PUBLIC HOUSING

HUD Takes Over the Housing Authority of New Orleans
The Honorable Richard H. Baker
House of Representatives

Dear Mr. Baker:

Operating over 13,000 housing units and providing homes to over 24,000
people, the Housing Authority of New Orleans (HANO) is one of the nation’s
largest public housing authorities. However, for nearly two decades, HANO
has been one of the country’s poorest performing housing authorities and
currently ranks the lowest among the large housing authorities in the
Department of Housing and Urban Development’s (HUD) performance
measurement system. Moreover, HANO’s performance has improved only
marginally in recent years, despite large federal grants to HANO, hands-on
management assistance from professional property managers, the
Secretary of HUD’s personal involvement with HANO, and substantial
technical assistance to HANO from a new office in HUD established for that
purpose.

HUD’s relationship with HANO, as with all housing authorities, is a
contractual one governed by statute and regulation. In return for federal
grants and subsidies from HUD, housing authorities agree to efficiently
manage and operate decent low-income housing for their residents.
Although most housing authorities meet HUD’s performance standards,
about 3 percent do not and are classified as “troubled.” To encourage
improved performance at troubled housing authorities, HUD uses a variety
of administrative tools, including memorandums of agreement, budget
limitations, sanctions against the housing authorities’ governing boards,
and declarations of a breach of contract. Declaring a breach is a rare legal
step that HUD has used in a limited number of cases. It can lead to HUD’s
takeover of a housing authority’s assets and ultimately propel the housing
authority into receivership.¹

In your letter to us of January 23, 1996, you stated that the causes of HANO’s
problems needed to be determined and the solutions identified. You asked
us to determine

- HANO’s major operational problems,
- the underlying causes of HANO’s problems, and

¹Receivers have been appointed to operate the Boston, Massachusetts; Kansas City, Missouri; Chester,
Pennsylvania; and Washington, D.C., housing authorities. HUD has taken control of the East St. Louis,
• the actions that HUD has taken to help improve HANO’s performance and what success these actions have had.

Since we received your letter, HUD declared on February 8, 1996, that HANO was in breach of its contract, claimed possession of HANO’s assets, and dissolved HANO’s board of commissioners. In place of a contract between HUD and HANO is a “cooperative endeavor agreement” between the Secretary of HUD and the Mayor of New Orleans.

Results in Brief

Two operational problems stand out as significant and continuing obstacles to improving the performance of the Housing Authority of New Orleans. They are the absence of resources and effective programs to (1) provide for routine maintenance—repairs to plumbing, heating, and electrical systems—and consistent inspection and upkeep of the housing authority’s buildings and grounds and (2) ensure the viability and safety of the housing authority’s housing assets by carrying out major modernization and rehabilitation work, such as replacing roofs and heating systems or demolishing unsafe buildings. A 1994 audit report by HUD’s Office of the Inspector General found that none of the housing authority’s 150 housing units in a random sample met HUD’s quality standards for housing, many of which are safety related. Over 25 percent of the housing authority’s apartments are vacant because of years of neglect and deteriorated conditions. Moreover, although housing conditions have deteriorated, the housing authority has nearly $200 million in unspent modernization grants and other federal funding, representing 82 percent of all such funding to the housing authority over the past decade.

On the basis of our work and the findings of other reviews and audit reports, we believe that many interrelated conditions underlie the housing authority’s lack of progress toward improving its operations. For example, in contradiction of HUD’s guidelines, the housing authority’s policy-making body—its board of commissioners—has not effectively governed the housing authority and has persisted in adversely interfering in the housing authority’s daily operations. Such behavior has resulted in canceled modernization contracts and delays in HUD-mandated improvement actions. In addition, even HUD and HUD’s oversight of the housing authority have, to date, contributed little to solving the housing authority’s severe management and operational problems. The housing authority remains the

2Housing Authority of New Orleans: Public Housing Operations (HUD/OIG/Southwest District-94-FW-201-F005, June 29, 1994).
nation’s most troubled large housing authority, despite HUD’s repeated attempts to improve the housing authority’s management.

HUD has taken many actions over the last decade to stimulate management improvements at the housing authority. HUD has withheld funding from the housing authority, twice required that the authority be managed by a commercial property management firm, sanctioned the board of commissioners, and negotiated directly with the Mayor in 1994 to establish a partnership between HUD and the City of New Orleans to avoid declaring the authority to be in breach of its contract. These actions had little impact on housing conditions (a November 1995 survey showed that over 90 percent of a random sample of apartments did not meet quality standards for housing), and the housing authority’s operational performance is currently at its lowest measured level. As a result, in early February 1996, the Secretary declared the housing authority to be in breach of its contract and negotiated with the Mayor a cooperative endeavor agreement to determine and accomplish the steps necessary to improve the living conditions in the housing authority’s public housing.

Background

Under the Housing Act of 1937, as amended, HUD contracts with housing authorities to provide subsidies and grants for operating expenses and modernizing deteriorated housing. In return, housing authorities agree to provide residents with decent, safe, and sanitary housing. These agreements are formalized in a contract between HUD and the housing authority stipulating that housing authorities will operate in a manner that promotes serviceability, efficiency, economy, and stability. In New Orleans, as in many other cities, the mayor appoints a governing body or board of commissioners which, in turn, hires the local housing authority’s executive director and may approve other top management positions. The board provides for policy guidance, while the executive director is responsible for the day-to-day operations. Both are responsible for complying with the terms of the contract with HUD.

In 1979, HUD began tracking housing authorities’ performance and providing corrective action for those that performed poorly. HUD’s current monitoring system—the Public Housing Management Assessment Program (PHMAP)—evaluates 12 performance indicators, calculates a numerical score for each, and relates the total score to a 100-point scale. Poor

4The responsibilities of HANO’s board are outlined in the housing authority’s contract with HUD and in HUD’s handbooks.

4HUD is currently in the process of revising the 12 PHMAP indicators.
performers under PHMAP are classified as troubled, and under current law, HUD must negotiate with them a Memorandum of Agreement that includes performance targets for improving the poor performers’ operations. This process establishes a joint responsibility between HUD and the housing authority for improving the performance. However, if HUD determines that a troubled authority cannot, within a reasonable time and with reasonable resources, improve its operations, make effective use of federal funds, and adequately house its residents, HUD can declare the authority in breach of its contract. This legal step allows HUD either to take direct control of the housing authority’s operations and assets or to appoint (or petition a court to appoint) a receiver to control and manage the housing authority.

HUD’s field offices and Office of Distressed and Troubled Housing Recovery (ODTHR) use the results from PHMAP to oversee and assist housing authorities. HUD’s field offices oversee troubled housing authorities’ performance, ensure that these authorities comply with such agreements as the Memorandum of Agreement (MOA), and provide them with technical assistance. ODTHR, which was formed in 1994 to focus resources on assisting large troubled housing authorities and to administer a special grant program aimed at rehabilitating distressed properties, can marshal resources from city governments, HUD, and housing authorities to improve the troubled authorities’ operations. During 1995, ODTHR provided for the funding to support and temporarily place experienced public housing officials and independent consultants in the Atlanta, Chicago, Detroit, New Orleans, and Puerto Rico housing authorities.

On the basis of its size and need, HANO received over $245 million in federal modernization grants and other subsidies during 1992 through 1994. HANO has been designated as troubled since 1979 and is currently ranked by HUD as the worst performing large housing authority. As a result, HANO operated under an MOA which HUD first signed in 1988; a special partnership agreement with the Secretary since September 1994; and, as of February 8, 1996, a new cooperative agreement with the Secretary to help it improve its housing conditions. (See app. I for an abbreviated time line for significant events at HANO over the past 17 years.)

5Under the assessment program, a score of less than 60 on a 100-point scale earns a housing authority the performance classification of “troubled”; a score of from 60 to 90 earns the housing authority the classification of “standard performer”; and a score over 90 earns the housing authority the classification of “high performer.”

6Public housing authorities that have more than 1,250 units are considered large. If they have distressed developments and meet certain other criteria, they are eligible to apply for grants of up to $50 million under HUD’s HOPE VI program to rehabilitate severely distressed public housing developments.
In the future, troubled housing authorities may not have as many years as HANO has had to improve their performance before the Secretary of HUD is legally compelled to declare the housing authority in breach of its contract. HUD and both houses of the Congress have proposed reform legislation for public housing that includes the stringent treatment of long-troubled housing authorities. In legislation proposed by HUD and in a bill passed by the Senate, a 1-year period is proposed as the grace period within which a housing authority would be allowed to demonstrate improvement or suffer the mandatory declaration of a breach of contract. A pending House bill contains similar language but limits the grace period to 180 days. All three of these proposals are consistent with a September 1993 report of the National Performance Review that recommended that “HUD should make a hard-hitting, targeted effort to resolve the severe difficulties of those few public housing agencies identified as problem[s].”

**HANO’s Most Serious Operational Problems Are Ineffective Maintenance and Modernization**

Over the past 12 years, the problems at HANO have been well documented in numerous audit reports by HUD’s Office of the Inspector General (OIG), HUD’s Office of Public and Indian Housing, and private consultants. The audit reports show a continuous decline in HANO’s management performance and the condition of HANO’s housing stock. Among the many significant problems at HANO, the reports consistently cite the lack of an effective maintenance program and HANO’s inability to operate a program to carry out major modernization and rehabilitation projects.

**Lack of Preventive Maintenance Is Blamed for High Vacancy Rate**

The OIG’s first review of HANO, released in December 1983, detailed four operational and managerial deficiencies related to poor maintenance of the housing stock. These problems included the deteriorating condition of two housing developments, an ineffective maintenance operation, excessive utility costs, and poor tenant selection and eviction procedures. Five years later, a management review of HANO—initiated at HUD’s headquarters and implemented by an interdisciplinary team of 31 people from HUD’s headquarters and field offices—reported 241 findings of deficiencies that reiterated many of the same problems noted in the OIG’s 1983 report.

When the OIG auditors from HUD returned to HANO in 1994, they found that the housing authority and its management contractor were still not

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7Housing Authority of New Orleans: Low Income Housing Program (HUD/OIG/Region VI-84-FW-201-1014/NO-84-26, Dec. 29, 1983).
effectively administering the maintenance program and that, as a result, HANO had breached its contract with HUD. For example, the OIG’s June 1994 audit report stated that all 150 housing units randomly selected for inspection failed to meet HUD’s housing quality standards in one or more areas. Under these areas were structural problems such as missing ceilings and holes in walls, loose and peeling paint, steady leaks from faucets, and roach infestations. In addition, the report determined that HANO still had not established a preventive maintenance program and that no maintenance improvements had been realized at HANO in the past 10 years. The report concluded that a lack of preventive maintenance resulted in the continued deterioration of the buildings and HANO’s inability to “turn around” vacant units in fewer than 140 calendar days. In addition, the OIG estimated that HANO had lost over $3 million in potential rental income because vacant units were not occupied in a timely manner.

HANO Is Unable to Conduct an Effective Modernization Program

In addition to day-to-day maintenance deficiencies, the OIG’s 1994 audit found that HANO and the private firm that was hired in accordance with the MOA to manage HANO did not follow certain federal regulations and standards in contracting for modernization work on HANO’s properties. For example, the private manager approved the construction of private balconies, which are prohibited in public housing, and the disposal of valuable steel railings without recouping the salvage value of at least $50,000. In its report, the OIG recommended that HUD recover nearly $5 million in federal payments. In addition, the OIG discovered HANO modernization projects whose costs exceeded the upper limits established by HUD. Moreover, HANO had failed to follow proper procurement procedures, such as obtaining competitive bids for major expenditures and price quotes for small purchases. HANO also did not expend its modernization funding—between $20 million and $30 million per year—in a timely manner or within about 3 years after HUD obligated the funds to the housing authority.

On the basis of these findings, the OIG concluded that HANO was incapable of carrying out an effective modernization program. Since the OIG’s report, HANO’s ability to use its modernization funding efficiently has not improved. HANO currently has nearly $200 million in unexpended funds. Furthermore, an independent consultant hired by HUD to review HANO’s performance cited ineffective maintenance and modernization programs as serious problems. The consultant’s review shows that HANO’s PHMAP

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8HUD’s guidelines state that a housing authority’s average time to make a vacant unit ready for a new tenant should be no more than 30 calendar days.
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score dropped from 47 in 1993 to 26 in 1994, despite the presence of a property management contractor hired to operate HANO as specified in the housing authority’s MOA with HUD.9 According to the Director of HUD’s Office of Troubled Housing, the 1994 score rose marginally in 1995 to 29.

Board’s Interference Contributed to Long-Standing Problems

As highlighted earlier, HANO’s board had a long history of problems in governing HANO. Also, the continued decline in HANO’s overall performance suggests that HUD’s New Orleans Field Office has not fulfilled its responsibility to provide for the effective oversight of HANO. Although the field office, together with headquarters staff, has tried various options available under the 1937 act to intervene in HANO’s management, little has improved.

HANO’s Board Impeded Recovery

Over the years, HANO’s board of commissioners has tended to interfere with HANO’s day-to-day operations. In response, HUD exercised sanctions against the board, often to no avail. Thus, when the Mayor appointed HANO’s most recent seven-member board—four of whom were HANO residents—in May 1994, HUD staff conducted a 1.5-day briefing session for the board at the Mayor’s request. The topics covered during the training included a review of the 1937 Housing Act, HANO’s contract with HUD, HANO’s by-laws, the provisions of the MOA, and the state’s enabling legislation. In addition, the briefing session detailed the board’s responsibility to develop policies and procedures to ensure that HANO operates efficiently and economically and provides for housing in accordance with the existing laws and regulations.

Despite the emphasis on the board’s expected role, HUD’s headquarters and field office staff began in June 1994 to document inappropriate actions by the board. For example, the board overstepped its bounds by directing HANO’s private manager to hire and fire staff, stop payment on contracts, and disregard proper procurement procedures. In addition, the minutes of board meetings documented that board members, contrary to their governance role, directed HANO staff to move tenants from one housing unit to another as well as into larger units without regard to HANO’s waiting list for potential tenants. HUD’s OIG recently documented additional inappropriate involvement by the current board in HANO’s contracting activities. The OIG concluded that because of the board’s inappropriate involvement in modernization activities, including canceling several

contracts, HANO is susceptible to multimillion-dollar lawsuits, and partially completed units have remained unoccupied and exposed to the weather for an extended period. The OIG also concluded that current board members (1) directed the preferential placement of individuals into subsidized units ahead of hundreds of people on the waiting lists or (2) were involved in this activity.

During the confirmatory review of HANO’s 1994 PHMAP score, an independent consultant who specializes in public housing management and assessment and was hired by HUD also cited the board’s intrusion into HANO’s day-to-day operations, hiring, and contracting. The review concluded that this behavior impeded HANO’s recovery and that the board was preventing effective performance by HANO staff. In August 1995, HUD sent an official to HANO to help revise the housing authority’s by-laws to (1) better define the board’s policy and monitoring role and (2) include a clause describing the ethical conduct expected of the board. According to the OIG, the board had not adopted the revisions as of December 8, 1995.

Finally, the board had not ensured that HANO has sound policies and procedures for improving its management operations and housing stock, as illustrated by the following example. One of the board’s first actions was to commission, with HUD approval, a strategic plan for HANO that (1) would address its operational deficiencies and (2) develop a plan for improving physical and other living conditions in the housing developments. HUD’s field office believed that this strategic plan also could provide the information needed to resolve many of the recommendations in the OIG’s June 1994 audit report on HANO. The final plan, as accepted by the board from the contractor, was a large document costing approximately $490,000. But our review showed that the plan did not contain the necessary policies and procedures contracted for and that we believe would help improve HANO’s day-to-day maintenance operations and the long-term condition of the housing units. Similarly, the independent consultant’s confirmatory review stated that although the plan was a good guide for HANO’s future, it did not address HANO’s operational deficiencies.
documented in the OIG’s audit reports, random inspections of housing units, and the consultant’s confirmatory review of HANO’s performance assessment—we believe that HUD’s oversight of HANO has contributed little to improving HANO’s performance. In addition, even as the OIG’s 1994 report called for specific corrective actions by HANO and close monitoring of HANO by HUD, the OIG concluded that this “course of action had failed in the past.” This judgment suggests to us that HUD’s field office in New Orleans has not provided for the necessary and effective oversight of HANO.

**Actions to Improve Operations at HANO Have Not Been Effective**

To deal with the problems identified by the numerous audit reports and the poor performance results as measured by HUD’s Public Housing Management Assessment Program, HUD has unsuccessfully attempted on several occasions to improve HANO’s management, including a September 1994 partnership between the Secretary of HUD and the then-Mayor of New Orleans. The partnership’s purposes were to avoid a federal takeover of HANO, hold the Mayor and the New Orleans City Council accountable for progress, and ultimately solve New Orleans’ public housing crisis and improve the residents’ housing conditions. However, a consultant’s estimate of HANO’s 1995 PHMAP score and a recent housing quality inspection by HUD show that HANO has not fulfilled its obligations under the 1994 partnership nor made significant management and operational improvements. For these reasons, HUD declared HANO to be in breach of its contract and entered into a second agreement with the Mayor on February 8, 1996.

**HUD’s Oversight Actions Before the 1994 Partnership Were Not Successful**

Over the last decade, HUD has tried many approaches to find a satisfactory means of improving HANO’s performance, including the following:

- In 1984, HUD withheld HANO’s annual share (approximately $10 million) of HUD’s appropriation for modernization grants because no improvement had occurred in HANO’s performance. HUD believed that withholding funding would motivate HANO’s management to improve its performance. Although HANO remained on HUD’s troubled list, HUD reinstated modernization funding the next year.
- After the 1988 management review revealed 241 findings of deficiencies, HUD required HANO’s board of commissioners to enter into an MOA that placed HANO under a private manager until HUD determined that HANO was no longer troubled. As discussed earlier, the private management of HANO did not prove effective and resulted in few lasting improvements over its 5-year duration.
In 1991, HUD attempted to prevent HANO’s board of commissioners from interfering with the private manager’s activities by issuing a “limited denial of participation” against HANO’s board of commissioners. HUD rescinded the denial a year later when the board agreed to resign and the Mayor appointed a new board. In March 1993, however, under pressure from HUD, HANO’s board chairman resigned because of allegations that he interfered with and impeded the private manager’s effort to improve HANO.

HUD Established a Partnership Agreement With the City in 1994 to Improve HANO’s Management

The 1994 OIG report stated that under the private manager’s tenure, little improvement had occurred in the condition of HANO’s properties or its management capacity. The OIG concluded that HANO had breached its contract with HUD and that HUD should declare the breach and take control of the housing authority’s properties and assets. In response to the report and to avoid declaring a breach, the Secretary of HUD entered into a partnership agreement with the Mayor and the city, which the Secretary confirmed in a letter of August 1, 1994, to the Mayor. As part of the partnership, the Secretary and the Mayor of New Orleans agreed to form an executive council that would provide policy guidance for HANO’s board, maintain the private manager on a month-to-month basis for continuity in critical operations until a permanent executive director could be hired, and develop a 6-month strategic plan. However, because the board allowed the private management contract to expire and had not hired necessary top managers at HANO, HUD subsequently revised the partnership agreement with the Mayor to include a transitional management structure.

The following are highlights of the events that occurred under the partnership and transitional management:

- The transitional management team, formed by ODTHR and staff from the city, remained at HANO from October 1, 1994, through April 4, 1995. The team comprised more than 15 individuals—both full- and part-time—from a variety of sources, including well-performing housing authorities, HUD offices, and city offices. HUD provided over $220,000 to pay for the salaries and living expenses of the transitional staff loaned from other housing authorities and to cover the expenses of HUD staff. In addition, HANO provided over $260,000 to compensate nine city employees.

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10A limited denial is a temporary enforcement action effective for 1 year at most to prevent local officials from participating in all or part of a housing authority’s activities.

11Despite the terms of HANO’s MOA specifying private management in lieu of a more typical management structure headed by a permanent executive director, HUD agreed to the city’s and HANO’s request to hire an executive director. In addition, the MOA’s quarterly performance targets had expired in March 1994 and had not been renegotiated at the time of the partnership.
The transitional management team stabilized, to some extent, HANO’s critical operations by addressing two-thirds of the authority’s 21,000 outstanding work orders for routine repairs and implementing standard contracting procedures for HANO. The team did not, however, address HANO’s vacancy rate in this effort.

The partnership agreement also required HANO to develop the 6-month strategic plan within 45 days. However, the board did not approve the strategic plan—which would become the foundation of a new MOA—for submittal to HUD until November 1995, about 10 months later.

The partnership agreement also provided for HANO to hire a permanent executive director within 90 days. HUD helped HANO to obtain waivers from Louisiana’s Civil Service System to hire the executive director and upper-level managers at salaries higher than the system allowed. However, the new executive director, who was formerly a member of HANO’s transitional management team and has significant experience in managing public housing, was not hired until April 1995, about 4 months later than agreed.

As part of a routine confirmation of HANO’s 1994 PHMAP score, an independent private consultant estimated that HANO’s performance scores for 1995 would be low.12 HUD officials also estimated that the score would be low—about 29—and now note that their estimate is being confirmed. Thus, according to these estimates, HANO made little improvement on PHMAP indicators from September 1994—when the partnership was first initiated—to the time of the consultant’s June 1995 confirmatory review. The confirmatory review found modernization to be one of HANO’s most troubled areas and cited HANO’s inability to spend backlogged funds and obtain quality work. Our review of HUD’s records found that since the new board took control of HANO in May 1994, HUD’s New Orleans field office has ordered HANO twice to take corrective actions for failing to submit contracts and a 5-year modernization plan for HUD’s approval.

A November 1995 inspection of housing quality by HUD’s field office further substantiates the lack of improvement at HANO over the last year. The inspection found that 93 percent (70 out of 75) of the occupied units that were randomly selected from HANO’s 10 developments failed HUD’s quality standards for housing. The inspectors described the conditions as “deplorable, unsafe, and in many instances unfit for human habitation.” The results of the inspection mirrored the earlier findings in the OIG’s 1994

12The consultant could not estimate the value for two indicators—energy consumption and operating reserves. Operating reserves could not be estimated because the $3.3 million in insupportable modernization costs identified by the OIG had not been resolved. If HANO were directed to repay the money, its PHMAP scores under this indicator would decrease.
inspections of housing quality. Furthermore, the inspectors said that they found no visible indication that maintenance staff were deployed on-site, that they were responding to scheduled maintenance, or that recent maintenance work had been done in any of the units, even though many of the tenants reported broken space heaters and other problems that should have been addressed.

**HUD Has Declared a Breach of Its Contract and Negotiated a New Strategy for Improving HANO’s Performance**

In a December 4, 1995 memorandum, HUD’s then-Deputy Assistant Secretary for Distressed and Troubled Housing Recovery advised the Secretary that HUD should take control of HANO and declared HANO to be in breach of its contract, if necessary. The memorandum stated that the actions by HANO’s current board and the Mayor had been “too little, too late and fall far short of reversing HANO’s decline in performance.” In documenting his decision to declare HANO in breach of its contract, the Secretary said that multiple disputes, conflicts of interests, confrontations, and standoffs between the board and HANO staff had hindered critical decision-making for operations and improvements. The Secretary also noted that as of June 1995, unspent balances for operating subsidies and grants at HANO reached almost $200 million, or 82 percent of all funding provided for HANO under its public housing programs.

On February 8, 1996, the Secretary of HUD declared HANO to be in breach of its contract and entered into a cooperative endeavor agreement with the Mayor of New Orleans for improving HANO’s performance. The highlights of the agreement include the following:

- HANO’s board of commissioners has been dissolved, and HUD’s Acting Assistant Secretary of Public and Indian Housing will fulfill the duties of the board.
- HUD and the City of New Orleans will provide joint administrative oversight of HANO.
- HUD reserves its right under law to seek the appointment of a receiver for HANO if the requirements of the agreement are not accomplished.
- The general counsel of Tulane and Xavier Universities will act for HUD as an “executive monitor” of the agreement, subject to the Acting Assistant Secretary’s oversight.
- HUD and the City of New Orleans agreed to a series of specific actions, which include developing and beginning to implement by May 1, 1996, a 24-month action plan to complete the tasks and strategies needed to (1) establish adequate maintenance of HANO’s properties, (2) address quantifiable short- and long-term targets for PHMAP, (3) accomplish other
necessary management improvements, and (4) specify reporting milestones.

According to the Director of HUD’s Office of Troubled Housing, the relationship between HUD’s field office in New Orleans and HANO has changed to reflect the declaration of the breach. She said that as of the end of March 1996, an 11-member HUD team has been on-site at HANO to guide the housing authority as it tries to correct the deficiencies that led to the breach. She also said that HUD has approved a plan to guide HANO’s operations over the next 120 days and that the 24-month plan should be ready for approval by May 1996.

On the basis of the current experiences of other large housing authorities taken over by HUD or in receivership, we believe that it could take 6 months to 1 year to determine whether this agreement will have a lasting, positive impact on HUD. The Secretary has reserved his right to appoint a receiver if the agreement does not work out, and he could exercise this right if the quantifiable performance targets that are to be set as part of the 24-month plan are not achieved within the time frames established. We believe that this would be consistent with earlier proposals by HUD and pending legislation in the Congress to resolve the severe difficulties of long-troubled housing authorities.

Agency Comments

On February 15, 1996, we provided the Secretary of HUD with a copy of a draft of this report for his review and comment. Within several days thereafter, we provided the Mayor of New Orleans and the acting executive director of HANO with copies of a draft of this report. We met with the Mayor and the acting executive director in New Orleans to discuss their comments. The acting executive director provided us with comments that both clarified and updated certain portions of the draft, which we have incorporated into the report.

In providing informal comments to us, the Director of HUD’s Office of Troubled Housing said she believes that our report incorrectly describes the 1994 partnership agreement between the Mayor of New Orleans and the Secretary of HUD. She said that rather than providing a significant level of technical assistance, the 1994 partnership was an effort to hold things together at HANO until permanent management staff could be hired. However, we believe that the effort was significant because of the resources applied to carry out the partnership. During the 6-month period from October 1994 through April 1995, an executive council was formed to
provide policy guidance for HANO, a 15-member transitional team of 
consultants and other staff was formed and put in place to manage HANO, 
and nearly $1 million dollars was spent for the transition team’s salaries 
and for a contractor to prepare a strategic plan. The Troubled Housing 
Office’s Director provided other clarifying comments, which we have 
incorporated into the report. Subsequent to these comments, we received 
written comments from HUD on April 16, 1996, and they are included as 
appendix II.

The Mayor of New Orleans raised two concerns about our report. First, he 
was concerned about our conclusion that the contractor-prepared 
strategic plan should have contained policies and procedures with which 
to manage HANO. The Mayor stated that the board of commissioners did 
not intend for the plan to include such material. This statement is not 
supported, however, by the contract and the statement of work for 
preparing the strategic plan. According to the contract’s statement of 
work, the strategic plan should have contained policies and procedures for 
operating HANO.

Second, the Mayor believed that our report—and those of HUD’s OIG—are 
too limited because they do not contain information obtained from 
stakeholders other than the staff of HUD and HANO. He stated that residents, 
for example, should have been interviewed because they are the 
consumers and have definite opinions on the services that they should be 
receiving. To address our objectives, we relied on our analysis of the 
documented historical record of housing conditions and management 
problems at HANO. Included in that record are minutes of scheduled 
meetings held by HANO’s board of commissioners at which residents and 
other interested parties were given the opportunity to participate and 
share their views and concerns. We also relied on the record of numerous 
and varied actions taken to resolve and remedy those problems. We 
supplemented our analysis with discussions with HUD, OIG, and HANO 
officials.

The Mayor made a number of other comments that were not directly 
related to the accuracy of our report but which were germane to HUD’s 
oversight of public housing and the measurement of HANO’s performance. 
For example, he believes that HUD has too many approval layers and that 
this review process caused significant delays to HANO’s modernization 
program. The Mayor, however, was pleased with the approach that the 
Secretary is taking toward public housing and his willingness to try 
innovative funding methods in areas such as modernization.
In connection with performance measurement, the Mayor does not believe that the PHMAP system measures critical actions taken by housing authorities to improve the quality of residents’ lives. To illustrate, he said that by using police substations located within public housing, HANO has reduced the murder rate by 80 percent in its Desire Development. He noted, however, that HANO has received no recognition for improving this important facet of HANO’s mission. Nevertheless, on the basis of this success, the Mayor said that HANO is planning to implement the police substation concept in HANO’s other housing developments.

Scope and Methodology

To identify HANO’s major operational problems, HUD’s actions to address these problems, and the problems’ underlying causes, we collected data from many sources. We reviewed pertinent legislation, documentation on the housing program, minutes of HANO’s board meetings, and HUD’s regulations on the operation of public housing authorities. We discussed management and oversight issues with HUD officials in Washington, D.C., including officials at the Office of Public and Indian Housing, the Office of Distressed and Troubled Housing Recovery, the Office of the Inspector General, and the Office of General Counsel. We also spoke with HUD officials in HUD’s Office of the Inspector General, Southwest District. We interviewed officials and reviewed documentation from HUD’s New Orleans Office, Region VI, and Office of Public Housing, and from consultants and contractors. Our discussions and data-gathering activities focused on HUD’s oversight of HANO’s management.

We also visited New Orleans to discuss HANO’s operational problems with members of the transitional management team, the executive director, and other key management officials. To observe conditions and gain perspective on HANO’s problems, we visually observed the HANO developments. This report is based on work we conducted from March 1995 through March 1996 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days after the date of this letter. At that time, we will send copies of this report to the appropriate Senate and House committees; the Secretary of HUD; and the Director, Office of Management and Budget. We will make copies available to others on request.
Please call me at (202) 512-7631 if you or your staff have any questions. Major contributors to this report are listed in appendix III.

Sincerely yours,

Judy A. England-Joseph
Director, Housing and Community Development Issues
## Appendix I

### Time Line of Events Related to HUD's Oversight of the Housing Authority of New Orleans

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>June 26, 1979</td>
<td>HUD designates HANO as troubled for the first time. From 1979 to the present, HANO remains on HUD's troubled list, where it is currently ranked as the lowest performing large housing authority.</td>
</tr>
<tr>
<td>Oct. 7, 1988</td>
<td>HUD releases a Comprehensive Management Review of HANO containing 241 findings; many are similar to the issues raised in a 1983 OIG report.</td>
</tr>
<tr>
<td>Oct. 27, 1988</td>
<td>HUD and HANO enter into a memorandum of understanding requiring HANO to contract with a private firm to manage the housing authority's day-to-day operations.</td>
</tr>
<tr>
<td>Sept. 9, 1991</td>
<td>HUD issues a Limited Denial of Participation to every member of HANO’s board of commissioners for inappropriately interfering with HANO’s day-to-day operations. New Orleans’ Mayor and HUD agree that the Mayor should appoint a new board.</td>
</tr>
<tr>
<td>Mar. 1993</td>
<td>HUD pressures HANO’s board chairman into resigning because he interfered with and impeded the private manager’s efforts to manage the housing authority.</td>
</tr>
<tr>
<td>June 29, 1994</td>
<td>HUD’s OIG releases an audit report of HANO stating that HANO is in breach of its contract with HUD to provide decent, safe, and sanitary housing because all 150 housing units chosen at random failed to meet housing quality standards.</td>
</tr>
<tr>
<td>Oct. 1, 1994</td>
<td>HUD’s Secretary enters into a partnership with New Orleans’ Mayor to avoid declaring HANO in breach of its contract. The partnership states that HANO will hire an executive director and develop a strategic plan with performance targets detailing management improvements.</td>
</tr>
<tr>
<td>Dec. 11, 1995</td>
<td>HUD’s Secretary agrees to declare HANO in breach of its contract and take control of the housing authority and its properties.</td>
</tr>
<tr>
<td>Feb. 8, 1996</td>
<td>HUD’s Secretary declares HANO in breach of its contract and enters into a cooperative endeavor agreement with the Mayor.</td>
</tr>
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</table>

**Legend**

HANO = Housing Authority of New Orleans
HUD = Department of Housing and Urban Development

OIG = Office of the Inspector General
Appendix II

Comments From the Department of Housing and Urban Development

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

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

APR 16 1996

Ms. Judy A. England-Joseph
Director
Housing and Community Development
Issues
The U.S. General Accounting Office (GAO)
Washington, D.C. 20548

Re: Public Housing: HUD Take Over the Housing Authority of New Orleans (GAO/RCED-96-XX, Code 353618)

Dear Ms. England-Joseph:

This is in response to the telephone inquiry made by Ms. Carol Anderson-Gutherie on March 14, 1996, to the Office of Troubled Agency Recovery (OTAR), who were on duty at the Housing Authority of New Orleans (HANO).

It was requested that HUD provide written comments on the above draft report within thirty days. It should also be noted that on several prior occasions, the GAO staff have been in contact with HUD's headquarters operations and conducted site visits, telephone calls, and interviews during which they obtained access to file documentation and verbal accounts of the Department's initial HANO intervention.

The attached written comments and enclosures represent an update to information previously supplied by HUD on the subject of HANO and the Department's involvement, which the GAO draft report covers in part.

If you or your staff have any further questions, please contact, Ms. Gloria J. Cousar, Acting Director of OTAR and the Department's recovery operations for public housing. Ms. Cousar can be reached at (202)708-0614, extension 4151.

Sincerely,

Michael B. Janis
General Deputy Assistant Secretary

Enclosures
Appendix II
Comments From the Department of Housing and Urban Development

Draft Report: GAO/RCED-96-IX, Code 385618 - Written HUD Comments

In recent months, the Department of Housing and Urban Development (HUD) has taken more intensive action to accelerate improvements and problemsolving measures for the troubled Housing Authority of New Orleans (HANO). HUD’s involvement with the recovery of HANO since October 1, 1994 stands in marked contrast with all prior responses by the Department under previous Administrations, and has to date yielded measurable improvement that was confirmed by an independent review of HANO’s performance during FY’1995.

During the time that a HUD-appointed stabilization team served as an interim executives directing the agency’s day-to-day management, HANO’s Public Housing Management Assessment Program score (28.75) rose by 25% over its lowest score from the previous year (23.18). We know from the past experience that such a result is an indication that our stabilization efforts were in fact working to arrest key management failures. In the same ten month period that the team was in place, HANO was able to nationally recruit and hire qualified permanent staff to reconstitute its internal executive management capacity by the beginning of FY’96. While not insignificant, HUD’s technical assistance to HANO during this time was not on as large a scale as recovery activities that were underway for other large troubled agencies, for example in Philadelphia, Detroit, Kansas City and the District of Columbia.

It should be noted that the major objectives of HUD’s transitional assistance to HANO during the year: 1) agency stability from further performance decline and 2) national recruitment and permanent hiring of a qualified team to direct critical agency functions, were in fact attained, but not in as timely a fashion as initially projected. From the year-long stabilization experience, it became clear to both the HUD Secretary and to Mayor Morial that more aggressive and accelerated improvement was needed to offset the continuing physical deterioration of HANO’s housing stock. Moreover, both the Secretary and the Mayor recognized that swifter progress would not be possible without setting aside the protracted monthly deliberations of a conventional Board of Commissioners, in favor of a HUD-controlled Board that would meet biweekly. It was also concluded that faster recovery was impeded by remote communications with HUD, and that HUD field office needed to interact on a more targeted basis to address HANO issues. Aside from these concerns, the parties also agreed that extensive needs for human development and economic uplift among HANO’s resident population, as well as, help to secure resident advisory involvement with HANO’s recovery, exceeded the capacity of existing agency staff to provide. (Note that fully 10% of the city’s total population reside in public housing and are predominantly households in poverty).
For these and other important reasons, the Department chose to enter a new partnership with Mayor Norial in February 1996, by which HUD’s involvement and technical assistance would increase, by which the Board of Commissioners have resigned and become advisors, and by which Mr. Ronald Mason-Senior Vice President of Tulane University, serves as a fulltime volunteer Executive Monitor. These steps were jointly embraced by HUD, HANO’s former Board including resident leaders, and the City in order that site and housing conditions constituting a default under HANO’s Annual Contributions Contract (ACC) would be more rapidly alleviated.

In the weeks following the execution of a Cooperative Endeavor agreement between HUD and the Mayor on behalf of HANO, several important initiatives have been completed and are fully underway that provide increased momentum and positive results towards an accelerated HANO recovery. A 20% reduction in maintenance workorder backlogs, approval of HANO’S operating budget and Comp Grant programs to get underway, new security improvements, an all-conventional site Spring clean-up campaign, submissions of demolition applications for nearly 2800 units, selection of the HOPE VI Desire program management firm, and adoption of a more streamlined personnel framework, are either completed or near completed. Also underway is a comprehensive viability assessment to support project-based asset management, budgeting and capital improvements, as well as the preparation of a 24 month long-term recovery plan whose implementation will start May 1, 1996.

These Cooperative Endeavor initiatives are the subject of a 120-day Action Plan (developed and approved in less than thirty days) that is being implemented through a collaboration of HANO staff, assisted by the Anderson Consulting Group (under a technical assistance contract to HUD), and an on-site target team of HUD staff, who now provide the direct field support at HANO on a daily basis. With the start-up of a long-term recovery plan for HANO this May, the HUD technical assistance effort will focus more intensively on the deeper causes of the agency’s problems.

In the Department’s view, HANO difficulties did not simply originate from a systematic neglect of modernization, capital planning and redevelopment needs, and a resulting crisis and breakdown of maintenance. While HUD agrees that maintenance and modernization problems represent HANO’s most visceral issues, it is important to identify what lies behind these apparent symptoms of agency dysfunction. HANO has suffered in previous years from diminished technical capacities, voids and instability of its executive leadership, a uniquely challenging environmental setting (Termite/rodent infestation, extensive lead-paint, asbestos, flooding and hurricanes, etc.), poorly designed and built stock from an segregation era, highly concentrated poverty populations who have been victimized by arguably the highest violent crime rates for a major city over the last five years, an overly centralized management organization, State civil service barriers to the upgrading of worker compensation and skill-
levels, limited automation of management information systems, and an inadequate procurement and contracting capability.

Undoing and correcting HANO's dysfunction requires an augmented capability, which HUD has now brought together with cooperation from the City, for both re-engineering the agency and its business processes, and for transforming public housing. Distressed housing transformation is now proceeding on the basis of an accurate determination of asset viability. A follow-up exercise that begins shortly and will be completed this summer involves project-based HANO's budget and property management to bring about improved fiscal accountability and maintenance performance. As a result of these activities, HANO will determine the inhouse strengths of its staff and improve the administrative and financial systems they must use to deliver services. As a result, HUD anticipates HANO to be in a position by October 1, 1996 to incorporate privatization measures for those needs which exceed the agency's inhouse strength and capability.

HUD also recognizes that these long-range objectives (which go to the heart of HANO's recovery) are affected by three significant parameters. These include 1) the reduction and limitation of public housing funding in relationship to need, 2) the necessity to lower the density of public housing settings that perpetuate social ills, and 3) the urgency for results stemming from the ongoing substandard condition of HANO's housing stock.

In the last three weeks, HANO has made important production strides on its backlogged modernization needs. Comp Grant schedules and budgets have been revised and approved, and related RFPs to obligate and contract funds are commencing. Moreover, increased design and planning work are underway, including HOPE VI program management, and concerted attention is being given to resolving stalled projects and settling contractor disputes. HANO staff are moving swiftly ahead with HUD technical help and collaboration to revamp its management and maintenance functions in the next several weeks, on the basis of completing an assessment of these functions and deriving a chart of accounts for project-based budgeting.

On an especially positive note, a recently completed assessment of HANO's Section 8 program operations identifies what are many model features of a well-run program, by comparison with other large Section 8 programs at non-troubled agencies. As cited by the technical reviewers from an exit report dated March 28, 1996, HANO Section 8 staff..."admit eligible families in the correct order from the waiting list, respond appropriately when they find HQS deficiencies in the proposed and leased units, do (and document) rent reasonableness correctly both initially and when owners request rent increases, and calculate HAP payments correctly."
While each of these hopeful signs does not dispel that HANO is still a very troubled agency, this information does substantiate a positive shift toward agency recovery and new momentum that supports the acceleration of problem solving improvement. In light of such, HUD does not agree that receivership is the best present course for HANO. Rather, staying the course of partnership, in the Department’s view, currently represents the most workable avenue to deal with HANO’s remaining difficulties in order to fulfill the public housing mission in New Orleans.
# Appendix III

## Major Contributors to This Report

<table>
<thead>
<tr>
<th>Resources, Community, and Economic Development Division</th>
<th>Eric A. Marts, Assistant Director</th>
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<tbody>
<tr>
<td></td>
<td>Carol Anderson-Guthrie, Evaluator-in-Charge</td>
</tr>
<tr>
<td></td>
<td>Kirk Menard, Senior Evaluator</td>
</tr>
<tr>
<td></td>
<td>Terri Russell, Evaluator</td>
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