

June 1989

PUBLIC HOUSING

Chicago Housing Authority Taking Steps to Address Long- standing Problems



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**Resources, Community, and
Economic Development Division**

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June 8, 1989

The Honorable Marty Russo
House of Representatives

Dear Mr. Russo:

In response to your request, this report addresses the widespread problems that the Chicago Housing Authority has experienced in managing its operations for the past several years. Specifically, the report discusses our analysis of 48 reports issued on the authority's operations since 1979, the Department of Housing and Urban Development's (HUD) oversight of the authority's activities, HUD's threatened takeover of the authority and the subsequent agreement that avoided it, and the progress the authority is making to improve its operations. Because GAO believes the authority and HUD are taking appropriate steps to resolve the authority's many problems, this report contains no recommendations.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of this letter. At that time, we will send copies to the Secretary, Department of Housing and Urban Development; the appropriate House and Senate Committees; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

Our work was conducted under the general direction of John M. Ols, Jr., Director, Housing and Community Development Issues. Major contributors are listed in appendix VII.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'J. Dexter Peach'.

J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

The Chicago Housing Authority has been repeatedly criticized over the past 10 years for problems ranging from deteriorating buildings to fear for personal safety. Because of his concern over increasing instances of alleged mismanagement and incompetence at the Chicago Housing Authority, Representative Marty Russo asked GAO to review its operations and

- determine the extent and nature of identified problems,
- assess the Department of Housing and Urban Development's (HUD) oversight of the authority's management,
- determine the status of a September 1987 agreement between HUD and the authority that averted HUD's threatened takeover, and
- assess the authority's progress in resolving its widespread problems.

Background

The United States Housing Act of 1937, as amended (42 U.S.C. 1437, et seq.) established a public housing program to provide lower income families with decent, sanitary, and safe housing. Under the program HUD provides public housing authorities with subsidies to assist them in operating and maintaining their projects. The Chicago Housing Authority is the nation's third largest authority with 41,000 housing units and over 100,000 tenants. In 1988 HUD provided the authority over \$100 million in operating subsidies. Since 1968 HUD approved over \$271 million for the authority to modernize its housing units.

Results in Brief

The Chicago Housing Authority has had long-standing management problems in virtually all operating areas. GAO's analysis of 48 reports issued since 1979 by various sources showed repetitive financial and managerial problems. Material weaknesses in the authority's internal control system, a lack of fiscal responsibility, and frequent turnover of top management contributed significantly to the authority's problems. GAO believes that the authority operated for a number of years without reasonable assurance that federal funds were adequately safeguarded against waste, loss, or misuse.

Prior to creating a seven-member monitoring group in April 1987, HUD had not effectively monitored the authority's operations. Since then, however, HUD's performance has improved.

Although initial progress was made under a 1987 agreement that HUD and the authority signed to avoid HUD's threat to take over the authority, various factors prevented its full implementation. In May 1988 the

authority proposed and later implemented a “crisis management” approach to address its problems that shows much promise. However, conditions for success are fragile; and continued cooperation between HUD, the authority, and the city of Chicago is essential.

Principal Findings

Living Conditions Deplorable at Many Authority Projects

Deteriorating buildings, damaged heating and water systems, broken elevators, and roach and rodent infestation are commonplace at many projects. This situation has resulted from a poorly maintained and aging housing stock. Abusive tenants have also contributed to this situation. The authority estimates that it would need about \$1 billion over a 5-year period to upgrade its projects to an acceptable level.

Tenants also live under the constant threat of crime and violence. In 1987 over 16,000 criminal incidents occurred on authority properties, an 11.5-percent increase over 1986. During this same period, homicides, aggravated assaults, and rape increased about 63 percent.

Management Problems Prevalent for a Number of Years

GAO analyzed 48 reports issued since 1979 on the authority’s operations. The reports identify 798 instances of problems in 8 major management areas, including finance and accounting, purchasing and inventory control, and maintenance. A broad range of problems was repeatedly discussed in the reports, including the lack of financial and management controls, failure to follow government procurement standards, and inadequate maintenance. One of the more recent reports, a comprehensive management review issued by HUD in May 1987, cited 76 deficiencies in critical management areas and confirmed that the authority had made little progress toward correcting its problems.

The lack of effective internal controls contributed to the authority’s continuous problems. The authority has habitually been unable to keep expenditures within HUD-approved budget amounts. In 1986, for example, it overran its administrative expense budget by \$3 million. In addition, frequent turnover of top management since 1981 disrupted any continuity in management direction. Interference in the authority’s day-to-day operations by its Board of Commissioners also had a negative impact on managing directors’ ability to manage effectively.

HUD Increased Monitoring to Overcome Past Inadequacies

In the past HUD was lax in its efforts to have the authority comply with HUD policies and procedures and to correct management problems. HUD generally carried out its in-house monitoring responsibilities by reviewing periodic reports and other information submitted by the authority but did not always perform on-site reviews when conditions dictated. Because the authority was usually unresponsive to HUD attempts to gain corrective action, more monitoring may not have resulted in improved conditions. HUD officials, however, acknowledged that HUD had not effectively monitored the authority prior to establishing a seven-member monitoring group in April 1987. The new group has enabled HUD to better ensure that the authority complies with HUD requirements.

Limited Progress Made Under Compromise Agreement

In the spring of 1987, HUD decided it could no longer tolerate conditions at the authority and tried to convince the authority to allow a private management firm to operate its projects. When it refused to give up control, HUD threatened to declare the authority in breach of its contract with HUD and began to gather evidence to support a legal case to assume control. In September 1987, before legal action was necessary, the authority and HUD compromised and signed an agreement that called for (1) the authority to appoint a management team to manage its operations, (2) an on-site HUD-designated liaison to monitor the management team's actions, (3) the establishment of an arbitration panel to settle disputes, and (4) a needs assessment to analyze the authority's entire operation.

The newly appointed managing director began to initiate some improvements, primarily in the financial management area. However, after about 6 months, he resigned because of a disagreement with the Board of Commissioners over spending priorities, and the HUD liaison resigned to pursue the managing director position.

Crisis Management Approach Has Potential to Resolve Problems

In June 1988 another managing director was appointed who began to implement the "crisis management" approach to address the authority's problems. A new Board of Commissioners supportive of this approach was appointed, and consultants were hired to review the authority's operations and to begin to implement corrective actions. In October 1988 the crisis management team reported progress in a number of critical problem areas. It had, among other things, initiated changes to procurement procedures, tightened security at some of the worst projects, developed plans to improve project maintenance, and begun regular meetings with tenants to hear their concerns and solicit input.

The managing director appears capable and committed to resolving the authority's problems. The Board of Commissioners and the city appear willing to allow the managing director to operate the authority without excessive interference. HUD also is supportive, and a new spirit of cooperation is developing between HUD and the authority that was practically nonexistent in the past. HUD and the authority's top management now hold meetings to discuss current issues and concerns.

GAO believes that the crisis management approach shows a great deal of promise. However, although existing conditions provide the authority a rare opportunity to turn its operations around, the situation is fragile. To be successful over the long term, HUD, the authority, and the city of Chicago must continue to cooperate and be committed to preventing the authority from returning to past practices.

Recommendations

GAO is not making any recommendations because of the recent actions taken by HUD, the authority, and the city of Chicago to address past problems. However, HUD must continue to monitor this fragile situation to ensure that if the authority reverts to past practices, HUD is ready to take appropriate steps to ensure that the problems are corrected.

Agency Comments

HUD officials said that this report appeared factual and objective. Authority officials also recognized the existence of the problems described in this report but said that with the cooperation of HUD, tenants, and the private sector, progress is being made toward resolving these problems. The authority pointed out a number of initiatives that are underway to correct its financial management problems, increase staff capability, and improve tenant living conditions.

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Abbreviations

CHA	Chicago Housing Authority
CEO	chief executive officer
CPA	certified public accountant
GAO	General Accounting Office
HUD	Department of Housing and Urban Development

Introduction

The United States Housing Act of 1937, as amended (42 U.S.C. 1437, et seq.), established the Public Housing Program with the goal of providing decent, sanitary, and safe housing for lower income families.¹ The U.S. Department of Housing and Urban Development (HUD) oversees public housing authorities' administration of the program. Because rents are too low to cover costs, HUD provides public housing authorities with operating subsidies to help maintain and operate their projects. Funds are also provided to help finance capital and management improvements. Although financially assisted by the federal government, housing agencies own and operate the housing projects.

In return for the financial assistance, housing agencies agree to assume certain legal obligations and responsibilities that are set forth in an agreement between HUD and the housing agency known as the Annual Contributions Contract. It requires, among other things, that housing agencies maintain their projects in good repair, operate the projects with maximum efficiency and economy, and maintain their books and records according to HUD requirements. HUD monitors housing agencies primarily to ensure that they provide decent, safe, and sanitary housing for lower income families; properly manage federal funds without waste or fraud; and carry out statutory, regulatory, and contractual requirements.

When HUD identifies a problem, it expects the housing agency to correct it within a reasonable period of time. If for some reason the housing agency does not take corrective action, HUD has various options available to gain compliance. These options include advising the housing agency's board of commissioners of the problem or placing specific limitations on the housing agency's budget through the budget review and approval process. In some cases, however, stronger steps may be needed. If necessary, administrative sanctions can be taken against specific officials responsible for serious instances of mismanagement. Such sanctions include debarment, suspension, and temporary denial of participation in HUD programs for a specified period of time. In the past HUD normally applied these sanctions in cases of fraud, embezzlement, kickbacks, racketeering, and extortion. However, by memorandum dated February 5, 1987, the Assistant Secretary for Public and Indian Housing encouraged their use in instances of serious mismanagement.

The ultimate action HUD can take against a housing agency is to declare it in substantial default or breach of the Annual Contributions Contract

¹The term "lower income families" in this report includes elderly, single, handicapped, and displaced persons whose income does not exceed 80 percent of the median family income for the local area.

and, if necessary, take legal action to gain control of the housing agency's day-to-day operations. Such takeovers are extremely rare. HUD and the housing agency try to reach an agreement to resolve problems before such drastic action becomes necessary.

Chicago Public Housing Authority

Created in 1934 as a municipal corporation, the Chicago Housing Authority (CHA) is the nation's third largest public housing agency—the New York City and Puerto Rico authorities are larger. Nationwide there are over 3,000 public housing authorities. CHA owns and manages an estimated 137 projects containing 1,300 residential buildings with 41,000 apartments. Over 100,000 lower income tenants reside in these apartments located in the city of Chicago. CHA also provides rental assistance payments to another 43,000 lower income families so that they can afford rental housing in the private sector.

CHA is governed by a Board of Commissioners, which consists of seven members, including the chairman, who are recommended by the mayor and approved by the city council. The commissioners are responsible for establishing policies, setting standards, and directing activities. The board chairman, however, is the only paid commissioner. Illinois law authorizes the commissioners to oversee CHA's day-to-day operations, but this responsibility has been delegated to CHA's managing director.²

The managing director manages CHA's central office and its staff of about 1,300 people. The central office implements and reviews CHA-wide administrative and management policies and programs. Its areas of responsibility include finance and accounting, procurement, data systems, personnel, housing management, technical services, and such special housing programs as project modernization and development.

The management of CHA's 137 housing projects is divided among 3 regional offices, which serve projects located in 3 geographical districts of the city—north, south, and west. Each region is headed by a deputy director who reports directly to the managing director. The regions are responsible for overseeing routine project operations, such as maintaining apartments and grounds and providing janitorial services for the housing units. About 1,100 on-site regional staff are the tenants' primary contact with CHA.

²The title was changed in 1987 from Executive Director to Managing Director in accordance with a September 23, 1987, Memorandum of Agreement between HUD and CHA.

Public Housing Subsidies

HUD provides financial assistance to public housing agencies primarily through operating and modernization subsidies. Because rents collected usually are too low to cover costs, HUD provides housing agencies with annual operating subsidies to help them maintain and operate their projects. (CHA tenants are mainly minority families and elderly persons who receive welfare or other subsidized support.) In 1988 HUD provided CHA about \$103 million in operating subsidies. This represented about 73 percent of CHA's \$141 million low income housing program budget. The balance of the operating budget came primarily from tenant rents.

HUD provides modernization subsidies through the Comprehensive Improvement Assistance Program. These subsidies are used to (1) improve the physical condition and upgrade the management and operation of existing projects and (2) ensure that such projects continue to be available to serve lower income families. According to HUD records it approved about \$271 million for CHA under this program between 1968 and 1988.

Objectives, Scope, and Methodology

Representative Marty Russo asked us to review CHA's operations. In his request, the Congressman expressed his concerns over ever-increasing instances of alleged mismanagement and incompetence at CHA. In response to the request and subsequent meetings with the Congressman's staff, we agreed to (1) analyze past reports issued on CHA's operations to determine the extent and nature of identified problems, (2) assess HUD's oversight of CHA's management, (3) determine the status of the Memorandum of Agreement that HUD and CHA signed on September 23, 1987, which halted HUD's threatened takeover of CHA, and (4) assess the progress CHA is making to resolve its widespread problems.

To determine the nature and extent of problems experienced by CHA, we analyzed 48 audit and managerial reports issued on CHA's operations since 1979. The reports included evaluations performed by GAO, HUD's Office of Inspector General, HUD's program management staff, certified public accounting firms, and private consultants. Our review included a detailed analysis of the problems outlined in the 48 reports. Because of the repetitive nature of the identified problems, we performed a more extensive review and analysis of the two most recent reports—a May 1987 HUD management review and an audit performed by a certified public accounting (CPA) firm that was issued in August 1987.

To further assess CHA management practices, we reviewed records maintained by HUD and CHA on the authority's expenditures for operations

and modernization activities. We placed particular emphasis on the extent to which CHA controlled its operating expenditures in accordance with its approved budget. We also gathered information regarding the physical condition of CHA projects as reported in 1987 CHA and HUD on-site inspection reports, current newspaper articles, and numerous other studies conducted prior to 1987. To verify reported conditions, we made on-site inspections of CHA projects and units. With the chairman of CHA's Board of Commissioners, past CHA directors, and HUD officials, we discussed why cited problems arose and why significant corrective action had not been taken. We also examined crime statistics for the past 5 years to assess safety conditions at CHA projects.

To assess the adequacy of HUD's oversight of CHA, we compared HUD's actual practices to its regulations for monitoring housing agencies. We examined HUD documents to determine the frequency and scope of its reviews and audits. We discussed with HUD field officials their procedures and practices for monitoring CHA activities and the reasons why certain past practices were not always in compliance with their established policies.

We documented the events leading up to the signing of the September 23, 1987, Memorandum of Agreement, analyzed key provisions, and assessed the reasons why it was not fully implemented. We also assessed the "Crisis Management Approach" that CHA adopted in June 1988 as a replacement to the provisions outlined in the Memorandum of Agreement. We reviewed HUD and CHA documents relating to the implementation and status of this new approach and obtained the opinion of HUD officials on its merits.

This report does not include a review of the activities under CHA's "Scattered-Site Program," because—in accordance with an August 1987 order by the United States District Court, Northern District of Illinois, Eastern Division—the program is administered by a court-appointed receiver. The Scattered-Site Program, which accounts for about 11 percent of CHA's housing stock, was established as a result of a 1969 court order that required CHA to develop housing units at sites scattered throughout the city. This order was designed to offset racial segregation in CHA projects that had resulted from CHA's selection of project building sites and tenant assignment procedures. The court placed the program under receivership because of CHA's lack of progress in developing scattered-site projects.

We performed our field work at CHA and at HUD headquarters and its Chicago regional and field offices between March 1987 and October 1988. We performed our work in accordance with generally accepted government auditing standards.

CHA Tenants Subject to Indecent, Unsanitary, and Unsafe Housing

Deteriorating buildings. Damaged heating and water systems. Broken elevators. Roach and rodent infestation. Fear for personal safety. Thousands of CHA tenants have lived for years under these and other deplorable conditions—a far cry from decent, sanitary, and safe housing. Such conditions have continued to exist for a variety of reasons including an aging housing stock with limited funds available for modernization, undesirable tenants, and ineffective management.

Not every CHA project is in the condition of those described above, but many are. Elderly housing is generally in much better shape than projects that house families with children because it receives far less wear and tear. However, the vast majority of CHA stock is aging, problem-laden family housing. Nearly 84,000 of CHA's 102,000 tenants live in this type housing. It is not always the physical condition of the housing alone that is so deplorable. Tenants are also victimized by crime and violence. Taken as a whole—the physical decay and alarming crime rates—the environment created is unacceptable.

Family Projects Have Deteriorated Badly

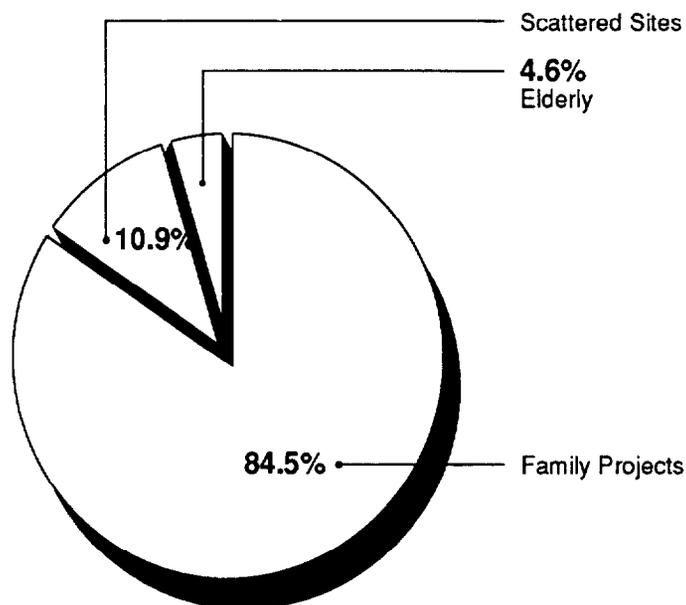
Many of CHA's housing projects are literally falling apart, which has resulted in the loss of housing units that would otherwise be available for needy families. The severe physical deterioration and excessive vacancies are due in large part to aging buildings that have been poorly maintained over the years. CHA estimates that it needs about \$1 billion over the next 5 years to upgrade its projects to an acceptable level.

About 85 percent of CHA stock is comprised of projects that house families with children (see fig. 2.1). More than half of these projects are over 40 years old and almost all are over 30 years old.

Many Projects in Poor Condition

Just as the age, number, size, location, and tenant population of CHA projects vary as shown in appendix I, so do their level of physical disrepair. In July and August 1987, HUD and CHA personnel jointly inspected 541 buildings and 530 apartments that were selected from among 9 CHA family projects. Our analysis of the inspection reports covering 371 buildings and 399 apartments showed that 360 buildings (97 percent) and 371 of the apartments (93 percent) have many serious physical problems—from badly damaged interior and exterior structures to neglected grounds. Appendix II summarizes the problems identified at the nine family projects inspected.

Figure 2.1: CHA Housing Stock



Source: Our analysis of Chicago Housing Authority project statistics.

The type of conditions found by the HUD/CHA inspection team, however, should not have been unexpected. For example, past HUD reports cited similar conditions in 1980 and 1981: roofs, windows, stairs, furnaces, plumbing fixtures, elevators, bathtubs, refrigerators, ranges, entrance doors, walls, ceilings, and floors requiring extensive repair or replacement. The prior reports generally noted that the condition of family projects—inside and out—was “poor.”

Four of the nine family projects inspected by HUD and CHA—Abla, Cabrini, Horner, and Wells—are also among those that CHA has identified as needing the most money to modernize. When the HUD/CHA team inspected these four projects, they cited multiple instances of outside concrete falling away from bricks, trees growing on roofs, leaking roofs, missing windows, cracks and holes in walls and ceilings, peeling plaster, rusted-out kitchen and bathroom fixtures, damaged heating and ventilation systems, no electricity, broken elevators, asbestos, graffiti-covered walls, roach and rodent infestation, broken sidewalks, and defective or missing playground equipment. CHA’s estimate of funds needed to modernize these four projects is discussed below, along with examples of their poor condition cited by the joint inspection team.

Abla

Abla is a 3,500-unit project comprised of 10 high-rise and 154 low-rise buildings. CHA estimated that \$64.5 million, or an average of \$19,000 per apartment, is needed to upgrade this project to acceptable standards. Figure 2.2 shows a badly rusted and leaking bathtub and cracks and holes in bathroom walls at an occupied Abla apartment.

Figure 2.2: Badly Rusted and Leaking Bathtub, Cracks and Holes in Bathroom Walls

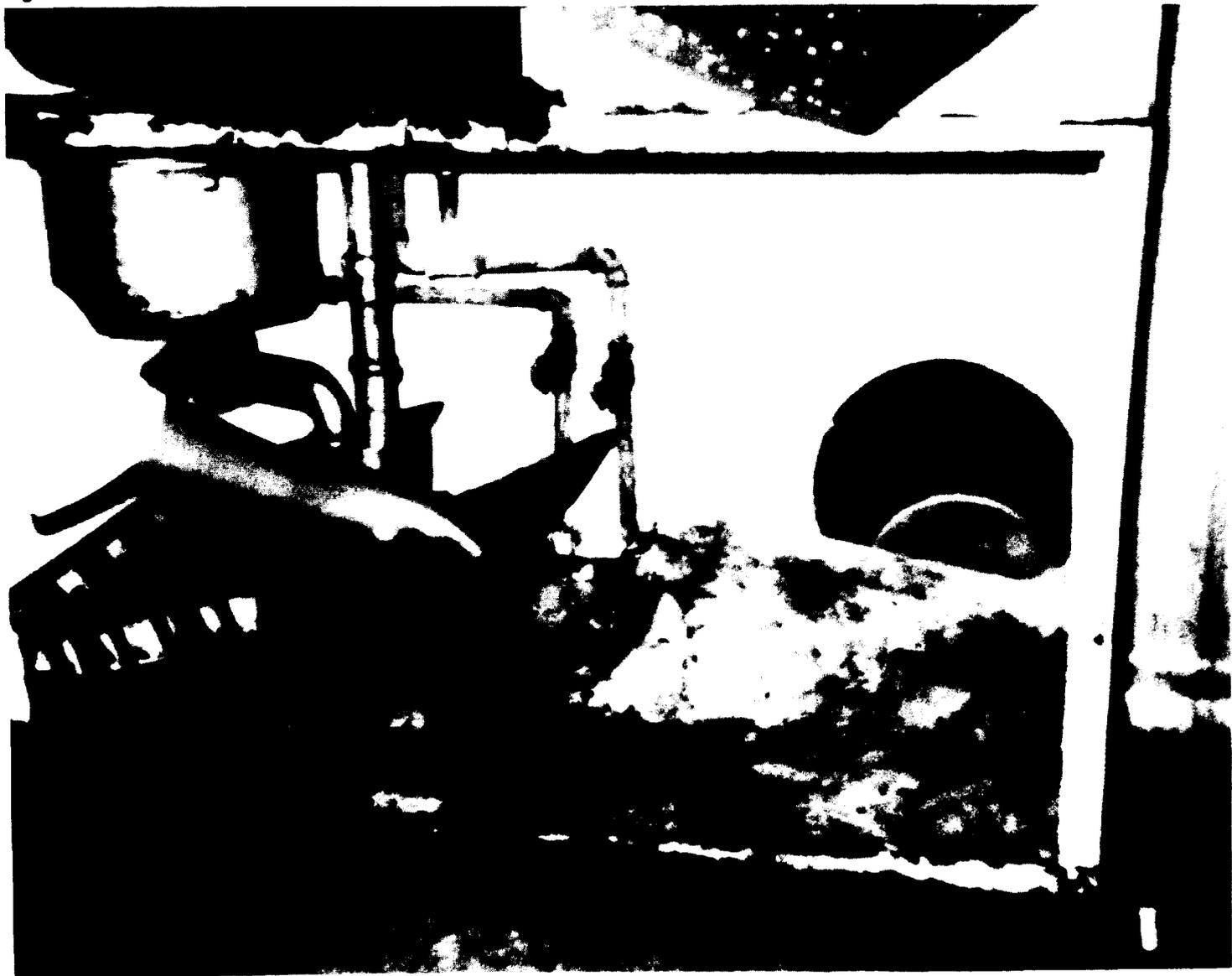


Source: Chicago Housing Authority.

Cabrini

Cabrini is a 3,600-unit project comprised of 23 high-rise and 58 low-rise buildings. CHA estimated that \$67.5 million, an average of \$19,000 per apartment, is needed to upgrade this project to acceptable standards. Figure 2.3 shows a rusted-out, bottomless kitchen sink in an occupied Cabrini apartment.

Figure 2.3: Rusted-Out, Bottomless Kitchen Sink

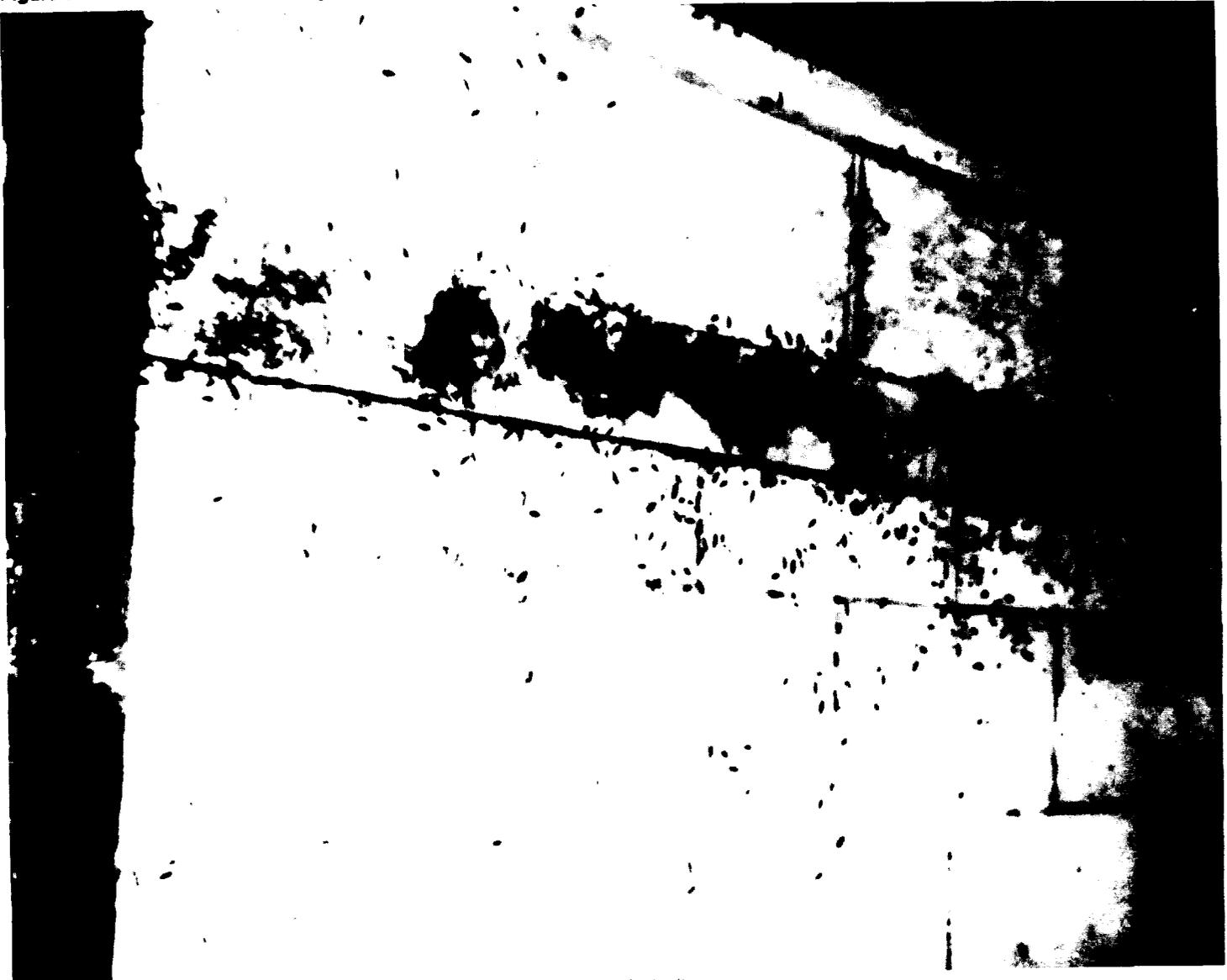


Source: Chicago Housing Authority.

Horner

Horner is a 1,800-unit project comprised of 17 high-rise and 2 low-rise buildings. CHA estimated that \$53.5 million, an average of \$30,000 per apartment, is needed to upgrade this project to acceptable standards. Figure 2.4 shows a heavy infestation of roaches and bug droppings in a bedroom closet at an occupied Horner apartment.

Figure 2.4: Bedroom Closet Heavily Infested With Roaches and Bug Droppings



Source: Chicago Housing Authority.

Wells

Wells is a 2,800-unit project comprised of 14 high-rise and 129 low-rise buildings. CHA estimated \$52.5 million, an average of \$19,000 per apartment, is needed to upgrade this project to acceptable standards. Figure 2.5 shows badly peeling paint on a bedroom ceiling in an occupied Wells apartment.

Figure 2.5: Badly Peeling Paint on Bedroom Ceiling



Source: Chicago Housing Authority.

Aside from reviewing the inspection reports, we also toured several CHA projects including Abla and Cabrini. Our tour confirmed our earlier analyses of CHA's inspection reports in terms of both the variety and severity of their physical deterioration. For example, one of the occupied apartments that we inspected at the Alba housing project had badly peeling plaster on its living room walls because of water leaks from the roof. According to the tenant who occupied the apartment, when the maintenance staff did not give her any assistance in correcting this problem, she bought paint and painted the walls herself but the water continued to leak through. The maintenance superintendent told us that a new roof had been installed in 1984 but that leaks have occurred ever since. CHA currently has a lawsuit against the roofing contractor.

The situation was even worse at several buildings we inspected at the Cabrini Housing Project. For instance, stairwells and hallways at one project were dark and gloomy, having a strong urine odor. One of the vacant apartments we inspected was filthy, with the kitchen sink and bathtub badly rusted and water running profusely and loudly from the bathroom toilet. All rooms in this unit needed new wall board and painting, and severe burnt spots were on the bedroom floor and walls.

Inadequate Maintenance and Tenant Abuse Contribute to Poor Conditions

According to several former CHA directors, CHA consistently did not provide routine maintenance, which greatly contributed to the seriously deteriorated projects and excessive vacancies. As of September 1988, CHA vacancies totaled 6,614, or about 17 percent of the 38,949 units available for occupancy. One former CHA director, who also served on CHA's Board of Commissioners, was quoted in a July 1988 Chicago newspaper article as saying, "No preventive maintenance has been done for so many years that things are starting to fall apart. It is now only done on an emergency basis." As an example, this official explained that bushes growing on the roof of a high-rise building for years were too costly to remove because the roots were so embedded that their removal would cause severe damage to the roof. (See ch. 4.)

Project managers also told us that tenants had contributed to the housing problems. Tenant abuse and vandalism of the housing projects are common. One project manager said that repairing buildings will not be enough unless residents change their destructive behavior. During our inspection tour of one low-rise building for families, we saw numerous broken windows and shattered glass on porch landings and pavement. According to a project manager and a HUD inspector, in 1986 this building had been completely renovated and new windows installed.

Crime Flourishes at CHA Projects

Crime is a serious and growing problem at CHA projects. In its 1985 application for modernization funding, CHA stated,

“The extent of crime in and on Chicago Housing Authority properties constitutes a reign of terror which is real, palpable and measurable . . . CHA residents and staff are increasingly afflicted by the most . . . severe crime problems—serious assault, rape, robbery, burglary and arson. Those are precisely the crimes that people fear the most.”

Chicago Police Department statistics show that 16,464 criminal incidents occurred on CHA properties in 1987, a 11.5-percent increase over 1986. Violent crimes against persons, the most victimizing, included 54 homicides, 259 sexual assaults, 1,086 robberies, and 2,829 aggravated assaults and batteries. Table 2.1 shows the types and number of crimes reported CHA-wide during 1987.

Table 2.1: Incidents of Crime Reported at CHA Projects (1987)

Type of crime	CHA-wide incidents
Homicide	54
Arson	99
Sexual assault	259
Robbery	1,086
Burglary	1,394
Theft	1,780
Aggravated assault/battery	2,829
Misdemeanors	8,963
Total incidents	16,464

Source: Chicago Police Department's 1987 crime statistics.

Of the crimes committed in Chicago in 1987, 7.9 percent of the homicides, 7.0 percent of the rapes, and 8.3 percent of the aggravated batteries and assaults occurred on or in CHA properties. These violent crimes against persons at CHA projects rose by 63.1 percent in 1987 over 1986. According to a CHA maintenance superintendent, at one project gang members living in different buildings frequently take sniper shots at one another and, as a result, innocent bystanders are sometimes injured or killed.

Other violent crimes—burglary, theft, and arson—decreased by 5.2 percent as compared to 1986. However, they remain a serious problem. A project manager told us that refrigerators and stoves have to be removed from vacant apartments to prevent people from stealing them.

Also, vandalism is among the most frequently cited problems, and its consequences can be enormous. According to a CHA estimate, vandalism cost an average of \$7.4 million a year from 1977 through 1986. CHA has found that when apartments are left vacant, vandals, gangs, and other undesirables take refuge in them. Once this happens, deterioration affects the entire building.

It is not clear how much of CHA's crime problem stems from legitimate tenants versus other persons living in CHA projects. CHA officials, however, suspect that many crimes are committed by persons living at projects without CHA's approval. A major news publication reported in January 1989 that as many as 50,000 people may be residing at CHA illegally. In addition, CHA's authorized tenants perpetrate crimes. For a 3-1/2-year period beginning in 1984, CHA evicted over 1,100 tenants for possession of guns, unlawful possession of narcotics, conviction of serious criminal offenses, fighting on the premises, or similar incidents. Furthermore, the family composition of CHA tenants suggests a population that is vulnerable to crime. CHA tenants are predominantly female heads of households with young children. Although the level of fear that plagues CHA tenants daily is not easily measured, a September 1986 survey of tenants at three high-rise projects revealed that up to 68 percent felt unsafe in their buildings and on the surrounding grounds during the day and up to 81 percent felt unsafe in these areas at night. The two areas perceived as being most unsafe, day and night, were the elevators and hallways. The respondents stated that they actually felt safer outside their buildings.

Long-Standing Problems Have Undermined CHA's Operations

CHA has had management problems that have gone uncorrected for years. Collectively, the 48 reports on CHA's operations that we looked at revealed a continuing history of major problems in practically all areas of CHA's management. Although CHA promised to take corrective action, recent reports, our work, and, as discussed in chapter 5, assessments made by CHA's current management show that CHA made little progress between 1979 and 1987 in resolving its problems. A 1987 HUD report identified 76 instances of noncompliance with HUD's regulations and requirements. Many of these problems had existed for a number of years.

Various factors have contributed to CHA's continuing operating problems, including CHA's failure to establish and implement an adequate system of internal controls, budget overruns, and frequent turnover of top management. Also, despite providing CHA about \$100 million a year in operating subsidies, HUD did not effectively monitor or review CHA operations. Even when HUD brought problems to CHA's attention, the problems were often ignored or actions taken by CHA did not correct the problem.

Problems Identified in All Areas of CHA's Operations

Our review of 48 reports issued since 1979 on CHA disclosed 798 problems in every critical area of CHA's operations. Many of these problems have been long-standing. During this period, CHA did not have a system that would allow it to track reported problems to help ensure they were corrected.

Problems Identified Had Existed for Years

A 1982 comprehensive review, conducted by a management consulting firm, characterized CHA as a "fire-fighting" operation with one problem after another preoccupying the management staff. For example, CHA's maintenance function was found to be operating on a crisis approach rather than on the basis of an orderly maintenance program with planned schedules and goals. HUD's 1987 management review pointed out similar maintenance problems. Specifically, CHA was found to lack preventive maintenance planning. Among other things, roof recoating to prevent premature roof deterioration was not performed, nor was appropriate maintenance done to ensure the efficient operation of water and heating systems.

The 1982 comprehensive review found that in every area examined CHA was operating in a state of confusion and disarray and that almost nothing had been done in the prior 4 years to remedy this situation. Our

analysis of the reports issued since 1979 tends to support this conclusion and indicates that little progress was made after 1982 to correct identified problems. Even if corrective action was taken, the same or a similar problem would soon reappear.

Table 3.1 shows our grouping of prior audit and review findings regarding CHA and provides a framework for assessing CHA's management practices during the period 1979-87. Appendix III summarizes the frequency of these problems by year reported.

Table 3.1: GAO's Categorization of Reported CHA Problems

Management areas	Basic management functions	Problem category	Frequency of the problem reported ^a
General administration	Executive function with overall responsibility for organizing and sustaining CHA's operations (The executive functions refer to both the board and the executive staff.)	Roles and responsibilities	51
		Organizational structure	39
		Policies and procedures	38
		Operational plans/planning	34
		Oversight/control of operations	31
		File maintenance and record keeping	26
		Modernization activities (general)	14
		Section 8 program monitoring	8
		Board committee meetings	6
		Legal actions	4
		Development activities (general)	4
		External audits and reviews	3
		Licensing	2
Housing voucher program	1		
Total			261
Financing and accounting	Manages and tracks the flow of resources within the CHA	Budgeting	53
		Accounting	49
		Cash & investment management	46
		Funding	36
Total			184
Personnel and training	Generally recruits, trains, disciplines, and compensates staff and manages CHA's formal relationships with its workers	Training (includes educational background/work experience)	30
		Human resource management	26
		Salary administration	20
		Supervision	16
		Supervision	6
		Insurance and retirement	4
		Contract labor standards	2
		Employee conflict of interest	1
Total			105
Purchasing and inventory control	Buys, stores, allocates, and generally keeps track of the material resources acquired for CHA's operations	Procurement and contracting	66
		Inventory	25
Total			91

(continued)

Chapter 3
Long-Standing Problems Have Undermined
CHA's Operations

Management areas	Basic management functions	Problem category	Frequency of the problem reported^a
Management information	Assembles and disseminates the information that permits monitoring and evaluation of CHA's status and its performance in various programs and other areas	Data processing/system	36
		Management reporting	23
Total			59
Maintenance and custodial services	Includes the cleaning, routine upkeep (e.g., preventive maintenance, special technology operations, and grounds maintenance), and continual repair of CHA's real estate	Maintenance	31
		Energy management	11
Total			42
Security and social services	Security maintains personal and property security and also civil peace and order at the public housing facilities, and social services help to meet the social welfare needs of the public housing residents	Security	7
		Tenant life in the projects	10
		Tenant relations and attitude	6
		Condition of the projects	4
		Social services program (general)	3
Total			30
Rental and occupancy	Establishes the terms of residence, attracts and screens potential tenants, lets and assigns apartments, and enforces the lease and other rules of occupancy	Rent collection and management	14
		Tenant selection and eviction	7
		Vacancy reduction	5
Total			26
Total Reported Problems			798

^aWe grouped the 798 problems reported by organizations outside of the CHA into 40 categories by problem type and then regrouped them into 8 broad management areas. We used HUD's public housing management guides to identify the broad management areas and corresponding management functions that make up housing management to highlight the types of problems that the CHA most frequently faced in each area of management. The eight selected management areas and corresponding functions are intended to represent logical clusters of the responsibilities most likely discharged by a public housing authority. They do not represent organizational units.

CHA Lacked System to Track Reported Problems

Twenty-seven of the studies we reviewed were contracted for by CHA at a cost of \$3.2 million. However, CHA had no system to track reported problems to ensure that they were corrected. Rather, reports were widely dispersed and uncoordinated, and no centralized control existed for ensuring that corrective actions were taken. (App. IV contains a complete listing of the reports reviewed.) In February 1988 CHA's Managing Director told us,

"The same errors show up repeatedly in the reports because . . . there was clearly no interest in or ability to correct them. The studies were essentially wasted because so little was done as a result of them."

The Managing Director added that no real leadership or oversight of the various departments at CHA appeared to have existed. He also believed

that the persons who served at various times on CHA's Board of Commissioners were equally unfamiliar with the proper functioning of an organization like CHA and did not provide the kind of monitoring needed.

Little Progress Made to Correct CHA's Problems

Two reports issued in 1987 on CHA's operations—a management review conducted by a team of HUD housing specialists and a financial audit performed by an independent CPA firm—documented many of the problems identified in previous reports and indicated that CHA made little progress between 1979 and 1987 to correct them.

HUD Management Review

The HUD report, dated May 27, 1987, was the product of a comprehensive management review of CHA covering the period from January 1, 1984, to April 17, 1987. The report states that efforts by CHA's Board of Commissioners were insufficient to ensure that CHA's funds and programs were managed in accordance with good management practices and HUD requirements. It was the overall opinion of the HUD team that CHA was not well managed during the period reviewed.

This overall conclusion was based on having identified 76 deficiencies in most of the critical management areas cited in table 3.1, including finance and accounting, purchasing and inventory control, and maintenance and custodial services. In the finance and accounting area, for example, the team found that financial statements of all CHA programs were misstated because of the lack of a cost allocation plan. This is a serious problem in that CHA apparently shifted costs from programs that had exhausted their budget authority to those that had funds remaining. According to the HUD report, the result is that the department would charge excess and often inappropriate costs to various programs. Also, as noted in the report, very often the excess charges were the result of management waste, inefficiency, or noncompliance with HUD program requirements.

Another problem documented by the HUD team was the lack of inventory control. According to the report, inventory control at CHA was almost nonexistent except for a once-per-year accounting of the supplies and materials located at its various projects. The HUD team found that no logs or cards were maintained at any of the stock rooms to allow the stockroom clerk or the supervisor to know how much inventory was on hand. CHA's procurement and contracting activities were also considered

inadequate. HUD found that "accepted standards of government procurement management, internal control, economy and efficiency were variously ignored, manipulated, or subordinated to other objectives in an unacceptable number of sampled procurement transactions." As a result, CHA's procurement system was considered to be highly vulnerable to fraud, waste, and abuse.

The HUD review also disclosed that purchases were routinely split to stay below the \$10,000 threshold for competitive bidding. For example, the review documented nine purchase orders totaling \$41,275 that were awarded to the same vendor within 6 days for miscellaneous apartment repairs. In another instance three purchase orders totaling \$27,244 were issued to the same vendor on the same day for various items of office furniture.

As a final example, HUD found that the lack of financial and management controls for "force account" work (refers to the use of in-house labor rather than private contractors to perform repair and maintenance) within the scattered-site program had resulted in severe cost overruns. According to CHA records that were reviewed by HUD, labor costs alone to repair certain apartments were between \$50,000 and \$54,000 per unit. HUD also found that the acquisition of construction materials was mismanaged and wasteful. Materials were not being purchased in bulk in order to get more favorable prices.

CPA Financial Audit

The report by the CPA firm was transmitted from CHA to HUD on August 10, 1987, and consisted primarily of an evaluation of CHA's financial statements and the adequacy of CHA's financial controls during calendar year 1985.¹ The report cited 46 problems, including

- daily and monthly cash receipts and disbursements not recorded on a timely basis,
- incomplete information in tenant files necessary for computing monthly tenant rent payments, and
- procurement purchases that were routinely split so as to avoid the competitive bidding process.

¹CHA was over 7 months behind in submitting its 1985 audit report to HUD. Pursuant to the Single Audit Act of 1984, CHA is required to submit its audit report to HUD no later than 1 year after the end of the audit period. HUD's Office of Inspector General advised us that the audit report for calendar years 1986-87 should be completed in the spring of 1989.

Aside from these problems, it is worthwhile noting that the CPA firm could not, and did not, express an opinion on whether reasonable assurance existed that the financial statements, prepared by CHA, actually reflected the results of its operations. Among the various reasons given for not expressing an opinion were the observed material weaknesses in CHA's internal controls. The CPA firm reported that its study indicated that CHA's system of internal accounting controls did not provide reasonable assurance that certain specific control objectives related to such things as accounting and finance, cash receipts and disbursements, and the receipt of goods and services could be achieved.

Finally, the poor condition of CHA's financial records resulted in a more than doubling of the CPA audit cost. The CPA firm initially contracted to perform the 1985 audit of CHA for \$95,000. However, because of poor internal controls and the general disarray of CHA's accounting records, the CPA firm was required to perform additional work, increasing the cost of the audit to over \$200,000.

Various Factors Contribute to CHA's Persistent Operating Problems

Our review of numerous studies and reports on CHA operations, observations made in reviewing CHA records and in touring CHA projects, and numerous discussions with past and present CHA and HUD administrators indicate that a number of factors have led to the continuous problems at CHA. We believe that weak internal controls, overbudget expenditures, frequent turnover of top management, and CHA board interference with management are among the more important.

Internal Control Weaknesses

CHA's broad range of problems point to material weaknesses in its internal control systems. A material weakness is a condition in which a specific control procedure or the degree of compliance with it does not reduce, to a relatively low level, the risk that material errors could occur and not be detected in a timely period by employees performing their assigned duties. Internal controls can provide management with reasonable assurance that resource use is consistent with laws, regulations, and policies. Controls can also help ensure that assets are safeguarded against waste, loss, unauthorized use, and misappropriation and that revenues and expenditures are properly recorded and accounted for so that reliable financial and statistical reports may be prepared and accountability of assets may be maintained. As previously discussed, the most recent CPA audit identified material weaknesses in CHA's internal controls.

The findings cited in the CPA report are not new. Various other reports have documented significant administrative and accounting control weaknesses covering a wide range of CHA's operations. These reports demonstrate that poor controls and monitoring systems have been a continuous problem. Following are examples of some of the significant weaknesses reported since 1979:

- Controls over cash and investments were inadequate. For example, CHA had an excessive number of petty cash checking accounts, totaling 42 in 1987, which were used as a substitute purchasing system. Purchases through these accounts in 1985 and 1986 totaled \$1.9 and \$1.4 million, respectively. Also, cash and accounts payable transactions for 1985 were understated by approximately \$3.6 million; and during 1984 and 1985, CHA lost about \$63,000 in interest income because it had not properly invested its excess funds.
- Property and supplies were inadequately controlled. CHA did not have an inventory system that controlled materials usage and inventory balances by funds and departments. Property records lacked such information as decal number, date of acquisition, cost, and vendor's name. In some cases, no records were maintained of equipment and supplies.

Two former CHA directors were highly critical of CHA's internal control systems and blamed inefficient management throughout the years as a contributing factor. One former director stated, "The normal monitoring and control systems which you find in any well-run company are almost entirely lacking." The other former director also said that CHA's lack of financial controls over its capital programs was "appalling."

CHA Expenditures Consistently Exceeded Budgeted Amounts

Because of the condition of its financial operations, CHA did not have an effective means to adequately monitor and control its costs and routinely exceeded its HUD-approved budgets. A former CHA managing director told HUD that, when he took over the management of CHA in September 1987, CHA's financial department was in very bad shape. He had found that CHA had no accounting controls or mechanisms for monitoring its financial performance. According to the managing director, his predecessors had let the financial operations completely "disintegrate," with CHA's various departments ordering goods and services without proper authorization and then not providing the invoices to the financial department for proper accounting and control.

For years CHA has routinely exceeded HUD-approved expenditure amounts. HUD requires each public housing authority to develop and

submit an annual operating budget for its low income housing program. HUD then reviews the budget to ensure that it provides a realistic estimate of expenditures relative to projected income. Our comparison of CHA's budgeted versus actual expenditure amounts for the years 1977 through 1986 showed that CHA consistently overspent budgeted amounts in such areas as administration, ordinary maintenance and operations, protective services, and general expenditures. Table 3.2 shows the overruns in these categories in 1986.

Table 3.2: CHA's 1986 Cost Overruns for Selected Budget Categories

Category	Budgeted amount	Actual expenditure	Overrun
Administrative expenses	\$18,126,440	\$21,179,618	\$3,053,178
Ordinary maintenance and operations	43,039,812	45,418,373	2,378,561
Protective services	4,166,136	6,717,125	2,550,989
General expenses	18,282,012	20,940,564	2,658,552

In conducting its 1987 management review, HUD found that because CHA was not using its automated encumbrance system, no automated method existed for its budget department to determine if managers exceeded their respective budgets when requisitions were approved. It also found that CHA managers did not use monthly financial statements to determine whether they were under or over budget.

A CPA firm in conducting a management study of CHA in 1981 reported that in carrying out its work, it frequently heard the comment that more funds were needed to resolve every problem. The firm indicated, however, that more money may not necessarily solve all of CHA's problems. The firm said that CHA needed to improve its cost-effectiveness and make better use of people and resources. The firm reported that CHA needed to take steps to tighten controls over costs so that it could operate within its approved budget. Subsequently, however, CHA made little progress in taking steps that would allow it to better control its financial operations. The October 1987 review of CHA's financial systems noted that although CHA had made some improvements in ensuring that expenditures did not exceed budgeted amounts, not all expenditures were being reported. Consequently, budget reports were not accurate, which made it difficult for CHA personnel to determine remaining funds available for expenditure. We believe that poor financial management and CHA's failure to control expenditures are primary reasons for many of the problems CHA has experienced over the past several years.

Frequent Turnover of Top Management

We believe that frequent changes in CHA's top management since 1981 have contributed to CHA's overall management problems and have made it difficult to implement needed corrective actions. Such changes are in sharp contrast to CHA's previous 43-year history (1938-81) when it had a total of only six executive directors whose tenure averaged 7 years. As shown in table 3.3, since June 1981 there have been eight different CHA directors or acting directors, and excluding the current director who was hired in June 1988, their average tenure has been less than 12 months.

Table 3.3: Tenure of CHA Directors
 (1938-88)

May 1938 to June 1981		June 1981 to present	
Name	Months	Name	Months
Elizabeth Wood	196	Andrew J. Mooney	13
Gen. William Keane	34	Elmer L. Beard	15
Alvin E. Rose	118	Erwin A. France ^a	5
Clement E. Humphrey	64	Zirl S. Smith	32
Harry J. Schneider	29	Brenda J. Gaines ^a	9
Gustave W. Master	70	Jerome W. Van Gorkom	6
		Paul Brady ^b	2
		Vincent Lane ^c	present

^aServed in an acting capacity.

^bServed in dual capacity as acting director and a permanent board commissioner.

^cHas served as executive director and board chairman, since June 1988.

Similar instability has existed among senior CHA executives. For example, in less than 3 years, from January 1985 to October 1987, the Finance and Administration Division, whose responsibilities include finance, accounting, procurement, and inventory control, has had three deputy directors.

An October 1987 review of the CHA's financial systems noted that a lack of continuity in management during the last several years contributed to many of the financial problems found. The study found that CHA personnel were uncertain of current operational policy. Moreover, according to the study, because management had been so volatile, many CHA personnel did not feel obligated to strictly comply with policy guidelines. They also found that managers were reluctant to enforce policies because they were unsure of support from upper management.

Three former CHA directors and a former board chairman also told us that the lack of leadership has been a great problem at CHA. In addition,

prior reports by HUD and independent organizations criticized CHA's leadership. The reports frequently noted top management's inability to provide general managerial direction and establish clear lines of authority, control, accountability, and responsibility. The following excerpts from these reports summarize the repetitiveness and effects of major managerial problems.

- No current management plan exists for the entire agency or its departments. Crisis management is the prevailing approach that guides events. (1981, 1982, 1983, 1984, and 1987)
- No current operational manual exists that clearly defines policies and procedures. Reliance on oral and indirect authorization is a regular occurrence. (1979, 1980, 1981, 1982, 1983, 1984, 1985, and 1987)
- No functional statements exist that clearly define the responsibilities of organizational units and management functions. Staff do not have a clear sense of corporate or organizational mission. (1981, 1982, 1985, and 1987)
- The level of management supervision is generally inadequate to ensure that schedules are met and duties are actually being performed. (1979, 1981, 1982, 1984, 1985, and 1987)
- Many middle and lower managers lack the necessary education, experience, or training to perform adequately. Other lower positions in such areas as finance, accounting, security, data systems, technical services, and internal auditing are held by unqualified staff. These inadequacies are partly due to CHA's historic management practices. (1981, 1982, 1983, 1984, and 1985)

Interference by CHA's Board of Commissioners

Most of the adverse consequences resulting from lack of leadership appeared to center on the managing director's position. However, two former CHA managing directors attributed leadership problems at least partly to differences they had had with the CHA Board of Commissioners as to how CHA should be managed. Conditions such as an aging and deteriorating housing stock, a concentration of high-rise projects, abusive tenants, and extraordinary drug and crime problems create tremendous management problems for CHA. Even with cohesive and effective management, dealing with such problems is a very difficult task. Interference by CHA's Board of Commissioners in the day-to-day operations undermined CHA executive/managing directors' ability to manage effectively. Such interference can disrupt the effectiveness of the entire organization, erode the ability to implement management initiatives, and adversely affect employee morale.

According to one former director, the board's interference hindered his ability to bring certain matters to final resolution with HUD, such as developing plans to improve CHA's financial credibility and implementing major organizational improvements. Another former director told us that the board overruled his personnel actions and interfered in other areas, such as contract awards, tenant affairs, and communications with HUD.

HUD officials acknowledged that interference from the board in CHA's daily operations had been a problem. In addition, a 1987 HUD document that contained a synopsis of CHA's problems indicated that part of this problem stemmed from poor judgment by the city of Chicago in appointing board members who were not qualified. The document pointed out that HUD's staff largely considered such action by the city to be the chief underlying cause for CHA's poor financial and physical condition.

Past HUD Monitoring Efforts Unsuccessful

HUD's past efforts to have CHA abide by HUD's policies and procedures and to correct the numerous problems found with its operations have been for the most part unsuccessful. Until recently HUD's Chicago field office monitoring staff devoted only a limited amount of effort to CHA activities. There is some doubt, however, whether additional HUD oversight in the past would have resulted in a more positive response from CHA. According to HUD monitoring officials, when they tried to get CHA to take corrective action, CHA often ignored HUD or the actions taken did not correct the problem. Table 3.1, which cites the frequency of reported problems, provides graphic evidence of CHA's nonresponsiveness to long-standing, repetitive problems and tends to support HUD's contention that CHA often did not act on HUD's requests for corrective action.

HUD's Monitoring Process

HUD's field offices monitor public housing authorities to ensure that safe, decent, and sanitary housing is provided to tenants; that statutory, regulatory, and other contractual requirements are followed; and that federal funds are managed without waste or fraud. When violations are found, HUD expects the housing authority to take steps to ensure that action is taken to correct identified problems and to prevent further violations.

Part of HUD's monitoring process includes reviewing and analyzing (1) periodic reports and information that housing authorities are required to submit on their operations and (2) audit reports and management

studies conducted by independent accounting firms, the HUD Office of Inspector General, or others. Information derived through this monitoring process is to be organized and analyzed and then used to assess the housing authority's performance. This process focuses on selected operating characteristics and other pertinent data to identify indications of major problems. The factors focused on, known as "gross indicators," include such things as vacancy rates, operating reserves, extent of unresolved major findings, maintenance problems, and troubled housing authority status. If the gross indicators show that problems exist, the HUD field office is to schedule an in-depth on-site review of the problems. The type and scope of the review depend on how widespread the problems are. If, for example, a problem is found in a number of areas, a comprehensive review of all operating areas may be made. If, however, a problem is found in only one area, a more limited review can be conducted.

CHA Not Effectively Monitored

We found that HUD's Chicago field office generally carried out its in-office monitoring activities but did not, when problems were indicated, always comply with its procedures for conducting on-site reviews. For example, HUD procedures require that if a gross indicator identified a problem, HUD's field office staff are to schedule a review of the problem area as quickly as possible—ideally within 1 year but not more than 4 years. Our review showed that, over the years, CHA had multiple problems that should have prompted HUD to conduct on-site management reviews. For example, in 9 of the 10 years from 1977 to 1986, CHA's operating reserves were below HUD's minimum acceptable level, and therefore HUD should have scheduled a review to identify and make recommendations to help resolve the problem.

HUD officials responsible for monitoring CHA agreed that until the Chicago Regional Office established the CHA monitoring branch in April 1987 (see ch. 5), HUD had not effectively monitored CHA. Prior to the creation of the monitoring branch, a total of 4 housing management specialists were responsible both for monitoring the 6 large public housing authorities in Illinois (CHA, Cook County, East St. Louis, Peoria, Rockford, and Springfield) and Section 8 programs² of the state of Illinois and for coordinating modernization activities not only at the 6 large authorities but at 17 other public housing authorities in the region. According to a January 21, 1987, memorandum concerning the need for additional

²These programs, funded by HUD, generally provide rental subsidies to eligible tenants to ensure that they pay no more than 30 percent of their monthly income for housing.

monitoring staff, the Chief of Chicago's Assisted Housing Management Branch said that these six public housing authorities all had a diverse array of programs and problems. The memorandum provided a three-page description of the responsibilities of these four individuals and clearly indicated that the work load was too great for the present staff to effectively carry out. The memorandum went on to point out that six additional housing management specialists were needed to perform this work.

Aside from the memorandum, several HUD officials told us that HUD had problems monitoring CHA's operational and program performance. They generally concluded that HUD did not have the necessary technical expertise or enough time or staff to handle the diversity of CHA's operations and its massive problems.

Even if HUD had additional staff, it is somewhat questionable how effective they would have been in gaining CHA's cooperation to address some of its more serious problems. According to the Chief of HUD's Chicago Assisted Housing Management Branch, CHA was generally unresponsive to HUD's attempts to gain corrective action. She said that CHA was unable to provide consistent, coherent responses to HUD requests for corrective action. According to the branch chief, CHA did not always respond to HUD's requests; when it did, the action taken often did not correct the problem; or CHA would claim that it had taken corrective action but in reality had not. She said that there were infrequent instances of appropriate corrective action. She also told us that it was difficult to "pin down" anyone at CHA in regard to responsibility for taking steps to correct problems because of the constant change in CHA management over the past several years.

Given the breadth and seriousness of CHA's problems over many years and the authority's unwillingness and/or inability to correct them, HUD decided in 1987 that the situation had reached a point where control of CHA should be vested in a private management firm. HUD's pursuit of this option is discussed in chapter 4.

Continual Mismanagement Led HUD to Pursue Takeover of CHA

In 1987 HUD reached the point at which it was no longer willing to accept CHA's inefficient and ineffective management, deteriorating financial condition, and the deplorable living conditions under which many of its tenants lived. HUD took the position that hiring a private management firm to operate CHA on a day-to-day basis would be the best approach to addressing and resolving CHA's long-term problems. To this end HUD entered into direct negotiations with the city of Chicago during the spring and summer of 1987. However, the city and CHA were against relinquishing control over the authority's operations. After much negotiation and HUD's giving serious consideration to taking over CHA's operations itself, HUD and CHA reached a compromise and signed a Memorandum of Agreement on September 23, 1987.

The agreement left CHA in control of its own management but prohibited the Board of Commissioners from becoming involved in day-to-day operations. It also provided for an on-site HUD-designated liaison to review and make recommendations on actions proposed by CHA's Managing Director. In addition, the agreement called for a comprehensive assessment of all of CHA's operating functions. The outgrowth of that assessment was to have been a plan for improvement, including performance targets and time frames. For a variety of reasons, however, little progress was made under this agreement.

Overview of Conditions That Prompted HUD to Initiate Takeover

A number of factors finally culminated in HUD's decision to pursue a takeover of CHA. Perhaps the most significant was CHA's inability to correct the long-standing problems that were discussed in chapter 3. Not only did CHA not make visible progress at correcting these problems, it also was either unable and/or unwilling to prepare an acceptable plan for improving its operations. Given this situation, which was reinforced by its May 1987 management study, HUD was of the opinion that CHA should contract with a professional private management firm to run the authority. Furthermore, HUD wanted the firm to be free from any direct intervention by CHA's Board of Commissioners. However, neither CHA nor the city of Chicago was willing to accept the conditions that HUD proposed; and in late July 1987, HUD began taking steps intended to lead to a takeover of CHA.

HUD Wanted Private Firm to Manage CHA

It was HUD's position after its May 1987 management review that because of CHA's long track record of mismanagement, CHA should contract with a professional private management firm to operate CHA on a day-to-day basis and that CHA's Board should not interfere with these

activities. During the late spring and summer of 1987, HUD worked with Chicago's city administration in an attempt to identify the most plausible course of action to address CHA's problems.

In a June 5, 1987, letter, the city of Chicago formally responded to HUD's position to hire a private firm, stating that CHA had prepared a management plan that it contended would result in improvements in the authority's administrative, budgetary, and maintenance functions. The thrust of the management plan called for the employment of a managing director—supported by two or three high-level professionals in the areas of finance, property management, and construction management—and a HUD-loaned executive who would serve as a member of the management team. HUD rejected this proposal as being “more of the same” or “business as usual.” Nevertheless, on June 26, 1987, CHA adopted a resolution that approved the management plan prepared by CHA staff, modified so as to delete the reference to the HUD-loaned executive, since HUD had indicated that such a person would not be made available. CHA also made the stipulation that the appointment of the management director and other key officials would be made by CHA's Board of Commissioners.

Subsequently, over the next couple of weeks, discussions ensued between HUD and city of Chicago officials on the best approach to resolving CHA's problems that would be acceptable to both parties. On July 17, 1987, HUD's Deputy Assistant Secretary for Public and Indian Housing sent a letter to the Chief of Staff of the Mayor of Chicago, along with a document outlining HUD's position with regards to the situation at CHA. The document stated that HUD was convinced that to restore CHA to its full capacity to develop, maintain, and operate its inventory of housing programs, it was essential not only that (1) responsibility for CHA's day-to-day operations be in the hands of qualified management professionals but (2) an analysis and review of CHA's entire operation also be undertaken with a view to making recommendations for changes in personnel, systems, procedures, and policies.

The document went on to state that CHA's commissioners would need to agree to contract for management professionals who were to be selected by the commissioners from a list jointly developed by HUD and CHA. The initial term for the contract was to be 2 years with an option to extend the contract for two additional 1-year terms upon the determination of HUD that the contractor's services were still needed. Additional HUD requirements stipulated in the document were that the contractor

- be delegated the powers of providing day-to-day management of CHA's housing programs and activities without interference by the commissioners including the power to hire, fire, and discipline employees,
 - would act in the name of CHA and any action taken by the contractor would be binding on the CHA, provided such action was within the powers, duties, and responsibilities conferred by the contracts, and
 - would be given the authority and responsibility to manage the activities of CHA, including directing staff, developing the budget, and contracting for goods and services.
-

Negotiations Ended After Initial Agreement on Private Management

Subsequent to July 17, 1987, HUD and city of Chicago officials held several telephone conversations to further discuss HUD's proposal. After several revisions, representatives from HUD, CHA, and the city met on July 24, 1987, to finalize the proposal. At this meeting, initial agreement was reached on HUD and CHA's jointly selecting a private management firm to manage CHA. It was also agreed that the management firm would be required to keep CHA informed of its activities and that CHA commissioners would not be held liable for inappropriate actions or inactions by the firm.

One point on which HUD would not compromise, and which it apparently had consistently held as nonnegotiable, was its right to approve or disapprove actions proposed to be taken by CHA that, in HUD's view, affected the ability of the contractor to perform under the management contract. While this requirement would give HUD more direct control over decisions affecting CHA's operations, HUD believed this discretion was necessary to ensure that CHA did not revert to the type of management problems it had experienced in the past.

On July 27, 1987, HUD met with CHA's Board of Commissioners and a representative from the Mayor's office. According to HUD records, it was HUD's perception that neither CHA nor the city were interested in subjecting CHA to any closer accountability than what HUD normally exercises over other public housing authorities. After meeting for 12 hours, it was apparently mutually agreed that because the parties could not agree in principle on the issue of increased CHA accountability to HUD, there was no point in continuing the discussions.

HUD's Pursuit of CHA Takeover Ends With Compromise Agreement

When negotiations broke off with CHA, HUD decided to pursue a takeover on the grounds that CHA had breached its Annual Contributions Contract. HUD, recognizing that CHA would in all likelihood challenge this attempt in court, gathered evidence to support its case. Before court action became necessary, HUD signed a compromise agreement with CHA. The objectives of the agreement, however, were never fully implemented.

HUD Developed Support for Takeover

A team of HUD professionals, headed by two headquarters attorneys, spent over 2 months at CHA reviewing its compliance with the Annual Contributions Contract from two perspectives—whether CHA had (1) maintained its housing projects in a safe, decent, and sanitary condition and (2) maintained proper accountability over its funds.

From our own inspection of CHA projects and from our discussions with members of the HUD team, little doubt seems to exist that HUD could have demonstrated that CHA had not properly maintained many of its projects. The following pictures showing weeds and trees growing on a project's roof, graffiti-laden walls, and trash scattered in a hallway are but a few of the many examples of the hideous conditions that existed during our review and were present at the time HUD was considering taking over the authority.

The second issue pursued by the HUD team was whether CHA had maintained proper accountability over its funds. We were told that HUD planned to use CHA's misuse of modernization funds as an example of CHA's not exercising good fiscal management. Although the HUD attorneys believed they could demonstrate that CHA had misused modernization funds, their review raised questions as to whether HUD had properly monitored CHA's modernization activities. According to the HUD attorneys, in pursuing this matter, they found that engineers in HUD's Chicago field office responsible for inspecting the modernization work had not been doing so. In addition, the Chicago Regional Office had raised the threshold at which HUD was required to approve work performed under the modernization program to \$1,500,000 and for change order work under the program to \$250,000. This also contributed to limited HUD oversight of the modernization work and was a policy that, in our judgment, was highly questionable given CHA's long history of fiscal problems. The current HUD Regional Administrator has since reduced both thresholds to zero.

Figure 4.1: Weeds and Small Trees
Growing on Roof of CHA Project



HUD attorneys told us that although CHA is legally responsible for providing decent, safe, and sanitary housing and effectively managing the authority, the court in considering a HUD takeover would also, in their opinion, have looked at HUD's actions in regard to CHA. They believe the court would have considered a CHA takeover to be a drastic step and during its deliberation would have looked at HUD's actions to obtain CHA's compliance with the Annual Contributions Contract and other HUD requirements.

Compromise Agreement Reached

Legal questions regarding a HUD takeover attempt were never brought before the courts. Rather, HUD and CHA continued to negotiate and subsequently reached a compromise and signed a Memorandum of Agreement on September 23, 1987. HUD officials told us that they believed it was to HUD's advantage to reach an agreement with CHA rather than pursue a takeover because a long court battle would likely have ensued and have had an adverse impact on the tenants.

Figure 4.2: Project Walls Covered With Graffiti



The key provisions of the agreement provided, among other things, for the following:

- CHA's appointment of a management team, headed by a managing director, to operate CHA on a day-to-day basis. In addition, it provided that HUD and CHA's Board of Commissioners would not become involved in the day-to-day management of the authority.
- An on-site HUD-designated liaison responsible for reviewing and making recommendations on actions proposed by the CHA managing director and for recommending actions to be taken by the Board of Commissioners. The HUD liaison was to have free access to CHA's records and meetings.
- The establishment of a CHA/HUD arbitration panel to resolve policy issue differences between the HUD liaison and the CHA managing director. Either party could appeal to the arbitration panel after the Board of Commissioners decided on the matter. The three-member panel consisted of one member appointed by HUD's Chicago Regional Administrator, one by the Board, and one selected by the panel members.

Figure 4.3: Project Hallway Littered With
Trash



- CHA to contract for the performance of a needs assessment that would review and analyze CHA's entire operation with a view toward recommending such changes as may be necessary to operate effectively and comply with HUD requirements.

Compromise Agreement Objectives Not Achieved

While some initial progress was made under the management agreement, it was never fully implemented as envisioned. A Managing Director and a HUD liaison were appointed and an arbitration panel was created. However, HUD and CHA never agreed on how to proceed with the needs assessment. Also, because of a disagreement with the Board of Commissioners, the Managing Director resigned and was replaced on a temporary basis by a board member. The HUD liaison in turn resigned to pursue the Managing Director post, which created a void in his position that was never filled.

After CHA appointed the Managing Director in September 1987, he began to take steps he believed were necessary for CHA to become a well-run authority. He disagreed, however, with the need for a needs assessment

as envisioned under the Memorandum of Agreement. Under the agreement it was envisioned that a private management consulting firm would evaluate all CHA departments simultaneously, develop a needs assessment for each, and make recommendations for corrective action. The Managing Director believed that such an approach would be too disruptive to CHA and that a better approach was to evaluate each department sequentially starting with the worst. Accordingly, the Managing Director took steps to address what he considered to be CHA's most critical problem—the lack of adequate controls over its financial and accounting functions.

To address this problem the Managing Director brought in a new Chief Financial Officer with substantial experience in public accounting who was able to immediately institute some improvements. In addition, the Managing Director obtained at no cost the services of a top accounting firm to review the accounting, financial, and data processing functions of CHA. Subsequently, the accounting firm provided a detailed analysis of these operations along with numerous recommendations for immediate and long-term actions. According to the Managing Director, it would take 2 or more years to implement the recommendations and cost at least \$1.5 million.

Another area of concern to the Managing Director was the performance of CHA's Technical Services Department, which, among other things, provides architectural and engineering services to CHA's modernization program. In regard to this department, the Managing Director secured the services of an architectural and engineering firm to review its soundness and the technical capability of its top people. Although we were unable to obtain a copy of the results of this study, the Managing Director stated that there was little question that the department was among the worst managed and needed to be reorganized and that at least some of its responsibilities should be contracted out to private firms. While only limited changes were made to this department during the tenure of the Managing Director, current management has disbanded the department and terminated the employment of five of its senior staff.

In January 1988 the Managing Director announced that he would be leaving CHA in April primarily because of differences he had had with CHA's Board of Commissioners over the management of the authority. A key difference centered on the use of \$3 million in subsidies that HUD had recently provided retroactively. The Board believed these funds should be used to repair and rehabilitate projects, whereas the Managing Director felt that the funds should be used to pay off creditors. This

was in keeping with his first priority of putting CHA back on sound financial footing and reestablishing its financial credibility.

Prior to the Managing Director's departure, HUD's General Deputy Assistant Secretary for Public and Indian Housing, asked for his thoughts on the future operation of CHA. In his response, the Managing Director commented on CHA's past problems and some of the issues that he felt needed to be addressed to make CHA a viable organization. He stated, for example, that CHA must have stronger leadership than that which had preceded him. Weak leadership, in his opinion, was responsible for the ineffectiveness of the major departments in interacting to address CHA's long-standing and very serious problems. He also believed that CHA's financial controls needed to be completely overhauled. He noted that in previous years, for example, departments within CHA had ordered goods and services without proper authorization. To address the host of problems pertaining to the lack of adequate financial controls, he advocated that CHA adopt all of the recommendations made by the CPA firm he had secured to review operations in this area. The Managing Director also made a point of recommending that a complete analysis of the elevator maintenance contracts be made to determine their fairness and whether reasonable alternatives existed.

The Managing Director told the General Deputy Assistant Secretary that it was clear to him that no matter how much money was made available, CHA would never have enough janitors, guards, or repairmen to keep the buildings from disintegrating until the tenants accepted the responsibility for their condition and worked together to maintain it. He stated that the tenants' own apathy and destructive conduct simply could not be offset by the corrective work of CHA personnel and that there would never be enough of them to do so.

After the Managing Director left in April 1988, an interim director was appointed. Little progress was made, however, in improving CHA's operations until after a permanent Managing Director was hired in June 1988. This individual has since implemented the new approach termed "crisis management" for dealing with CHA's problems. Like his predecessor, one of his primary goals has been to stabilize CHA's fiscal and operational status. As discussed in chapter 5, it appears that he is making progress.

New Approach to Improve CHA Shows Promise

In May 1988 the Chicago Housing Authority proposed to HUD a new, more aggressive approach to address and resolve CHA's problems than was envisioned under the Memorandum of Agreement that HUD and CHA signed on September 23, 1987. The new plan called for, among other things, the establishment of a "crisis management" team made up of high quality individuals charged with the responsibility of launching CHA on a course to overcome the critical financial, managerial, and operational problems that have plagued it for years. HUD approved the proposal in August 1988, and clearly progress is being made. A factor contributing to the progress has been the new spirit of cooperation that has developed between CHA and HUD. HUD and CHA now have regularly scheduled meetings to discuss and resolve problems encountered as CHA moves forward with its improvement program. HUD's CHA monitoring branch, which was established in April 1987, is also leading to improved CHA operations and greater assurance that CHA operates in accordance with HUD policies and procedures.

Crisis Management Approach

To address what it characterized as a crisis situation, CHA proposed to HUD on May 24, 1988, a program designed to achieve a comprehensive and effective long-term turnaround of CHA for the sake of its tenants and the city of Chicago. To bring about a positive result, CHA recognized that radical changes were needed. The proposal, which was developed by the Metropolitan Planning Council¹ and endorsed by the Mayor and leading representatives of Chicago's business and civic organizations, listed the following three goals to be addressed by a crisis management team:

- stabilize CHA's financial and operational situation,
- develop and implement a comprehensive program that addresses CHA's underlying operational and financial problems, and
- identify and recruit qualified permanent staff to ensure the effective operation of the authority.

The proposal consisted of the following five basic elements that have since been implemented.

(1) The appointment of a chief executive officer (CEO) with demonstrated and successful managerial experience to serve as both the CHA Executive Director and Chairman of the Board of Commissioners.

¹The Metropolitan Planning Council was incorporated in 1934 and is dedicated to research and advocacy in issues of public policy affecting the Chicago region.

- (2) The appointment of a new CHA Board of Commissioners dedicated to the crisis management approach and supportive of the CEO.
- (3) The hiring of a team of consultants with substantial expertise in finance and accounting, real estate management, construction administration, tenant affairs, agency management, and law. Training and recruitment of competent CHA staff was to be a top priority so that when the consultants completed their work, CHA would be left in excellent hands.
- (4) The establishment of a Work-Out Resource Committee comprised of leaders from Chicago's leading business and civic organizations, who would be dedicated to marshalling the resources of the private sector in support of both the short- and long-term needs of CHA.
- (5) Gaining HUD's approval and support of the crisis management approach.

The team of consultants and CHA management personnel initiated work under the crisis management approach in July 1988.

The HUD Regional Administrator approved CHA's crisis management approach—through the approval of various consultant contracts—in an August 12, 1988, letter to the CHA Managing Director. In her letter, the Regional Administrator stated that HUD was initially concerned that CHA's proposal would result in just another well-written consultant study that would be ignored while business continued as usual. She pointed out, however, that subsequent discussions with the new Managing Director showed that this was not the case and that he had demonstrated a willingness to make adjustments to the crisis management team concept to accommodate HUD's concerns. Specifically, the Managing Director agreed to limit the term of the crisis management effort, establish and maintain budgetary controls over consulting contracts, institute a conflict of interest clause in all consultant contracts concerning future contract work with CHA, and establish specific work plans for each member of the crisis management team.

In order not to impair or delay the implementation of the improvement plan or unnecessarily delay CHA's ability to initiate operational improvements, HUD waived the normal 90- to 150-day period for competitive award of professional service contracts and approved the award of contracts for the crisis management team based on noncompetitive negotiations or limited competition. The Regional Administrator, however,

advised the Managing Director that HUD recognized the continuing need for a variety of outside services while implementing operational improvements, and therefore a key task of the crisis management team must be to establish procurement expertise and to prepare work statements for future competitively awarded professional service contracts. On the basis of these conditions, the Regional Administrator approved a total of 10 consultant contracts for professional, personnel, and legal services, having a total value not to exceed \$547,050.

All work under the contracts was to be completed by September 30, 1988, but at CHA's discretion each consultant could provide short-term follow-up services directly related to the crisis management team. The Regional Administrator also required that CHA provide a detailed briefing on the crisis management team's findings and recommendations by August 29, 1988.

Progress Being Made Under Crisis Management Approach

On August 29, 1988, the crisis management team provided HUD a briefing outline regarding its preliminary work on CHA's wide-ranging problems. The briefing outline indicated that the crisis management team had begun to initiate corrective action on a number of CHA's problem areas and had identified additional steps to be included or considered as work continued. Among other things, the briefing outline reported that the crisis management team had implemented a new CHA organizational structure to increase accountability; established regularly occurring meetings with tenants to hear their concerns; begun rewriting the personnel manual to streamline hiring, discipline, and discharge procedures; begun negotiating accounts payable amounts with vendors; and met with experts from the private sector to discuss ideas for improving CHA. The team also had developed recommendations to improve maintenance, determined that a rent ceiling policy may be a viable option to increase the tenant income mix, initiated a review of CHA's legal department operations, and analyzed security service contracts.

In the letter transmitting the briefing outline, the Chairman of CHA's Board of Commissioners told HUD's Regional Administrator that while progress had been made, much remained to be done. He also advised her that for certain areas it may become necessary to extend consultant services beyond September 30, 1988, in order for them to complete their work.

In accordance with a HUD request, on October 19, 1988, CHA provided HUD with another report on the status of the work being performed by

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the crisis management team. According to the report the team had made substantial progress in addressing CHA's financial and operating problems. The report covered the major problem areas that HUD believed should be addressed in the needs assessment, which had been provided for in the September 1987 Memorandum of Agreement. Table 5.1 provides a synopsis of some of the major findings, actions taken as of October 19, 1988, and planned future actions for each of the 12 areas of critical concern to CHA that were addressed in the October 1988 report.

Table 5.1: Synopsis of Selected Elements of CHA's October 19, 1988, Status Report

Area and selected findings	Actions to date	Future actions
1. Human Resources		
Vacancies other problems in senior management positions left CHA in state of paralysis	10 new senior level managers hired, others let go or reassigned/implemented new recruitment plan.	Complete upper-level hiring.
Strategic planning process at managerial level nonexistent		Implement strategic approach using team concept to identify goals, objectives, and action plans.
Hiring process unreliable and subject to outside interference	Initiated review of hiring process/policy of tying step increases to performance enforced/started to redraft personnel manual.	Conduct salary comparability study/complete personnel manual/evaluate employee training programs.
2. Finance		
Unpaid vendors refusing CHA work/accounts payable balance unknown.	Completed accounts payable procedures study/negotiations with vendors reduced payables/balance found to be \$6.5 million not \$11.7 million.	Implement improved accounts payable procedures/continue vendor negotiations.
Substantial budget and control problems found/financial reporting inadequate and inaccurate/operating deficit estimated at \$22 million.	Obtained outside help to address budget and related problems/reviewed financial condition of each major operating program/significant control problems identified.	Develop plan to address budget and financial problems/develop financial training programs/improve reporting capabilities/increase performance accountability.
3. Maintenance		
Uniform procedures for maintenance services largely nonexistent/supervisory procedures insufficient and ignored.	Completed plan for development of (1) uniform procedures covering various maintenance services and (2) preventive maintenance cycle.	Develop operations manual for maintenance function/develop in-house training program/institute preventive maintenance cycle.
Low maintenance staff level.	Determined that manpower can be increased by bringing staff up to budgeted number	Implement a manpower plan.
No central planning capacity for maintenance services.	Completed action plan to establish central maintenance planning and monitoring function.	Establish central maintenance function.
4. On-Site Property Management		
Central office property management function inhibited control over tenant-related function.		Further localize property management responsibilities at the building management level to increase responsiveness.
New vacancies not recorded in timely manner.		Train staff in use of improved reporting systems.

(continued)

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Area and selected findings	Actions to date	Future actions
Lack of adherence to procedures for collecting tenant accounts receivable.	Prepared plan for improving on-site rent collection.	Develop and train on-site staff in collection procedures.
5. Security		
Private security guards not monitored.	Created office of safety to monitor private security services.	Review cost and adequacy of all private security contracts.
Inadequate capacity to respond to tenant security concerns/gang presence grown to critical level	Security sweep completed at one building/ experimental tenant I.D. cards issued at another building.	Secure as necessary high-rise building through sweeps/improve tenant participation in public safety/establish Dept. of Audit and Investigation, using private investigative firm in interim.
6. Procurement		
Procurement functions not sufficiently consolidated/monitoring of inventory levels and integrity insufficient/current inventory not known	Initial changes to procurement procedures completed/conducted search of possible locations for central warehouse.	Conduct complete review of procurement department procedures, policies, etc./ conduct physical inventory of top 1,500 items.
7. Legal		
Lack of leadership and poor supervision found in Legal Department/lawyers with inadequate skills hired/Legal Department had inadequate staffing levels.	Quality control standards for hiring implemented.	Develop and implement staff plan to improve in-house legal capacity.
Outside counsel selected and assigned cases without appropriate criteria.	Assignment and status of litigation handled by outside counsel reviewed.	Develop and implement criteria for selecting and assigning cases to outside counsel.
8. Data Processing		
Data Processing Department leadership inadequate.	Hired consultant to perform comprehensive review and improvement of department.	Complete initiatives to improve department.
Tenant accounting system obsolete.	Received proposals for new tenant accounting system.	Determine appropriateness of implementing new tenant accounting system.
9. Utilities/Energy Conservation		
Natural gas costs excessive due to buying through middleman.	Implemented agreement to buy gas at well-head price with expected savings of \$4-7 million in 1989.	
Antiquated heating system resulted in excessive costs.	Initiated development of a request for proposal for retrofitting heating systems.	Select contractor to perform retrofitting work, which could generate savings of \$6-10 million over 12-year period.
10. Construction Management		
Untimely construction services performed by Technical Services Department because of inadequate staff performance.	Technical Service Department disbanded/ plan developed to establish a construction management department.	Establish construction management department.
Vacancies at high-rise projects at record levels.	Applied for Community Development Block Grant funds to repair and rehabilitate 1,600 units.	
No recent modernization plan existed.		New construction management department to be responsible for developing and carrying out modernization program.
11. Organization Structure and Administration		
Crisis in leadership at top management levels caused breakdown of good managerial and organizational practices.	Unnecessary departments terminated, needed departments created or organizationally redefined/lines of authority clarified/Chairman's office reorganized.	
Role of Board of Commissioners unclear.		Clarify role of Board.

(continued)

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Area and selected findings	Actions to date	Future actions
Central office location unreflective of CHA mission and constituency/rent too high.	Determined that central office administrative and some technical functions could be relocated to CHA-owned buildings at savings of \$900,000 annually.	Relocate central office.
12. Tenant Relations		
Limited tenant participation in the formation of economic and cultural development programs	Initiated evaluation of existing tenant programs.	Increase participation in tenant programs/ continue development of tenant management at selected sites.
CHA lacked organizational capacity to directly respond to resident concerns and complaints.	Created ombudsman position providing tenants with official channel for concerns and complaints/regularly occurring resident forums with Chairman established.	

The Chicago press has also reported favorably on actions being taken under the crisis management approach. For example, the press has reported that the most dramatic move taken so far by the Managing Director has been his effort to take control of the worst housing projects from gangs. He has done this by having the police evict squatters and gang members and then locking them out by sealing the building entrances and elevators with steel mesh, armed guards, and a sophisticated security system. Also, to further ensure control of the projects, he has reportedly begun instituting 9 p.m. curfews for visitors until such time as all apartments are filled with people who want decent housing.

The press had also applauded his efforts for asking the Congress to provide money to train residents in remodeling skills, bring in a former assistant U.S. Attorney to pursue corrupt activities by CHA employees, and for beginning to organize tenants to take over leasing and eviction procedures in their buildings.

**Increased HUD
Monitoring and
Cooperation Should
Contribute to
Improved CHA
Operations**

In recognition of the magnitude of the problems associated with CHA's operations and the need to intensify its own efforts in regard to CHA, HUD's Chicago Regional Office in April 1987 established a separate staff within its Office of Public Housing to monitor CHA. As a result, HUD is in a better position to ensure that CHA follows HUD rules and regulations, provide technical assistance, and develop a new and better relationship and spirit of cooperation with CHA's staff. Also, to improve communications and cooperation in resolving CHA problems, HUD and CHA staff have started to hold weekly meetings to discuss current issues, concerns, and problem resolution.

CHA Monitoring Branch Established

In response to the findings of the team that performed HUD's 1987 CHA Management Review, particularly the concerns raised about CHA's financial management and evidence that CHA had made misstatements to HUD regarding its financial position, HUD decided that it needed to better ensure the integrity of CHA's public housing program. HUD believed that in addition to full-time technical assistance, CHA was in need of substantial, detailed, and daily monitoring to correct and prevent the kind of program violations uncovered through its management review. To accomplish this, HUD's Chicago Regional Office established a separate CHA monitoring/technical assistance branch within its Office of Public Housing in April 1987. Responsibilities of the CHA Branch include closely monitoring CHA's modernization plans and expenditures, reviewing contracts paid for with operating funds, and reviewing in detail CHA's monthly operating expenditures. The branch also provides technical assistance on such things as HUD requirements, operational and modernization plans, and CHA initiatives to correct its operating problems.

The CHA Branch is comprised of six professionals and a secretary. In addition, a HUD financial analyst spends about 50 percent of his time on CHA activities—the branch chief has requested that a financial analyst be assigned full-time. As we discussed in chapter 3, before the branch was established, sufficient staff was not assigned to effectively monitor CHA. According to the chief of the monitoring branch, about 95 percent of the branch's time is spent on CHA issues while the remaining time is devoted to other HUD low-income housing programs in the city of Chicago.

One of the primary objectives of the branch, according to the branch chief, is to bring CHA's modernization program—whose funds had been subject to inappropriate use in the past—under control. To help accomplish this, HUD now requires prior approval of all contracts for modernization work and inspection and approval of the completed work by the monitoring branch before payment is made. Before the current HUD Regional Administrator assumed her position in December 1985, the region did not approve modernization contracts or inspect the related work unless the value of the contract exceeded \$1.5 million—thus allowing CHA a great deal of discretion in the operation of the program.

In addition to the modernization program, CHA's procurement and contracting activities, according to the branch chief, are also being closely monitored. This is achieved in part by requiring CHA to obtain HUD approval on all contracts and purchase orders exceeding \$10,000. The branch chief told us that CHA has cooperated with his staff's monitoring

and technical assistance efforts and that HUD and CHA are beginning to establish a much improved working relationship.

Top HUD and CHA Staff Meeting on Regular Basis

In discussing CHA's crisis management approach, HUD's Chicago Regional Administrator told us that communications and cooperation between HUD and CHA have improved significantly since the new CHA Board Chairman/Managing Director took over and the crisis management approach was initiated. She said that the Board Chairman is committed to improving both the conditions at CHA and CHA's relationship with HUD. She believes that a new spirit of cooperation is beginning to develop. According to the Regional Administrator, in addition to improvements noted by the CHA monitoring branch, communication and cooperation are being enhanced through weekly meetings between HUD and CHA officials. These meetings, which were initiated about the same time as the crisis management approach, provide a forum to discuss various CHA issues and for HUD to express its concerns and advise CHA.

In a June 24, 1988, memorandum to HUD's General Deputy Assistant Secretary for Public and Indian Housing, the Regional Administrator said that the weekly meetings have proved to be an extremely productive format to deal with the myriad of problems at CHA. She said that both CHA and HUD staff prepare agendas that are circulated for review prior to the meetings. This approach enables CHA and HUD to have the appropriate staff at the meetings to discuss the issues that will be raised. The meeting format, according to the Regional Administrator, is also useful because all CHA and HUD staff hear the same message and any questions or concerns can be thoroughly discussed.

The weekly meetings are attended by top CHA staff, representatives of HUD's CHA monitoring branch, and other selected HUD staff that may be needed to discuss the issues. The HUD Regional Administrator and the CHA Board Chairman/Managing Director attend as necessary. In her June 24, 1988, memorandum, the Regional Administrator said that the meetings have been so successful that she no longer believed it necessary or productive to have a separate individual designated as the CHA/ HUD liaison as called for in the September 1987 HUD/CHA Memorandum of Agreement. She said that, in addition to the weekly meetings, the CHA monitoring branch is serving as a focal point for resolving CHA issues.

In responding to the Regional Administrator's memorandum, the General Deputy Assistant Secretary agreed with her assessment concerning

the liaison position. He also said that the establishment of the CHA monitoring branch was an excellent idea, which, if properly supervised, should lend itself to improved CHA monitoring and enhancement of the timeliness, clarity, and incisiveness of HUD and CHA communications.

Chicago Housing Authority Comments

In commenting on a draft of this report, CHA officials said that the conditions we described were an all too reoccurring theme when the current Chairman of CHA's Board of Commissioners assumed control in July 1988. CHA stated that since that time HUD, tenants, and the private sector working together have begun to make progress in addressing CHA's problems. CHA recognized, however, that a great deal more needs to be done.

To address its long-standing financial management problems, CHA said that it had hired highly qualified executives from federal, state, and local government agencies and from the private sector, which has helped to stabilize CHA's operations. CHA said that it is also revising its personnel policies, procedures, and position descriptions to ensure that people with the appropriate skills, knowledge, and abilities are hired. Definable career paths are being established to help retain qualified staff who will be provided periodic and routine training.

CHA stated that priority attention has been given to the need for appropriate management and operational policies and procedures and a resulting system of internal controls. According to CHA, it has begun to develop and implement policies and procedures to improve the credibility of its budget, financial, and automated information systems and to address major internal control weaknesses. The automated information system is also being updated so it can provide reliable information in a timely and usable manner. In addition, CHA said that beginning in 1988 it did not overspend budgeted amounts and that it submitted a balanced budget to HUD for 1989. Financial statements that compare actual expenditures to budgeted amounts are now routinely prepared. CHA also said it had revised its purchasing procedures to ensure compliance with HUD requirements and to streamline the process.

To improve tenant living conditions, CHA said that it had implemented what it refers to as the "sweep" program. Under this program apartment by apartment inspections are performed on a surprise basis. CHA said that unauthorized persons found to be living in the apartments are evicted, the buildings are secured, and all minor and routine repairs are made. Tenants are issued photographic identification cards, and sign-in procedures for residents and guests are established. CHA told us that, as

of April 7, 1989, sweeps had been performed on five developments and that crime in those developments is substantially down. For example, CHA said that violent crime at the Rockwell, Cabrini-Green, and Ickes projects is down 32, 36, and 8 percent, respectively, from 1987 and that decreased drug and criminal activities have improved the quality of life for the tenants. Overall, according to CHA, violent crime at its developments had decreased 9 percent in 1988.

Conclusions

Our review and analysis of 48 reports issued on CHA's management since 1979 leave little doubt that CHA has been poorly managed for a number of years. Ineffective leadership, lack of control over funds and expenditures, extensive procurement and inventory control problems, poor project maintenance, abusive tenants, as well as numerous other problems, have characterized CHA's operations. Over the years, CHA has apparently not had the capability and/or the desire to operate the authority effectively. The lack of an effective system of internal controls to help ensure financial integrity and CHA compliance with HUD rules and regulations also contributed significantly to CHA's problems.

The biggest impact of ineffective management has been on the tenants who have had to live under deplorable conditions. On the basis of the environment that existed, HUD was totally justified in 1987 when it pushed for a dramatic change in CHA's operations by attempting to have CHA agree to turn its management over to a private management firm. We also agree that HUD made the right decision in threatening to take over control of the authority after CHA refused to allow a management firm to come in. In our view, such action was necessary in order to make CHA realize that HUD would no longer tolerate the conditions at the authority. We believe, further, that the compromise between HUD and CHA that averted a HUD takeover attempt has ultimately proved to be a good decision.

The compromise agreement and subsequent HUD and CHA actions showed that they were serious about improving the plight of CHA. CHA initially hired a highly respected Managing Director with proven success in correcting the problems of another large and troubled organization. However, disagreements between that Managing Director and some members of CHA's Board of Commissioners led to his resignation and to a derailment of the compromise agreement. Recognition of the need to end the conditions prevalent at CHA for so long prevailed, however, as a fresh approach to attacking CHA's problems was subsequently adopted—referred to as "crisis management."

Circumstances now exist that provide CHA with a rare opportunity for it to begin the process of becoming a well run public housing authority. In connection with the crisis management approach, a capable and committed Managing Director was hired, and a new Board of Commissioners was appointed that is working with and is supportive of the initiatives being instituted by the Managing Director. The Managing Director also seems to have the support of the city government, which appears willing to allow him to operate CHA without the type of interference that has

existed in the past. Moreover, HUD is supportive and is taking a more active role in monitoring and working with CHA to ensure that HUD rules and regulations are followed and that it agrees with the corrective actions undertaken. As result, HUD and CHA are developing a new spirit of cooperation that was previously nonexistent but that is essential for success.

Under the crisis management approach, a number of initiatives are under way that address CHA problems in each of the critical management areas, including finance, maintenance, procurement administration, and tenant relations. CHA has also started to hire highly qualified and committed staff to implement the improvements.

Since CHA has just begun taking steps to resolve its extensive problems, it is too early to evaluate their effectiveness. However, on the basis of a limited review of crisis management, we believe that the overall approach is a good one and that the emphasis being placed on gaining control of CHA's financial operations is on target. It must be recognized, however, that CHA's problems are extensive, have evolved over a long period of time, and in many cases are systemic in nature. Therefore, no quick solutions exist for many of the problems. Rather, their resolution is long-term and will require continuing commitment and cooperation on the part of HUD, CHA, and the city of Chicago.

CHA will need a substantial amount of money to correct its management problems and the physical deterioration existing at many of its projects. Since implementation of improvements will to a large extent depend on the availability of funds, CHA will have to be patient because obtaining all the funds it needs is highly unlikely, given that other housing authorities are also competing for available funds. HUD, in all likelihood, will cooperate in meeting CHA funding requests to the extent possible as long as they are justified and CHA continues to show progress. It is unlikely, however, that such funds will be sufficient to meet CHA's needs, particularly over the next few years.

The crisis management team has had some success in reducing CHA's costs and it is probable that additional cost savings will result as CHA continues to improve its operating effectiveness. We believe, however, that CHA must be aware of and seek funds from other federal, state, local, as well as private sources. As CHA demonstrates its intent and ability to run its operations in an efficient and effective manner, outside funding sources should begin to develop a sense of trust and confidence in CHA and thus be more willing to provide funding. In this regard, CHA

must continue to support the Resource Advisory Council—a partnership between CHA and respected members of Chicago's business and professional community. This group can provide an invaluable service to CHA by providing expert advice and acting as a conduit for identifying and gaining funds from sources other than HUD and for obtaining services at no cost to CHA as needed from various fields of expertise.

Another area of critical importance to CHA's efforts to turn its operations around relates to tenant relations. Many of CHA's tenants, without a doubt, are good, decent, law-abiding people, who have the right to expect but have not always gotten acceptable living accommodations from CHA. Their support can have a significant impact on the success of many of CHA's improvement initiatives, particularly those relating to the physical and other quality of life improvements that are so badly needed. Gaining tenant support will not be easy, however, since tenants are more aware than anyone of CHA's past unkept promises. In addition to improving the physical conditions under which tenants live, CHA must get tenants involved and allow them to provide input and to participate in other activities that have a direct bearing on their lives. Equally important is for CHA to respond to tenant concerns. CHA needs to instill in the tenants the belief that they and CHA are partners in making the authority a success and that both must do their share to improve the authority.

CHA must also deal with problem tenants and other undesirable people in and around its projects. Gangs, crime, drugs, violence, vandalism, and other such activities have gotten out of hand and are having a very negative impact on tenant life. CHA must gain control of its projects. Obviously this is an extremely difficult problem and one that will not be easily solved. However, it is a problem that must be dealt with firmly and effectively if CHA is ever to provide a decent and safe place to live.

It is encouraging to note that CHA's Managing Director is recognizing the importance of tenants in his overall effort to improve CHA. Under the crisis management approach, CHA is actively seeking both a better relationship with its tenants and greater tenant input and participation in programs designed for their benefit. The Managing Director, to his credit, is also taking positive steps to control the crime and violence that prevails at many of CHA's projects. We believe that tenants are the key ingredient to the long-term success of turning CHA into a good place to live and strongly support the efforts being made to improve their plight.

As previously mentioned, the circumstances are such that CHA has an excellent chance to right its past problems and mold CHA into an efficient, well-run authority. It is a fragile situation, however, as circumstances could quickly change to the detriment of the improvement efforts. CHA could easily revert to the way it was operated in the past if, for example, strong management is not sustained, the city of Chicago were to begin to interfere in CHA's day-to-day operations, or if the Board of Commissioners hinders the Managing Director from effectively carrying out his responsibilities. These types of actions could, in turn, affect employee conduct and morale and deteriorate the effectiveness of the entire organization. HUD, in turn, could lose faith in CHA and take a hard line in its dealings with the authority. Preventing these types of situations from occurring will be a challenge for CHA and HUD.

As time passes, city administrations will change, new boards of commissioners and managing directors will be appointed, and new HUD regional administrators and monitoring staff will be assigned. A key to keeping CHA on track will be the new people who have a direct bearing on how CHA is operated and whether they have the talent, dedication, and commitment to do so. Each generation of responsible officials must, to the extent possible, ensure that these individuals possess such qualities.

HUD must continue to closely track CHA's progress and help ensure that CHA does not return to its past management practices. The spirit of cooperation and improved communications that is developing between HUD and CHA should facilitate this effort. If in the unfortunate event that CHA should begin to revert to the way it was operated in the past, HUD must quickly take whatever steps are necessary and available to correct the problem. Steps that HUD could take include (1) persuading CHA to remedy the situation, (2) withholding Comprehensive Improvement Assistant Program funds, (3) debarring, suspending, or temporarily denying CHA officials responsible for serious instances of mismanagement the right to participate in HUD program activities, or (4) assigning temporary control and direction of CHA to an independent management team through either voluntary agreement with CHA or by declaration of breach of contract.

GAO's Analysis of CHA-Wide Project Demographics

Name of project	Total buildings	Total apts.	Total tenants	Year buildings built					Type of buildings	
				1938-47	1948-57	1958-67	1968-77	1978-87	Low-rise	High-rise
Abla	164	3,470	10,216	121	40	3			154	10
Altgeld	225	1,965	6,749	162	63				225	0
Cabrini	81	3,591	8,755	55		23	3		58	23
Dearborn	16	800	2,387		16				0	16
Hilliard	2	342	1,231			2			0	2
Horner	19	1,761	6,399		9	7	3		2	17
Ickes	44	1,263	4,045	34	9	1			34	10
Lathrop	29	913	1,902	29					29	0
Leclaire & Lawndale	58	604	1,218 ^a	49			9		57	1
Madden Park	10	451	1,713				10		7	3
Rockwell	8	1,125	3,983			8			0	8
Stateway	8	1,628	4,669			8			0	8
Taylor	28	4,230	15,086			28			0	28
Trumbull	73	575	1,563	55	18				73	0
Washington Park	9	907	3,004		2	3	4		3	6
Wells	143	2,802	6,198	124	10	9			129	14
Wentworth	96	612	2,258	37		9	50		59	37
City/state	79	1,306	2,325 ^a		66	13			64	15
Housing Resource Ctr.	1	6	^b				1		1	0
Elderly housing	60	9,955	10,332			30	27	3	3	57
Scattered sites	141	2,161	8,394			76	43	22	141	0
Total	1,294	40,467^c	102,427^c	617	282	220	150	25	1,039	255

^aCHA did not report the tenant count for about one-half of the Leclaire & Lawndale apartments and for about one-fourth of the city/state apartments.

^bCHA reported that household statistics were not available.

^cFigures represent the number of CHA tenants housed in completed buildings.
Source: Chicago Housing Authority.

Categorization of Physical Inadequacies Found by the CHA/HUD Inspection Team in July and August 1987

Table II.1: Problems With Project Buildings

Problems inside/outside project buildings	Family project name									
	Alba	Altgeld	Cabrini	Dearborn	Horner	Rockwell	Stateway	Taylor	Wells	
Building structure Damaged roof; no lights in hallways; loose or broken steps on stairways; loose/missing stair railings; broken windows/doors; tuckpointing; concrete falling from or loose on bricks	X	X	X	X	X	X	X		X	
Other inside conditions No central fire protection system; asbestos on pipes; broken-down elevators; incinerators; boilers; graffiti on walls and stairwells	X	X	X	X	X	X	X	X	X	
Grounds Broken pavement; overgrown trees; damaged or missing playground accessories; broken parking pavements	X	X	X	X	X	X			X	
Crime Actual/implied drugs; murder; vandalism; sniper shots	X	X	X	X	X	X	X	X	X	
Security Insecured vacant apts.; squatters	X		X	X	X	X	X		X	
Buildings GAO analyzed in inspector reports	89	68	86	10	29	33	2	26	28	Total 371
Buildings with problems	89	67	86	10	25	29	0	25	28	359
Percent with problems	100	99	100	100	86	88	0	96	100	97

Note: An X is equal to the occurrence of at least one problem noted in the inspection report.

Source: GAO analysis of CHA's July and August 1987 inspection reports of selected family projects.

Table II.2: Problems With Project Apartment Units

Problems within apartment units	Family project name								
	Alba	Altgeld	Cabrini	Dearborn	Horner	Rockwell	Stateway	Taylor	Wells
Plumbing Leaks/damaged hot or cold water system, flush toilet, bathtub, sewage system, storm drainage	X	X	X	X	X	X		X	X
Kitchen Leaks/damaged sink, stove or oven, storage cabinets, refrigerator	X	X	X	X	X	X	X	X	X
Heating Leaks/damaged furnace ventilation system, broken radiator valves	X	X	X	X	X	X			X
Electrical No electricity; damaged wall outlets; exposed wiring	X		X	X	X	X		X	X

**Appendix II
 Categorization of Physical Inadequacies
 Found by the CHA/HUD Inspection Team in
 July and August 1987**

Problems within apartment units	Family project name									Total	
	Alba	Altgeld	Cabrini	Dearborn	Homer	Rockwell	Stateway	Taylor	Wells		
Physical structure Cracks/holes in interior walls or ceiling; damaged/holes in floors; peeling paint; broken plaster; leaks in basement	X	X	X	X	X	X	X	X	X	X	
Other unsafe conditions Abestos; no smoke detector	X	X	X	X	X	X		X		X	
Unsanitary conditions Rodents, termites, roaches, and other vermin; loose garbage inside or outside	X	X	X	X	X			X		X	
Indecent conditions	X	X	X	X	X	X		X		X	
Apartments GAO analyzed in inspector reports	62	26	118	26	57	40	1	32	37	399	
Apartments with problems	62	22	116	26	56	26	1	27	37	373	
Percent with problems	100	85	98	100	98	65	100	84	100	93	

Note: An X is equal to occurrence of at least one problem noted on the inspection report.

Source: GAO analysis of CHA's July and August 1987 inspection reports of selected family projects.

GAO's Categorization of the Frequency of Reported Problems in Descending Order, 1979-87

Problem category	Frequency of problem reported	Year problem reported								
		1979	1980	1981	1982	1983	1984	1985	1986	1987
Procurement & contracting	66		x	x	x	x	x	x	x	x
Budgeting	53		x	x	x	x	x		x	x
Roles & responsibilities	51		x	x	x	x	x	x		x
Accounting	49			x	x	x		x		x
Cash & investment management	46		x		x	x	x	x	x	x
Organizational structure	39		x	x	x	x	x	x		x
Policies & procedures	38	x	x	x	x	x	x	x		x
Funding	36		x	x	x	x	x	x	x	x
Data processing/systems	36		x	x	x	x	x	x		x
Operational plans/planning	34			x	x	x	x	x	x	x
Oversight/control of operations	31	x	x	x	x	x	x	x		x
Maintenance	31	x	x	x	x					x
Training, education, and experience	30			x	x	x	x	x		x
Human resource management	26			x	x	x				x
File maintenance & record keeping	26				x	x		x		x
Inventory	25		x	x		x	x	x		x
Management reporting	23			x	x	x	x	x		x
Salary administration	20			x	x	x		x	x	x
Supervision	16	x		x	x	x	x	x		x
Modernization activities (general)	14				x					
Rent collection & management	14			x	x	x				x
Energy management	11			x	x		x			
Tenant life in the projects	10							x		
Section 8 program monitoring	8									x
Tenant selection & eviction	7	x	x	x	x					
Security	7		x			x				
Tenant relations & attitude	6			x		x				x
Board committee meetings	6							x		
Insurance & retirement	6				x	x			x	x
Vacancy reduction	5		x		x					x
Condition of the projects	4		x	x		x				
Contract labor standards	4									x
Legal actions	4						x	x		
Development activities (general)	4							x		
External audits & reviews	3		x				x			x
Social services programs (general)	3				x	x				
Licensing	2									x

(continued)

**Appendix III
 GAO's Categorization of the Frequency of
 Reported Problems in Descending Order,
 1979-87**

Problem category	Frequency of problem reported	Year problem reported								
		1979	1980	1981	1982	1983	1984	1985	1986	1987
Employee conflict of interest	2									x
Affirmative action	1			x						
Housing voucher program	1									x

Source: GAO analysis of problems previously reported by us, HUD, and other organizations, 1979-87.

List of GAO, HUD, and Other External Reports, 1979-87

Performed by	Title of report	Month/year report issued
1. Albert Ramond & Associates	Maintenance Improvement Program	02/79
2. CHA Management Advisory Committee	Preliminary Report to the CHA	01/84
3. David M. Griffith & Associates	Central Service Cost Allocation Plan for Year Ended 12/31/86	04/87
4. Deloitte Haskins & Sells	An Action Plan for Improved CHA Performance	09/83
5. Deloitte Haskins & Sells	Organizational Analysis and Evaluation of the Board of Commissioners	08/85
6. Deloitte Haskins & Sells	Phase One - Security Program Action Plans for Dwelling Equipment, Capital Equipment, Central Maintenance, and Curtailment of Purchasing System Circumvention	01/84
7. Eleanore Fredrick & Associates	Number Two Chicago Dwellings Association -General Fund Financial Statements, Year Ended 12/31/84	07/85
8. Eleanore Fredrick & Associates	Number Two Chicago Dwellings Association -Medical Center Apartments Financial Statements, Year Ended 12/31/84	07/85
9. Eleanore Fredrick & Associates	Number Two Chicago Dwellings Association -Drexel Square Apartments Financial Statements, Year Ended 12/31/84	07/85
10. Eleanore Fredrick & Associates	Number Two Chicago Dwellings Association -Midway Garden Apartments Financial Statements, Year Ended 12/31/84	07/85
11. Eleanore Fredrick & Associates	Number Two Chicago Dwellings Association -Combined Financial Statements, Year Ended 12/31/84	07/85
12. Ernst & Whinney	Report on Supplementary Financial Data at 12/31/79	03/81
13. Ernst & Whinney	Management Study Report	06/81
14. Ernst & Whinney	Report on Examination of Financial Statements and Supplementary Data, Three Years Ended 12/31/82	09/83
15. Ernst & Whinney	Comments on Compliance and Administrative Internal Controls, Three Years Ended 12/31/82	06/83
16. Ernst & Whinney	Report on Examination of General Purpose Financial Statements and Supplementary Data, Year Ended 12/31/85	08/87
17. GAO	The CHA Needs to Improve Its Management and Controls Over Purchasing	04/80
18. GAO	Examinations of Allegations Concerning the CHA	04/83
19. Hill, Taylor & Company	Report on Examination of Financial Statements and Supplementary Data for Two Years Ended 12/31/84	05/85
20. HUD-Office of Inspector General	Development Project IL-06-P002-103 (a.k.a, Project IL-2-103)	03/86
21. HUD-Management	Management Review, Phase I - Part 1	08/80
22. HUD-Management	Management Review, Phase I - Part 2, Maintenance Engineering Survey	09/80
23. HUD-Management	Maintenance Wage Rate Study	08/81
24. HUD-Management	Management Review, Phase II - Part 1	08/81
25. HUD-Management	Management Review, Phase II - Part 2, Maintenance Engineering Survey	08/81
26. HUD-Management	Management Review	05/87
27. Institute for Community Design Analysis (Oscar Newman)	Final Report of Phase I: Recommended Changes and Resulting Savings	03/82
28. Jay L. Heller & Company	Analysis of General Fund Cash at 12/31/84 for Contract C-1014	09/85

(continued)

**Appendix IV
List of GAO, HUD, and Other External
Reports, 1979-87**

Performed by	Title of report	Month/year report issued
29. Jones, Anderson & Rogers, Ltd	General Corporate Fund - Financial Statements as of 12/31/84	03/85
30. Jones, Anderson & Rogers, Ltd	Relocation Program - Financial Statements as of 12/31/84	04/85
31. Jones, Anderson & Rogers, Ltd	State Grant Program - Financial Statements as of 12/31/84	05/85
32. Jones, Anderson & Rogers, Ltd	Employees' Retirement Plan - Financial Statements as of 12/31/84	05/85
33. Landrum & Brown	Organization and Management Study Recommendations	07/87
34. Mayor Washington Transition Committee	Housing Task Force Draft Report	08/83
35. Melvin M. Brooks	Pest Control System	08/85
36. Palmer France & Associates, Ltd	A Proposal to Provide Planning and Management Assistance to the CHA	11/83
37. Peat, Marwick, Mitchell & Co.	Classification and Compensation Review	03/83
38. Robert Cressman Engineering Task Force	Survey of Emergency Modernization Funding Requirements	07/82
39. University of Illinois-Chicago	Longitudinal Research on Congregate Public Housing	04/85
40. Washington, Pittman & McKeever	Fund 028-Activities 2217 and 2825, Head Start Program, Grant Year Ended 11/30/81	06/82
41. Washington, Pittman & McKeever	Fund 984-Activity 2217, Head Start Program, Grant Year Ended 11/30/86	01/87
42. Washington, Pittman & McKeever	Fund 067-Activities 2202 and 2217, Head Start Program, Grant Year Ended 11/30/85	01/87
43. Washington, Pittman & McKeever	Preliminary Analysis of the Operations of the CHA Modernization Program	03/86
44. William L. Brazley & Associates and Heard & Associates	Preliminary Program - CHA Elderly Housing	07/85 Revised
45. William T. Salam -The Mentor Group	Petty Cash Bank Accounts - Reconciliation Review	07/85
46. William T. Salam -The Mentor Group	Survey of Accounts Payable Department as of June 1985	08/85
47. William T. Salam -The Mentor Group	Payroll Department and Prodedural Review as of July 1985	09/85
48. The Wyatt Company	1986 Review of Experience and Benefits Under the CHA Employees Retirement Plan	09/86

Comments From the Department of Housing and Urban Development



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

PHS-74-1000

MEMORANDUM FOR: John M. Ols, Jr., Director, Housing and
Community Development Issues, GAO

FROM: *Thomas Sherman*
Thomas Sherman, Acting General Deputy
Assistant Secretary, PD

SUBJECT: (GAO) PIH - 974: Draft GAO Report, "Public Housing:
Chicago Housing Authority Taking Steps to Address
Long-Standing Problems"

Based upon our review and analysis of the subject report, as well as subsequent discussion with GAO staff, we have concluded that the report appears factual and objective.

Comments From the Chicago Housing Authority



The Chicago Housing Authority

Board of Commissioners

Vincent Lane

Chairman

Robert L. Belcaster

Arthur M. Brazier

Milton Davis

Handy L. Lindsey, Jr.

Artensa Randolph

Vice Chairman

Ruth M. Rothstein

Vincent Lane

Managing Director

April 7, 1989

Mr. John Ols
Director, Housing and Community
Development Issues
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Ols:

I have reviewed your draft report entitled Public Housing: Chicago Housing Authority Taking Steps to Address Long-standing Problems (GAO/RCED-89-100). The following conditions were described in your report;

- long-standing management problems,
- inadequate trained staff, and
- deplorable living conditions for residents.

These were an all too reoccurring theme when I assumed the Chairmanship in July 1988. They were of such a severe nature that their resolution required unique solutions. More specifically, they required a partnership between the Chicago Housing Authority (CHA), the U.S. Department of Housing and Urban Development (HUD), the private sector and the residents.

I have actively sought to develop such a partnership for the purpose of addressing these serious concerns. Currently, CHA enjoys a good level of participation from all of the above groups. HUD routinely participates in meetings with senior CHA staff, and actively assists in major policy decisions. As noted in your report, HUD and CHA now work together on priorities, operational issues, and concerns.

In addition, private companies and foundations are actively participating by providing loaned executives, management assistance, and funds for leadership and managerial training. The participation of these entities has allowed the Authority to make a tremendous amount of progress within a short time frame.

22 West Madison Street • Chicago, Illinois 60602 • Telephone (312) 791-8500

**Appendix VI
Comments From the Chicago
Housing Authority**

Mr. John Ols
April 7, 1989
Page two

Despite these significant accomplishments, much remains to be done to complete the turnaround efforts. One of the factors will be the active participation and buy-in to proposed solutions by the residents. Unless residents buy in and help us to improve their deplorable living conditions, we will not succeed. Thus, they are the most important component of the equation; and while we now have their participation, we can keep it only through demonstrable improvements in their living conditions. Hence, we have instituted some extremely ambitious goals and programs to improve resident living conditions.

Long-standing Financial Management Problems

To correct the long-standing financial management problems identified in your report, we established, as a priority, the development and implementation of appropriate management and operational policies and procedures and a resulting system of internal controls. We have successfully recruited highly qualified executives from federal, state, and local governmental agencies and from the private sector, and have made tremendous strides within a short time frame. We have now filled, on a permanent basis, seven key managerial positions which were vacant or filled only on a temporary-acting basis, and, as a result, are well on the way to stabilizing the operations of the agency.

To improve the credibility of our budget, financial, and automated information systems and to address major internal control weaknesses, we have begun to develop and implement appropriate policies and procedures. We have begun to routinely prepare financial statements which analyze our expenditures and compare actual expenditures to budgeted amounts. Beginning in 1988, we did not over spend budget amounts and we submitted a balanced budget to HUD for 1989. We also revised our purchasing procedures to streamline the process and to assure compliance with HUD's procedures. This has allowed us to issue many annual requirement contracts. Finally, we are updating our automated information system to provide reliable information in a timely and usable manner. By the end of July 1989, we will have substantially updated our previously antiquated tenant accounting system.

**Appendix VI
Comments From the Chicago
Housing Authority**

Mr. John Ols
April 7, 1989
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Adequately Training Staff

To assure that our staff have the skills, knowledge, and abilities needed to accomplish the required tasks, we are re-defining our position descriptions to better requirements and revising our personnel policies and procedures to assure that we are hiring the appropriate persons for the jobs. We are also providing career paths so that we can retain qualified staff. We are testing the new format in the Finance Division. Effective April 1989, the skills of the staff will be upgraded. Staff will have a definable career progression which encompasses CHA providing periodic and routine training. We expect this to be a model for the remainder of CHA.

Improve Living Conditions

Finally, to improve living conditions of our residents, we have recently implemented an emergency apartment-by-apartment inspection "sweep" program. This program entails inspecting each unit on a surprise basis, followed by evicting unauthorized persons. We also issued new photographic identification cards and sign-in procedures for residents and authorized guests. Lastly, the buildings are secured and all minor and routine repairs are made. To date, "sweeps" have been performed in five developments. In the swept buildings, crime is substantially down and vacancies have been reduced. Further, while violent crimes increased by 1 percent overall for Chicago during 1988, it went down in CHA's development by 9 percent.

More significantly, in developments where "sweeps" were accomplished, Rockwell, Cabrini-Green, and Ickes, violent crimes were down 32, 36, and 8 percent, respectively from 1987. The sweep program and the corresponding attention to social services and routine maintenance and repairs in those developments have substantially decreased drug and criminal activities and have improved the quality of life for the tenants. Our goal for 1989 is to completely sweep and turn around the Rockwell Development, which is an eight building high-rise development encompassing 1126 units. We also expect to have major impact in several other large high-rise developments. Appendix A is a summary of some of CHA's major initiatives.

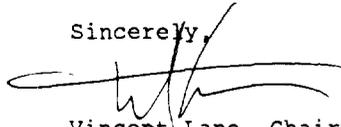
**Appendix VI
Comments From the Chicago
Housing Authority**

Mr. John Ols
April 7, 1989
Page four

Again, thanks for the opportunity to comment on your draft report. We look forward to receiving the final copy. We would also like to extend an invitation for you, and the Comptroller General, and his Assistant to visit us in the near future to see first hand some of our exciting changes.

If you have additional questions or require more information, please do not hesitate to call Ms. Velma Butler, Chief Financial Officer, at 791-8500, extension 4070.

Sincerely,



Vincent Lane, Chairman
Board of Commissioners

VB:mm

Attachment

cc: Mr. George Ranney/CHA
Mrs. Gertrude Jordan/HUD
Mr. Dennis Fricke/GAO

THE CHICAGO HOUSING AUTHORITY

MARCH 2, 1989

CHICAGO HOUSING AUTHORITY

ANTI-DRUG INITIATIVES

I. ENFORCEMENT AGAINST DRUGS AND CRIME

A. OPERATION "CLEAN SWEEP"

- * Recent emergency apartment-by-apartment inspections of five crime-ridden buildings, followed by eviction of unauthorized individuals and new photo identification and sign-in procedures for residents and authorized guests, have substantially decreased drug and crime activity
- ♦ "Sweep" initiative will be extended throughout Rockwell Gardens, Cabrini Green and twelve other crime-infested buildings

B. LEASE CONFISCATION UNDER FEDERAL LAW

- ♦ The CHA and the U.S. Attorney will collaborate under a federal statute, tested in New York but never before utilized in Chicago, to seize apartments known to be used for drug-related activities

C. CHA POLICE FORCE

- * The CHA did not renew all of its contracts with private security firms, whose guards are ineffective in patrolling public housing properties, and has retained certain of these firms on a month-by-month basis only
- ♦ CHA, with HUD support, will implement a plan to establish its own police force, whose officers will undergo extensive testing and training by the Chicago Police Department Academy

D. RESIDENT FINES

- ♦ After eleven years of non-enforcement, CHA will institute a system of fines for destructive behavior, including graffiti or breaking common property

E. MULTI-SERVICE JUSTICE CENTERS

- ♦ In cooperation with the Judiciary and the Police Department, the CHA will establish near CHA properties a public housing court system where residents may more conveniently participate in the prosecution of crimes as witnesses, and in which evictions of residents may be expedited

II. INTERVENTION TO BREAK THE DRUG CYCLE

A. ENCLOSURE OF UNSECURED COMMON AREAS

- * Entryways at most high rise developments have no doors and thus the public spaces are open to anyone, including criminals
- ♦ Lobbies and hallways at buildings which have been "swept" will be secured with guard stations and enclosed to prevent entry by unauthorized visitors, while avoiding an institutional appearance

B. SOCIAL SERVICE FOLLOW-UP TO SWEEPS

- * CHA staff have surveyed residents of "swept" buildings to determine their social service needs as well as the types of programs they desire
- ♦ Resident floor captains and building councils will be organized to facilitate resident involvement in management
- ♦ State, local and private social service agencies will consolidate and coordinate their programs at certain developments to maximize their effectiveness

C. VACANCY CONSOLIDATION

- ♦ In developments, including Cabrini-Green, where vacancies in some buildings are over 35% and gangs infest vacant apartments, residents will be asked to move to lower floors, enabling upper floors to be sealed off for security reasons while awaiting rehabilitation

D. SUBSTANCE ABUSE TREATMENT PROGRAMS

- ♦ With the cooperation with private agencies, the CHA will coordinate education, information and referral services for substance abusers

III. PREVENTION OF DRUG USE THROUGH PUBLIC AND PRIVATE PARTNERSHIPS

A. RESIDENT PATROLS

- ♦ CHA will establish resident patrols to secure lobbies and other open areas, and to ensure the safety of residents and their guests as well as paramedics, firemen and others providing services to residents

B. DRUG ABUSE RESISTANCE-EDUCATION (DARE)

- ♦ CHA will train selected members of its police force to implement project DARE, a drug-prevention and life awareness program for 5th and 6th graders sponsored by the U.S. Justice Department, at local schools which serve public housing children and at development sites

C. RESIDENT BUSINESS ENTERPRISES

- ♦ Resident enterprises, including construction firms, will be encouraged on an "incubator" basis to enable residents to earn legitimate sources of income, as an alternative to drug and underground economies through vocational education and apprenticeship programs

D. ADOPT-A-FAMILY

- ♦ Churches, private organizations and individuals will assume responsibility for rehabilitating and furnishing individual apartments and assisting resident families to find new opportunities and hope

E. "SPORTS-O-RAMA" AND OTHER PROGRAMS FOR YOUTH

- ♦ CHA will institutionalize a program of organized summer sports activities (Sports-O-Rama) to provide a healthy and enjoyable alternative to gang activity and to promote the values of teamwork and constructive competition
- ♦ Private agencies and the CHA will establish two Youth Development Schools in CHA developments to provide young people with structured and well-supervised recreational, educational and cultural activities
- ♦ CHA will initiate "Project Peace," a program to reduce juvenile violence through mentorship and instruction in non-violent means of conflict resolution, in high schools serving four public housing developments

F. RESOURCE ADVISORY COUNCIL AND CHA FOUNDATION

- * In past years CHA has not invited the private sector and volunteers to assist in solving public housing problems
- ♦ A Resource Advisory Council, composed of respected members of the business and professional community, has been formed to provide expert technical assistance and to foster public-private partnerships. It will be called upon for assistance in the anti-drug initiatives outlined
- ♦ A 501(c)(3) foundation is being established to fund and provide staff and assistance in the anti-drug effort and other areas of importance to CHA residents

PROOF OF RESULTS:

ROCKWELL GARDENS AS A PILOT DEVELOPMENT

- * Rockwell Gardens, an eight-building, 1126 unit high rise development, was the Authority's most crime-ridden in 1987 and has been the target of two of the Authority's five sweeps to date. Reported crime fell by 32% in 1988.
- ♦ The CHA will focus security, rehabilitation and social service efforts on Rockwell Gardens in order to maximize the impact on the lives of residents
- ♦ Leadership and organizational development programs for residents will be emphasized to ensure success of the overall effort
- ♦ The CHA will document and analyze data in key areas (drug arrests, criminal incidents, vacancies, school attendance, etc.) now and at the end of 1989 to evaluate results

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