that the current receivership has implemented some of the recommendations. We reviewed the documentation and made changes to the report as appropriate.

With the exception of the supporting documentation, the complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVE

The Housing Authority of New Orleans (Authority) is a state-created public agency governed by a board of commissioners. The Authority's mission is to provide safe, sanitary, and affordable housing for low-income residents in the New Orleans, Louisiana, area. Although its primary goal is to provide housing, the Authority also provides programs to empower residents to become self-sufficient by providing social services, education, job training, and employment opportunities.

Since its establishment, the Authority has had a history of management problems. The U.S. Department of Housing and Urban Development (HUD) declared the Authority in substantial default of its annual contributions contract on February 8, 1996 and entered into a cooperative endeavor agreement with the City of New Orleans (City) to correct the problems. Under this prior agreement, HUD required the City to dissolve the Authority's board of commissioners and chose a HUD representative as executive monitor to oversee the Authority's progress in implementing improvements.

In 2001, HUD Office of Inspector General (OIG) audits reported that the Authority continued to have problems in its management operations, despite the cooperative endeavor agreement. In addition, the audits showed that the Authority did not properly procure services and expend its funds. In 2002, after the Authority had made little progress, HUD terminated the cooperative endeavor agreement and placed a team of HUD officials, an appointed board of commissioners and an administrative receiver (receiver), in complete control of the Authority's management and operations.¹ The receiver replaced the Authority's executive director to control the day-to-day operations of the Authority, and HUD's one-member board of commissioners replaced the Authority's board of commissioners for reviewing and approving policies, procedures, and contracts. Since 2002, there have been four board appointees and eight receivers.

In 2007, HUD's Office of Receivership Oversight organized the receivership process into five phases to restore public housing agencies in administrative receivership or in substantial default of their annual contributions contract to successful and sustainable operation. The five phases are explained in detail below.

- Phase 1 - situation assessment. HUD determines the extent of the public housing agency's problems and continuously performs situation assessments throughout the receivership to monitor the progress of the public housing agency's recovery.
- Phase 2 - stabilization. HUD focuses on addressing critical issues that might impede a complete recovery while maintaining current operations and program delivery.
- Phase 3 - recovery plan development. HUD develops a detailed plan to cure the deficiencies that led to the receivership and reposition the public housing agency for

¹ According to HUD's February 21, 2002 notice to the mayor of New Orleans, the receivership would "...continue until HUD is satisfied that all defaults with respect to the projects have been cured, and that the projects will...be operated in accordance with (the Authority's agreement with HUD and with federal regulations)..."

rapid recovery and sustainable improvement. The recovery plan should address deep-seated problems investigated during the situation assessment phase.

- Phase 4 - recovery plan implementation. HUD implements the recovery plan by
 - Improving the operational structure and financial condition of the agency;
 - Allocating and integrating human, physical, systems, financial, and managerial resources to expedite recovery;
 - Recruiting experienced managers to fill key vacancies; and
 - Providing specialized assistance or training to the agency and its staff.

- Phase 5 - transition to local control/sustainability. HUD transitions the agency out of administrative receivership and back to local control. HUD will have trained and appointed a nonvoting advisory board which would convert to a fully governing board of commissioners for the public housing agency upon termination of the receivership. Before HUD grants local control, the public housing agency's management and its advisory board must exhibit evidence of normal and professional operations.

The Authority continued to suffer from poor performance before Hurricane Katrina and after HUD took control through the receivers. The Authority's poor performance was based upon scores from the Public Housing Assessment System (PHAS)² and independent auditor reports. In 2005, its last PHAS reporting period, and while under HUD control, the Authority received an overall performance rating of "troubled," the lowest rating available. Further, our recent audits found that the Authority had significant problems in its housing, contracting, and financial operations.³

Our audit objective was to determine whether HUD had taken action to improve the Authority's post-Hurricane Katrina performance while under HUD receivership by determining whether HUD had an adequate recovery plan to return the Authority to local control and whether HUD adequately monitored the Authority while under receivership.

² PHAS is a HUD management tool conducted by the Real Estate Assessment Center to measure the performance of a public housing agency in four areas: physical condition of its properties, its financial conditions, its management operations, and resident service and satisfaction feedback.

³ See 2009-AO-0001 and 2009-AO-0002 in the Follow-up on Prior Audits section of this report.

RESULTS OF AUDIT

Finding 1: HUD Could Not Demonstrate That Its Receivership Improved the Authority's Post-Hurricane Katrina Performance

HUD managers could not show that the receivership improved the Authority's performance both before and after Hurricane Katrina because HUD did not structure or monitor the receivership properly and did not maintain adequate documentation. HUD managers could not provide evidence of an initial assessment of the Authority to determine exactly what problems needed to be corrected or any critical issues that might impede a successful recovery. HUD did not perform continuous reassessments of the Authority's performance to determine whether there was any improvement under the receivership and waived two of its most useful tools for evaluating the Authority's housing performance. Further, HUD set the receivership up without a clear chain of command, failed to properly monitor the receivership, and did not have a long-term recovery plan during much of the receivership. As a result, HUD lacked information necessary to fully assess the Authority's progress in addressing its problems and make an informed decision about when to return the Authority to local control or whether the Authority would operate effectively and efficiently if it returns to local control.

HUD Placed the Authority Under Receivership

In February 1996 and June 2000, HUD executed cooperative endeavor agreements with the Authority and the City outlining plans to aid the Authority in its recovery. In December 2000, HUD and the City amended the cooperative endeavor agreement to extend it until December 2003. In February 2002, however, HUD terminated the cooperative endeavor agreement in accordance with federal regulations,⁴ declaring the Authority to be in substantial default of its annual contributions contract.⁵ HUD placed the Authority under receivership because it decided that the Authority's recovery needed greater HUD involvement. Consequently, a memorandum of agreement was executed between HUD and the Authority to correct conditions at the Authority that jeopardized its low-income and Section 8 housing programs.

⁴ According to 42 U.S.C. (*United States Code*) 1437d(g)2, HUD has the authority to reconvey possession of the public housing agency in terms of the annual contributions contract as soon as practicable, which is either (1) after HUD is satisfied that all defaults have been cured and that the project will, thereafter, be operated in accordance with the terms of the contract or (2) after the termination to make annual contributions available unless there are any covenants or obligations to HUD which are then in default.

⁵ Upon occurrence of substantial default of the annual contributions contract, the Authority shall convey to HUD title to the projects as demanded by HUD or deliver possession and control of the projects to HUD. If HUD acquires title to or possession of the projects, it shall deliver a notice of substantial default and provide a specific timeframe within which the Authority is to cure the substantial default, taking into consideration the nature of the default.

Between February 2002 and April 2008, HUD appointed eight receivers, three of them after Hurricane Katrina. The tenure of the first two post-Hurricane Katrina receiver appointees was eight and nine months, respectively, while the current receiver has been in office since October 2007.

In Phase 1, HUD Did Not Have Evidence to Support Its Assessment of the Authority's Condition

HUD did not properly plan the receivership because it did not perform an initial assessment of the Authority's condition or continuous assessments after the receiver took over. In phase 1 of the recovery process, the receiver should have assessed the Authority's condition, which would have established an inventory of the Authority's problems. Although there was a February 2002 decision to terminate the cooperative endeavor agreement and/or execution of the August 2002 memorandum of agreement, HUD did not provide initial assessments of the Authority's operations before or after the agreements were executed.

The initial assessment would have provided the details needed to identify problems with the Authority's operations. The assessment would have been an inventory of problems that would have provided the receiver with a road map of the management areas in need of improvement and would have provided the foundation for documenting improvements through periodic reports. The initial assessment results would have also provided insight into the Authority's downward trend in its PHAS scores, which were 68 in 2002, 66 in 2003, and 59 in 2004⁶. However, HUD could not provide an initial assessment, nor could it provide an assessment of the Authority's condition at the expiration of the memorandum of agreement in December 2003. Because there were no assessments, there were no periodic reports to show how the receivers corrected problems that the assessments would have identified.

The lack of assessments and reports continued after Hurricane Katrina. If HUD's receiver had performed an initial assessment in phase 1, that assessment would have had to have been significantly revised due to the Hurricane Katrina disaster on August 29, 2005. However, neither HUD headquarters nor the receiver could provide evidence to show that it reassessed or performed continuous assessment of the Authority's condition after Hurricane Katrina.

⁶ According to 24 Code of Federal Regulations part 902.67, PHAS scores less than 60 generally indicate an agency is troubled, the lowest available designation. Scores between 60 and 89 generally indicate a standard performer. Scores above 90 indicate a high performer.

Further, HUD limited its ability to detect problems with the Authority's operations following Hurricane Katrina by not conducting PHAS⁷ and Section Eight Management Assessment Program (SEMAP)⁸ reviews. The receiver discontinued the PHAS and SEMAP reviews because in October 2005, HUD issued waivers to all housing agencies affected by the hurricane, authorizing them to suspend the administrative process and focus on reestablishing operations. The receiver's decision to suspend the reviews in 2005 and 2006 was understandable, but from fiscal year 2007 forward, the lack of performance reviews undermined the receiver's ability to understand the Authority's operating problems and initiate corrective actions.

From 2002 through 2008, the receivers could not provide documents to support periodic assessments of the Authority's problems. At a minimum, the receiver needed documentation of the initial problem inventory and periodic assessments starting in 2007 to demonstrate that the receiver was aware of the problems and the changing nature of the problems to effectively and efficiently implement subsequent phases.

In Phase 2, HUD Had Little Evidence Showing Its Determination of the Critical Issues

According to the five-phase model, the Authority needed in phase 2 to address critical issues that might impede a complete recovery, while maintaining current operations and program delivery. The five-phase model lists nine critical areas in which adjustments may be needed. The critical areas are (1) governance, (2) organization and staffing, (3) finance, (4) procurement and contract management, (5) property management, (6) resident relations, (7) capital funds and development, (8) security, and (9) information technology.

The current receiver explained that before Hurricane Katrina, the Authority was mostly involved in redevelopment, while after the hurricane, it was mostly involved in recovery efforts such as asset recovery and rehousing displaced Hurricane Katrina victims. The prior receiver confirmed that his priorities included providing housing to displaced public housing tenants who wanted to return after the hurricane and redevelopment. However, neither receiver could provide documents to support these assertions. Again, at a minimum, one would

⁷ PHAS is a HUD management tool conducted by the Real Estate Assessment Center to measure the performance of a public housing agency in four areas: physical condition of its properties, its financial conditions, its management operations, and resident service and satisfaction feedback.

⁸ SEMAP is a HUD management tool for public housing agencies that administer the Housing Choice Voucher program. SEMAP measures 14 key areas and helps HUD target assistance to those areas that need the most assistance. After HUD took control of the Authority in 2002, the SEMAP performance increased from a "poor performer" (the lowest performance level) in 2002 to a "high performer" (the highest performance level) in 2005.

expect a schedule of planned activities and monthly reports related to the planned achievements.

HUD provided little evidence to confirm or identify which of the nine critical areas it determined to be critical issues that needed to be stabilized at the Authority. However, the current receiver provided the following:

- The Authority's physical asset recovery plan was dated November 2006 and focused on rehabilitation. However, it was incomplete, referring to several appendixes that were missing. Also, the plan contained a blank space in place of the number of units to be constructed on the Lafitte site. According to the plan, the Authority's post-Hurricane Katrina goals were to provide approximately 3,000 public housing units in mixed-income communities, including rental and homeowner units, and improve living conditions and housing choice to New Orleans' low-income families. Therefore, the plan entailed repairing and reoccupying approximately 2,200 housing units that were damaged by the storm, completing the construction of 205 units at two sites that was begun before the storm, constructing 329 units at eight sites using 2006 Gulf Opportunities Zone tax credits, and constructing approximately 2,100 additional units using 2007-2008 Gulf Opportunities Zone tax credits. Since the Authority's physical asset recovery plan's focus was repair and reoccupancy, it did not address other critical issues. Further, the receiver did not provide progress reports or other documentation showing that the plan had been implemented.
- A contractor developed three draft plans for HUD, but they dealt with the impending conversion to asset management. These plans were the conversion to asset management, financial, and personnel plans. The draft plan for conversion to asset management included steps to restructure the Authority for asset management. The draft financial plan included the financial aspects of the Authority after Hurricane Katrina under an asset management model required by the Public Housing Operating Fund rules (24 CFR (*Code of Federal Regulations*) Part 990), the approach to be used in developing operating budgets for the Authority's projects, the central office cost center, and the Authority's Housing Choice Voucher program. The draft personnel plan included an initial staffing assessment that would complement the draft organizational design for the Authority, summary job descriptions, skill requirements, and salary ranges for key positions within the organization when the contractor estimated that the Authority would be returned to local control in 2011. The focus of these three draft asset management-related plans was restructuring the Authority and planning for the financial aspects of asset management. Therefore, none of these three draft plans addressed other critical issues. Further, the receiver did not provide progress reports or other documentation showing that these plans had been implemented.

- The only plan that addresses most of the critical issues is the strategic improvement plan that the current receiver implemented in July 2008. The plan includes eight of the nine critical issues in the five-phase model. The only missing critical issue is capital funds and development. The plan lays out six strategic priorities, with each priority having one or more corresponding work plans designed to correct the Authority's performance and return it to local control by 2011. The work plans target the critical issues and the specific tasks in the work plans that are to be completed from 2008 through 2011. Therefore, the strategic improvement plan has not been in effect long enough for us to determine its outcomes or reasonably evaluate whether its steps will cure the Authority's deficiencies or move the Authority closer to local control.

In Phase 3, HUD Did Not Have Evidence of a Long-Term Recovery Plan

Neither HUD, its receivers, nor the Authority could provide documentation of an overall plan, before July 2008, to aid the Authority's return to local control. HUD managers stated that they placed responsibility on each receiver to develop his or her own recovery plan for the Authority, which would aid the Authority in its progression. The extent of HUD headquarters involvement in developing these plans was not documented.

Therefore, each receiver should have established a documented recovery plan. However, after the memorandum of agreement ended in 2003, there were only two recovery plans identified, the physical asset recovery plan and the strategic improvement plan⁹ discussed above. The following is a timeline of the Authority's recovery plans.

- From August 2002 to December 2003, HUD and the Authority executed the memorandum of agreement. The agreement included performance targets, strategic plans, and technical assistance to be provided by HUD to improve the Authority's performance.
- For the period January 2004 to November 2006, neither HUD nor the Authority could provide a plan.
- In 2006, the Authority developed the physical asset recovery plan summarized in phase 2 above.
- In April 2008, HUD, the Authority, and the City executed a cooperative endeavor agreement, which called for the creation of a plan, within six

⁹The terms "strategic improvement plan" and "recovery plan" are used interchangeably throughout the report.

months of the agreement, for transition of the Authority to local control. The agreement ended on December 31, 2008, and resulted in the strategic improvement plan, which provided for returning the Authority to local control by 2011.

- In July 2008, the receiver implemented the strategic improvement plan summarized in phase 2 above.

During most of the receivership, there was no documented recovery plan which covered all aspects of the Authority's condition. The current strategic improvement plan was not implemented until after we began our audit in April 2008.

In Phase 4, HUD Did Not Properly Set Up or Monitor the Receivership

HUD did not properly monitor or control the receivership at the Authority. During much of the time that the receivership was in existence, it was apparent that HUD had not established a clear operating structure and reporting chain of command. This condition is evidenced by the lack of documents to support the receivership's actions and results in improving operations at the Authority.

According to interviews with HUD staff, until April 2008, the former Secretary of HUD and some of his executive staff were intermittently involved with the receivership. However, due to a lack of documentation, we could not evaluate the extent of their involvement in the recovery of the Authority or how their involvement was coordinated with the Assistant Secretary's oversight and the receivers.

Because HUD did not establish a clear structure for the receivership, it was unclear how it intended to guide the Authority while under receivership after the memorandum of agreement ended in 2003. For example, after Hurricane Katrina, HUD continued to appoint HUD employees as the Authority's receiver and/or board of commissioners via delegations of authority. According to the delegations, the appointees were to report to the Assistant Secretary for Public and Indian Housing; however, the delegations did not explain the frequency, format, and/or content of such reports. The receivers provided two written reports for the period January 2006 through October 2007. One of the reports, dated June 23, 2006, was a memorandum from a prior receiver to HUD's Assistant Secretary for Public and Indian Housing. The memorandum contained a brief summary of activities in each of the Authority's departments. It was informal, lacked detailed information, and did not provide a clear picture of the Authority's progress in its

recovery. For example, the memorandum did not discuss the number of public housing, disaster voucher, or housing choice voucher units planned or occupied.

The second report was an informal, undated document with more specific information, but there were no markings to show who sent it or to whom it was sent. The Authority did not begin providing consistent written monthly status reports to HUD concerning progress until November 2007, after the current receiver was in place. The reports included, among other things, (1) the status of development at select sites; (2) staffing issues; (3) progress in completing public housing units, including occupancy and number of units ready and nearly ready; (4) the number of Housing Choice Voucher program and Disaster Voucher program units leased; and (5) required actions pending in HUD headquarters. These reports contained more information than prior reports.

In addition to regular status reporting, under the current receiver, the Authority made some progress toward a return to local control during the recovery plan implementation phase. However, much remains to be accomplished; specifically,

- The July 2008 strategic improvement plan addressed ongoing issues at the Authority, including housing operations, contracting and compliance, and financial management issues, and suggested goals and deadlines for improving such functions. However, the results of our audits performed in 2008 show that the Authority still needed to address serious deficiencies in its operations, such as the quality of housing operations, the accuracy of financial reporting, ensuring proper contract administration, and ensuring that payments for goods and services were properly authorized (see Follow-up on Prior Audits section of this report). Further, the Authority had not corrected internal control weaknesses in its vendor payments that its independent auditors identified from 2002 through 2007. The Authority must address these deficiencies to ensure that its recovery efforts are sustainable when it returns to local control.
- The Authority had downsized its maintenance staff because it contracted maintenance functions as part of its conversion to asset management and because it did not need as many maintenance staff after Hurricane Katrina damaged or destroyed a large part of its public housing stock. The Authority had hired a general counsel and director of administrative services. It had not, however, selected a chief financial officer or an executive director. These are critical positions that the Authority should fill as soon as possible.
- The Authority had identified a new management information system, but it did not expect to begin processing all of its financial and Housing Choice Voucher program transactions using the new system until March 2009.

Transition to Local Control Remains Uncertain

Whether HUD will meet its deadline of 2011 for transitioning the Authority to local control and whether the Authority will be able to operate effectively and efficiently after the transition remain uncertain. HUD had not properly set up the receivership with a clear chain of command, required an immediate plan for improving the Authority's operations to cure the deficiencies that led to the receivership, or assigned someone to monitor the Authority's and the receiver's progress at the beginning of the receivership. Consequently, progress had been slow in returning the Authority to local control following the setback of Hurricane Katrina. HUD had done none of these things until recently and further limited its ability to evaluate conditions at the Authority by waiving the PHAS and SEMAP requirements and not requiring regular reporting of accomplishment of goals. HUD lacked information necessary to fully assess the Authority's progress in addressing its problems and make an informed decision about the continuation of HUD control.

Recommendations

We recommend that the Deputy Assistant Secretary, Office of Field Operations,

- 1A. Establish a clear organizational structure regarding the Authority's receivership, which outlines responsible HUD headquarters officials as well as responsibilities of receivers and the board of commissioners.
- 1B. Appoint a monitoring team, independent of the receiver, to ensure that the Authority progresses toward local control.
- 1C. For all receiverships, establish a method to document involvement of all HUD offices outside the Office Public and Indian Housing.
- 1D. Require the receiver to establish specific management milestones and submit documentation concerning the Authority's progress in achieving those milestones to the appointed monitoring team and have the monitoring team consistently review and verify such documentation.
- 1E. Ensure that the Authority meets the target dates in the strategic improvement plan implemented in July 2008; documents the reviews of activities; and justifies the changes or actions related to the target activities.
- 1F. Train management staff to ensure they are capable of working with troubled housing agencies and developing housing projects.

SCOPE AND METHODOLOGY

We conducted our audit at the Authority and the HUD OIG office in New Orleans, Louisiana. We performed our audit work between April and November 2008.

To accomplish our objectives, we reviewed available status, progress, annual, and quarterly reports and other relevant documents provided to HUD by the Authority. We also obtained available contracts between the Authority and HUD, delegations of authority from the Office of Public and Indian Housing, PHAS and SEMAP scores from HUD's Office of Public and Indian Housing Information Center system, etc.

During the audit, we interviewed various senior HUD and Authority officials and other HUD and/or Authority staff. We also reviewed the Authority's annual contributions contract, the applicable federal regulations, *Federal Register* waivers, independent auditor reports, and other documentation relevant to the Authority's receivership.

Our audit period covered January 1, 2006, through April 30, 2008. We expanded this period as necessary to determine the information available since 2002, the beginning of the current receivership arrangement. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal control was relevant to our audit objective:

- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that the Authority's receivership is consistent with HUD's laws and regulations.

We assessed the relevant control identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe that the following items are significant weaknesses:

- HUD did not maintain sufficient documentation to evaluate the receivership's progress (finding 1).
- HUD did not properly structure the receivership with a clear chain of command or monitor its progress in returning to local control (finding 1).

FOLLOW-UP ON PRIOR AUDITS

This audit report is the third and final OIG audit report issued at the request of the two United States senators, regarding HUD's oversight of the Authority while under receivership. Our first and second audit reports, issued on December 12, 2008, and January 29, 2009, respectively, are discussed below.

Report Number: 2009-AO-0001

HUD OIG audit report 2009-AO-0001 showed that HUD's receiver did not provide adequate management oversight to ensure that the Authority complied with HUD's requirements when operating its voucher program and public housing operations. Specifically, HUD's receiver (1) did not ensure that eight of ten randomly selected voucher program units complied with HUD's housing quality standards; (2) did not ensure that six of nine public housing units were in good repair; and (3) did not ensure that the Authority used a rent reasonableness system to avoid excessive payments to landlords, properly calculated or paid voucher program tenant rents, and maintained a proper waiting list for its Section 8 program.

We recommended that the Deputy Assistant Secretary, Office of Field Operations, require the receiver to ensure that the Authority conducts not only annual inspections on all of its voucher program units but also all of the supervisory quality control inspections required by its administrative plan, implements an inspection process to routinely review the physical condition of public housing units to ensure compliance with HUD's requirements, develops and implements a method for assessing rent reasonableness to owners, properly calculates and pays rental assistance, and maintains a proper waiting list that complies with HUD's requirements for its Section 8 applicants. The recommendations were still open at the time of this report.

Report Number: 2009-AO-0002

HUD OIG audit report 2009-AO-0002 showed that HUD's receiver did not provide adequate management oversight to ensure that the Authority properly (1) accounted for fungibility funds, (2) monitored and paid its contractors, and (3) disbursed its accounts payable.


The report cited a total of \$7.5 million in questioned costs. We recommended that the Deputy Assistant Secretary, Office of Field Operations, require the receiver to ensure that the Authority provides support for or repays more than \$5.1 million in unsupported costs, repays \$2.4 million in ineligible costs, develops and

implements the appropriate controls to ensure that accounts payable disbursements are properly documented and receive proper authorization to safeguard the accounts payable funding, and requires the Authority to provide an accurate report including all eligible fungibility funds expensed in its 2006 annual report. The recommendations were still open at the time of this report.

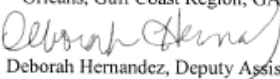
APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000
OFFICE OF PUBLIC AND INDIAN HOUSING
MAR 25 2009

MEMORANDUM FOR: Rose Capalungan, Regional Inspector General for Audit, New Orleans, Gulf Coast Region, GAH

FROM: 
Deborah Hernandez, Deputy Assistant Secretary,
Office of Field Operations, PQ

SUBJECT: HUD Could Not Demonstrate That Its Receivership Improved The Housing Authority of New Orleans' Performance

This memorandum responds to the above-referenced draft audit report submitted Office of Public and Indian Housing (PIH) via e-mail on February 22, 2009. In preparing this response, the PIH Office of Field Operations has consulted with the New Orleans HUD Receiver.

The draft audit declared that "HUD could not demonstrate that its receivership improved the Authority's performance following Hurricane Katrina because it did not establish a clear chain of command for the receivership or require periodic reporting after it took over the Authority in 2002. HUD did not properly monitor the Authority or, until recently, ensure that the receivers had an adequate recovery plan. Further, it was unclear how HUD intended to guide the Authority while under receivership after the last formal memorandum of agreement expired in 2003."

Responses to IGA Recommendations (Page 13):

1A. Establish a clear organization structure regarding the Authority's receivership, which outlines responsible HUD headquarters officials as well as responsibilities of receivers and the board of commissioners.

Response to 1A: HUD believes that a clear organization structure is already in place with regard to the HANO receivership. Karen Cato-Turner serves as the Executive Director, responsible for the day-to-day operations of the agency, and Diane Johnson, serves as the Board official responsible for decision making and oversight of the agency in conjunction with both the Offices of Field Operations (OFO) and Office of Receivership Oversight (ORO). The OFO and ORO report to the General Deputy Assistant Secretary and consult regularly with the GDAS on HANO matters. In addition, Fred Tombar, Senior Advisor to the Secretary for Disaster and Recovery has been designated by Secretary Donovan to serve as his advisor on all matters related to New Orleans. This is a recent appointment and the Office of Field Operations works in consultation with Mr. Tombar on all decisions relative to the HANO.

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Comment 1

Comment 2

1B. Appoint a monitoring official, independent of the receiver, to ensure that the Authority progresses toward local control.

Response to 1B: The OFO recognizes the need for independent checks on all PHA activities, but also recognizes that many independent checks are already in place, including Board oversight, contracted inspectors and auditors. However, these sources do not cover all aspects of the agency. I agree with the recommendation to establish independent monitoring for other management activities. However, rather than an individual, I will form a team to complete random checks on the activities at HANO. That team will be established by June 30, 2009.

Comment 3

1C. For all receiverships, establish a method to document involvement of all HUD offices outside of the Office of Public and Indian Housing, such as the Executive Office of the HUD Secretary.

Response to 1C: I cannot respond to or accept this recommendation as it is beyond my scope of responsibility.

1D. Require the receiver to establish specific management milestones and submit documentation concerning the Authority's progress in achieving those milestones to the appointed monitoring official and have the monitoring official consistently review and verify such documentation.

1E. Ensure that the Authority meets the target dates in the strategic improvement plan developed in July 2008' documents the reviews of activities; and justifies the changes or actions related to the target activities .

Comment 4

Response to 1D & 1E: The Executive Administrator was required to establish a recovery plan that includes milestones for accomplishments. As the rating official for the Executive Administrator, I review the monthly reports and progress toward meeting the established milestones. As indicated in recommendation 1B, I will establish a team to monitor the activities at the agency, including verification of accomplishments. The team will begin monitoring activities in the 4th quarter with the first report due by October 31. Based on my directive and under the leadership of the current HANO Administrator, the agency created: The HANO Strategic Improvement Plan (SIP). The SIP was implemented beginning in July 2008 and is scheduled to run through December 2011. The plan is designed to facilitate Agency-wide recovery and guide HANO's return to local control. The SIP is centered on six Strategic Priorities linked to Work Plans covering all major functions of the Agency. Other components include: HANO's vision, mission, values, goals and objectives; as well as descriptions of the Agency's organizational structure; redevelopment plans; and performance monitoring framework. A copy of the SIP is attached.

As indicated above, the SIP is defined by short and long-range Work Plans associated with each of the Agency's Strategic Priorities – providing a clear context for action and positive outcomes. This comprehensive performance management system is designed to:

- ✓ Increase organizational and operational efficiencies
- ✓ Increase affordable housing opportunities
- ✓ Facilitate resident-self-sufficiency
- ✓ Facilitate the transition to an asset based management model

Six Strategic Priorities

1. Transitioning HANO's Governance Back to Local Control
2. Creating a High Performing Public Housing Program Under the New Asset Management Business Model
3. Redeveloping the Portfolio into Vibrant, Healthy, and Sustainable Communities
4. Normalizing Operations and Continuing to Provide Effective, High Quality Housing Choice Programs
5. Promoting Resident Self-Sufficiency, Homeownership, and Other Client Services
6. Strengthening the Financial and Administrative Systems of the Organization

In order to ensure that the target dates in the SIP are met, the Executive Administrator created and implemented a Standard Operating (SOP) Procedure for SIP monitoring and reporting Work Plan progress and to date; SIP Quarterly Reports have been prepared for the periods July – September 2008 and October – December 2008. The first two Quarterly Reports are attached.

1F. Hire management staff that have a background in successfully working with troubled housing agencies and developing housing projects.

Response to 1F: PIH has awarded a contract to HR Anew for the purpose of recruiting individuals for key management positions within HANO. The work of the contractor has successfully resulted in hiring a General Counsel, Chief Financial Officer and others. The contract in place should satisfy your recommendation. It is not necessary to hire staff with a background in working with troubled agencies, but more important to hire staff with a background in property management. Regarding development activities, PIH has also put in place contractor support for development advisory services. I believe the expertise of the firm in place provides ample oversight of development planning and other activities, in addition to providing training to the HANO staff.

At the time of the subject audit, all of the key mission critical Division Director positions for HANO's Executive Management team were filled with the exception of the Chief Financial Officer (CFO). On February 23, 2009, Edwin Jamora joined the Executive Management team as the new CFO. Mr. Jamora comes to the agency with over 28 years of finance and accounting experience. Recently he was the Director of Finance for the Philadelphia Housing Authority in Philadelphia, PA, the 4th largest Housing Authority in the nation. His experience and expertise will be a direct contribution to SIP Strategic Priority #6: Strengthening the Financial and Administrative Systems of the Organization.

Comment 5

The addition of Mr. Jamora completes the formation of a strong Executive Management team that will, under the direction and guidance of the receiver, take the agency from its troubled status to that of a High Performer.

Attachments

OIG Evaluation of Auditee Comments

Comment 1 The Deputy Assistant Secretary, Office of Field Operations stated in her response that HUD believes that a clear organization structure is already in place for the Authority's receivership. She explained that the Authority has an Executive Director, responsible for the day-to-day operations, a Board official responsible for decision making and oversight of the Authority in conjunction with both the Offices of Field Operations (OFO) and Office of Receivership Oversight (ORO) who both report to the General Deputy Assistant Secretary on the Authority's matters. In addition, she mentioned that a Senior Advisor to the Secretary for Disaster and Recovery was recently appointed and designated by the HUD Secretary to serve as his advisor on all matters related to New Orleans.

We agree that the current organizational structure at the Authority is probably clearer than it was during most of the receivership. However, the current organizational structure is a recent structure and its effectiveness has not been evaluated. On July 2, 2008, the Deputy Assistant Secretary stated that the Assistant Secretary was responsible for the Authority's performance, and she disclaimed any oversight responsibility for the receivers. She said that the receivers were selected from her staff, and that they sent her monthly reports only as a courtesy. She said that she did not do anything with the reports. Further, she said that she had not had any input into the current receiver's plan and had not even seen it. Therefore, we conclude that as late as July 2008, there was no clear organization structure at the receivership, and we stand by our recommendation.

Comment 2 In her response, the Deputy Assistant Secretary agreed that PIH needed independent checks on all PHA activities and to establish independent monitoring. However, she proposed to form a monitoring team by June 30, 2009 rather than having an individual perform the monitoring function. She added that many independent checks were already in place, including Board oversight, contracted inspectors and auditors but they do not cover all aspects of the Authority.

We agree that a monitoring team could provide the appropriate oversight and thus we revised our recommendation 1B to recommend a monitoring team rather than an individual.

Comment 3 The Deputy Assistant Secretary, Office of Field Operations stated that she could not respond to or accept recommendation 1C as it is beyond the scope of her responsibility.

We disagree that the recommendation is beyond the scope of the Deputy Assistant

Secretary's responsibility. The purpose of this recommendation is to avoid in the future the lack of documentation that characterized this receivership. Further, the current administration says there is a need for more transparency and accountability in government. Documenting outside involvement in the receivership provides transparency which facilitates accountability. Documenting such involvement could be as simple as maintaining record memorandum in a file or requiring the Authority's Board to include outside involvement in Board meeting minutes. The Deputy Assistant Secretary has already stated in her response to recommendation 1A that the Office of Field Operations is working with a senior advisor to the Secretary for Disaster and Recovery on all decisions relative to the Authority. Implementing a policy of keeping and filing records of such meetings would suffice to document involvement of the senior advisor in making decisions. Further, the receiver is in an ideal position to be aware of HUD involvement in the Authority outside of the Office of Public and Indian Housing. Requiring the receiver to document and report such involvement to the Deputy Assistant Secretary would suffice to document involvement. Therefore, we stand by our recommendation.

Comment 4 The Deputy Assistant Secretary, Office of Field Operations explained that the Executive Administrator was required to establish a recovery plan that included milestones for accomplishments. The Authority developed the strategic improvement plan (SIP) and began implementing it in July 2008 and provided the supporting documentation for the finalized SIP. The SIP is scheduled to run through December 2011. The SIP is centered on six Strategic Priorities linked to work plans covering all major functions of the Authority. She added that, as indicated in recommendation 1B, HUD agreed to establish a team to monitor the activities at the Authority, including verification of accomplishments and have that team submit the first report by October 31, 2009. She provided supporting documentation in the form of a new Standard Operating Procedure for monitoring and reporting work plan progress, and two quarterly reports for the period July 2008 - December 2008.

We acknowledge that the receiver and the Office of Field Operations are implementing the recommendation through the SIP. However, the implementation began outside the scope of our review and therefore was not tested. We reviewed the supporting documentation associated with the finalized SIP and believe that it is a good starting point for the Authority to begin a return to local control as we stated in the audit report under the Phase 2 section of the report (pages 8-10). However, we stand by our recommendation to ensure the Authority meets the target dates associated with the SIP and documents its progress towards improvement.

Comment 5 The Deputy Assistant Secretary, Office of Field Operations explained that the Office of Public and Indian Housing awarded a contract to recruit individuals for key management positions within the Authority. The contractor hired a General Counsel, Chief Financial Officer (CFO) and others. She said she believed these

tasks would satisfy recommendation 1F. However, she said that it is not necessary to hire staff with a background in working with troubled agencies, but more important to hire staff with a background in property management. She further explained that at the time of the audit, all of the key mission critical positions for the Authority's Executive Management team were filled with the exception of the Chief Financial Officer. She said that the CFO position was filled February 23, 2009 and that the new CFO had experience with large housing authorities.

We recognize HUD's efforts in recruiting for key positions at the Authority. The Authority may have hired a knowledgeable senior staff. However, given the Authority's troubled past, the senior staff needs to be familiar with operating troubled agencies. Since the Authority has already hired its senior staff, we revised the recommendation to reflect the senior staff's need for training in how to operate troubled agencies.

Appendix B

LIST OF AGREEMENTS BETWEEN HUD AND THE AUTHORITY

Month/year	Agreement type	Description
February 1996	Cooperative endeavor agreement	Executed between HUD and the City on February 8, 1996, outlining plans to aid the Authority in its recovery.
June 2000	Cooperative endeavor agreement	Executed between HUD and the City on June 20, 2000, outlining plans to aid the Authority in its recovery. This agreement terminated on December 31, 2000.
December 2000	Amended cooperative endeavor agreement	Executed between HUD and the City on December 21, 2000, outlining plans to aid the Authority in its recovery. The agreement was to have terminated on December 31, 2003.
February 2002	Termination of cooperative endeavor agreement	Effective February 21, 2002, HUD decided to terminate the cooperative endeavor agreement with the Authority and the City to assert more direct control over the Authority after determining that the Authority continued to be in substantial default of the annual contributions contract. According to the termination of the cooperative endeavor agreement and HUD's declaration of administrative receivership, the receivership was to continue until HUD was satisfied that all defaults with respect to the projects had been cured and that the projects would, thereafter, be operated in accordance with the terms of the annual contributions contract and 42 U.S.C. 1437d(g)2.
August 2002	Memorandum of agreement	HUD monitored the Authority's progress by executing a memorandum of agreement between HUD and the Authority from August 2002 to December 2003 in accordance with HUD regulations. The agreement included performance targets, strategic plans, technical assistance to be provided by HUD, etc.
April 2008	Cooperative endeavor agreement	Executed among HUD, the Authority, and the City on April 1, 2008. This agreement did not alter the organization of the administrative receivership but established an advisory committee to inform and advise Authority staff regarding policy decisions that impacted the Authority's long-term recovery and revitalization efforts. The agreement also called for the creation of a plan, within six months of the agreement, for transition of the Authority to local control. The agreement ended on December 31, 2008.