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Washington, DC 20548

Resources, Community, and
Economic Development Division

B-285279

June 6, 2000

The Honorable Harold E. Ford, Jr.
House of Representatives

Subject: The Status of Major HUD Funding Awarded to the Memphis Housing Authority

Dear Mr. Ford:

The Memphis Housing Authority (MHA), like other housing authorities around the country, annually enters into a contract with the Department of Housing and Urban Development (HUD) through which HUD agrees to provide funding for MHA to provide low-income persons with housing that is decent, safe, and sanitary—MHA's primary mission. MHA, in turn, agrees to manage the housing in accordance with the contract's provisions. In January 1997, HUD's Office of the Inspector General (OIG) recommended that HUD declare MHA in violation of its contract with HUD because the housing authority was not fulfilling its primary mission. The OIG stated that MHA was not fulfilling this mission because its "buildings, grounds, and individual dwelling units are in extremely poor condition" because of age and because MHA had not effectively maintained or modernized its developments.¹

HUD declined the OIG's recommendation to declare MHA in violation of its contract, instead choosing in early 1998 to enter into a performance agreement with MHA. The agreement, which took effect in July 1998, set broad goals for the authority, including time lines and specific benchmarks for improving the overall operation of the authority as well as for addressing the problems that the OIG identified. However, because of significant turnover among the authority's top management, MHA made little progress toward meeting the terms of the agreement. In February 1999, MHA hired a new executive director; shortly thereafter, the new executive director initiated discussions with HUD to renegotiate the terms of the agreement to better reflect his plans for improving MHA's performance. In April 2000, HUD and MHA entered into a binding memorandum of agreement replacing the March 1998 performance agreement.

¹See *Memphis Housing Authority, Memphis, Tennessee*, HUD District Inspector General Southeast/Caribbean District (97-AT-201-1001, Jan. 13, 1997).

Because of your interest in MHA's performance and because the authority's use of HUD funds has been and will remain an essential part of improving conditions at the authority, you asked us to report on the status of MHA's use of these funds. As agreed with your office, this report (1) presents information on MHA's receipt of funds from HUD's Comprehensive Grant,² HOPE VI, and Public Housing Drug Elimination programs from fiscal year 1994 through fiscal 1998³ and (2) compares MHA's draw down of funds from these programs with that of three other public housing authorities that are similar in the number of housing units they manage and the amount of Comprehensive Grant, HOPE VI, and Public Housing Drug Elimination funds that they received from HUD.⁴ We selected these three programs because they represent some of the most significant resources that MHA will depend on to improve the physically deteriorated conditions that the OIG identified (Comprehensive Grant and HOPE VI) and at the same time address some of the nonhousing needs of its residents (Drug Elimination).

In summary, we found the following:

- From fiscal year 1994 through fiscal 1998, HUD awarded MHA about \$64.5 million in Comprehensive Grant funds, about \$52.7 million in HOPE VI funds, and about \$8.6 million in drug elimination funds, for a total of about \$126 million.
- Of the Comprehensive Grant and HOPE VI funds awarded to MHA from fiscal year 1994 through fiscal 1998, the authority drew down a smaller proportion of funds than the other three public housing authorities by the end of fiscal 1999. For example, MHA drew down 50 percent of the Comprehensive Grant funds and 17 percent of HOPE VI funds awarded during this period. In contrast, the three other housing authorities—on average—drew down 74 percent of their Comprehensive Grant and 39 percent of their HOPE VI awards. Of the drug elimination funds awarded to MHA from fiscal year 1994 through fiscal 1998, the authority drew down a proportion of funding similar to that of the three other authorities by the end of fiscal 1999.

Background

MHA receives several grants from HUD. Once HUD awards grant funds to housing authorities, the funds are available to them upon request to be drawn down;

²Pursuant to recent public housing reform legislation, HUD has consolidated various modernization programs, including the Comprehensive Grant Program, into a single Capital Fund Program for which all housing authorities are eligible to participate.

³Significant data for fiscal year 1999 awards are not currently available because HUD made these awards in late fiscal 1999 and early fiscal 2000. Therefore, we limited our inquiry to data from fiscal year 1994 through fiscal 1998. The status of funds awarded for these 5 fiscal years, however, is available up to the end of fiscal 1999.

⁴The housing authorities that we compared MHA with are those in Nashville, Tennessee; San Antonio, Texas; and Seattle, Washington.

specifically, a housing authority is responsible for contacting HUD and requesting that HUD disburse all or part of the awarded funds to the housing authority on a 3-day turnaround basis.⁵ Once a housing authority draws down funds, it then uses the funds to pay for the various eligible invoiced activities that each program supports. The three HUD programs highlighted in our review are the Comprehensive Grant, HOPE VI, and Public Housing Drug Elimination programs. Table 1 shows the housing authorities that we compared with MHA, their size, and the total funding that HUD awarded to them from these three programs from fiscal year 1994 through fiscal 1998.

Table 1: Statistics of Selected Public Housing Authorities

PHA	Public housing units	Total funding awarded from FY 1994 through FY 1998		
		Comprehensive grant (modernization)	HOPE VI	Drug elimination
Memphis, Tenn.	6,243	\$64,536,581	\$52,705,049	\$8,570,090
Nashville, Tenn.	6,261	52,100,490	13,963,876	8,147,290
San Antonio, Tex.	6,809	68,072,270	98,581,070	7,412,905
Seattle, Wash.	6,303	68,882,394	66,325,953	8,196,242

Legend

FY = fiscal year

Through the Comprehensive Grant Program, HUD makes funds available to public housing authorities--on a formula basis--to correct physical and management deficiencies and keep its housing safe and desirable. This program is commonly known as *the modernization program*. As table 1 illustrates, HUD awarded the four housing authorities similar amounts of modernization funding from fiscal year 1994 through fiscal 1998.

Through the HOPE VI program, HUD awards competitive grants to rehabilitate the most distressed public housing developments in the nation. The grants are used by housing authorities for three general purposes: physical improvements (including construction), management improvements, and social and community services to address residents' needs. Because housing authorities must compete for HOPE VI funds and typically do not receive grants from the program annually (as they do from the formula-driven modernization program), the amounts that HUD awards to authorities each year fluctuate greatly. HUD did not award comparable amounts of funding annually to each of the four authorities from fiscal year 1994 through fiscal 1998. However, the HOPE VI grants that HUD awarded these authorities have general similarities. For instance, all of the authorities received one to three small grants as well as one or two large grants during this 5-year period.

Through the Public Housing Drug Elimination Program, HUD made funds available on a competitive basis to public housing authorities to combat drug use and drug-

⁵That is, the housing authority must have an invoice and need to pay that invoice within 3 days in order to request a disbursement from HUD.

related crime.⁶ As table 1 illustrates, HUD awarded the four housing authorities similar amounts of drug elimination funding from fiscal year 1994 through fiscal 1998.

Memphis Housing Authority Has Drawn Down Less Than Half of Its Awarded Funds

By the end of fiscal year 1999, MHA drew down about \$48 million (or 38 percent) of the \$126 million in modernization, HOPE VI, and drug elimination funds awarded by HUD to the authority from fiscal year 1994 through fiscal 1998. Almost 80 percent of the funds drawn down by MHA have been used by the authority in the following ways:

- About \$26 million was from MHA's annual modernization grants and paid for building or acquiring dwelling structures, expanding existing dwelling units, or converting unused space into residential units.
- About \$6 million was from its HOPE VI grants and paid for family relocation and demolishing distressed buildings.
- About \$6 million was from its drug elimination grants and paid for the reimbursement of law enforcement and the employment of investigators.

Table 2 shows the modernization, HOPE VI, and drug elimination funds awarded annually to MHA from fiscal year 1994 through fiscal 1998 and the remaining balances of these awards at the end of subsequent fiscal years.

⁶Beginning with awards of the fiscal year 1999 funds, HUD replaced the competitive distribution of drug elimination funds with a formula-based allocation funding system.

Table 2: Memphis Housing Authority Authorized Amounts and Fiscal Year End Balances of Three HUD Programs

HUD program	Fiscal year of award	Authorized amount	FYE 1995 balance	FYE 1996 balance	FYE 1997 balance	FYE 1998 balance	FYE 1999 balance
Modernization	1994	\$14,831,217	\$14,825,725	\$13,425,700	\$11,645,920	\$297,961	\$0
	1995	14,039,752			13,245,594	10,224,118	1,515,421
	1996	11,659,770			11,426,294	10,578,656	8,635,615
	1997	11,691,495				10,061,087	10,011,333
	1998	12,314,347					12,306,181
Subtotal		\$64,536,581	\$14,825,725	\$13,425,700	\$36,317,809	\$31,161,821	\$32,468,550
HOPE VI	1994 (p)	481,000	396,688	91,868	84,312	0	
	1995 (p)	400,000		370,522	22,435	0	
	1995 (i)	47,281,182		46,930,448	46,430,536	44,760,626	43,756,150
	1996 (i)	4,542,867				375,477	0
Subtotal		\$52,705,049	\$396,688	\$47,392,838	\$46,537,283	\$45,136,103	\$43,756,150
Drug Elimination	1994	1,741,759	1,386,964	590,154	82,440	0	
	1995	1,752,750		1,648,564	852,432	0	
	1996	1,733,281			1,611,803	407,103	0
	1997	1,821,300				1,382,967	481,079
	1998	1,521,000					1,337,666
Subtotal		\$8,570,090	\$1,386,964	\$2,238,718	\$2,546,675	\$1,790,070	\$1,818,745
Cumulative total		\$125,811,720	\$16,609,377	\$63,057,256	\$85,401,766	\$78,087,994	\$78,043,445

Legend

FYE = fiscal year end

(i) = implementation grant

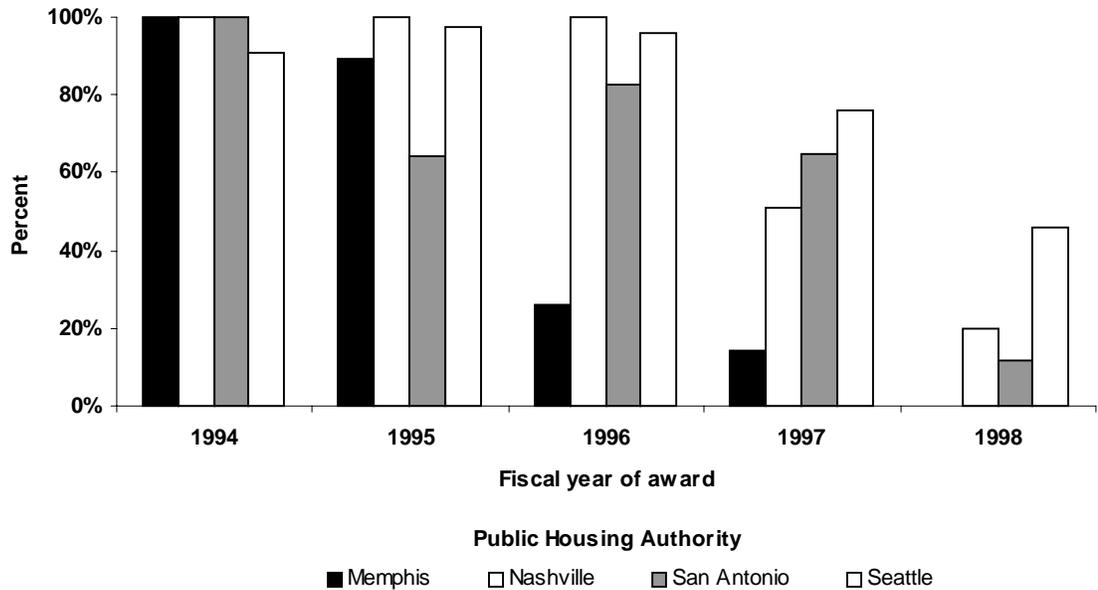
(p) = planning grant

Note: Funds awarded during fiscal year 1994 through fiscal 1998.

Memphis Housing Authority Drew Down a Smaller Proportion of Its Modernization and HOPE VI Funds Than Three Other Authorities Did

As shown in figure 1, MHA has been noticeably slower in its draw down of modernization funds than the three other housing authorities, particularly for the last 3 years for which we obtained data.

Figure 1: Percentage of Housing Authorities' Modernization Funding Drawn Down by End of Fiscal Year 1999



By the end of fiscal year 1999, MHA had drawn down 50 percent of the modernization funds awarded from fiscal 1994 through fiscal 1998, while the three other housing authorities—on average—had drawn down 74 percent during this period.

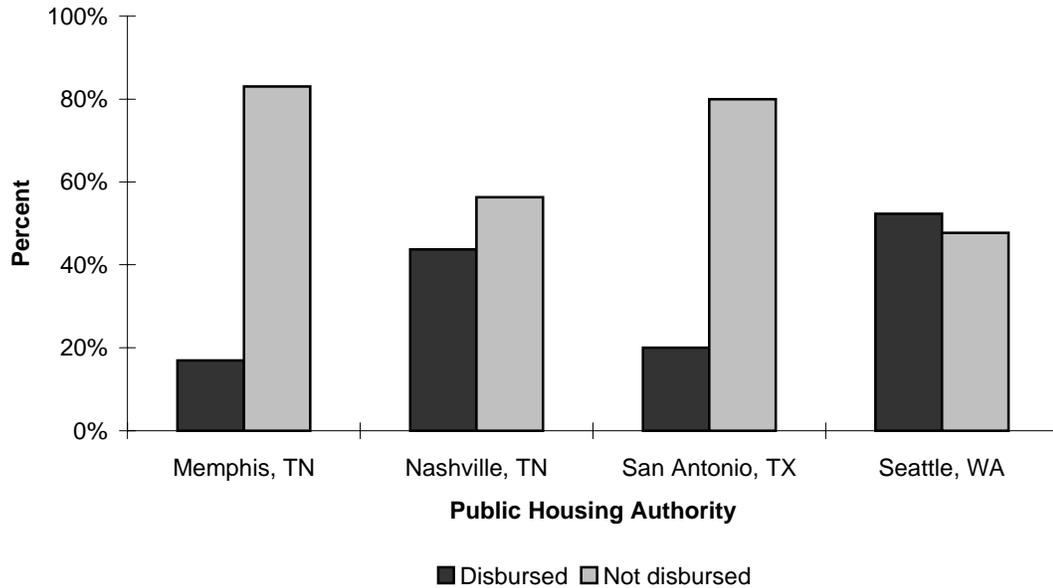
The years during which MHA drew down a smaller proportion of its modernization funds than comparable housing authorities did partially coincided with the OIG's review that ultimately recommended that HUD declare the authority in violation of its contract. Regarding Memphis' use of modernization funds, HUD's OIG specifically found that "it takes the Memphis housing authority an exorbitant amount of time to complete renovation activity after it receives funding." A subsequent review by the U.S. Army Corps of Engineers found that MHA continued to have difficulty expediting its use of modernization funds in the years following the OIG's report. In October 1999, the Corps of Engineers reported that the authority was not obligating these funds in a timely manner.⁷

During the fiscal year 1994 through fiscal 1999 period, MHA drew down 17 percent of the HOPE VI funds awarded to the authority from fiscal year 1994 through fiscal 1998. As figure 2 illustrates, the proportion of the awarded funds that MHA drew down is only comparable to that of the San Antonio Housing Authority and is much less than the proportion drawn down by the housing authorities in Nashville, Tennessee, and Seattle, Washington. Specifically, by the end of fiscal year 1999, the three other

⁷Physical Inspection and Contract Administration Review of the Modernization Program at the Memphis Housing Authority, U.S. Army Corps of Engineers Work Order No. TTN-1 (Oct. 5, 1999).

housing authorities—on average—had drawn down 39 percent of their awards during this period.⁸

Figure 2: Percentage of HOPE VI Program Funding Awards Fiscal Years 1994-98 Drawn Down by End of Fiscal 1999



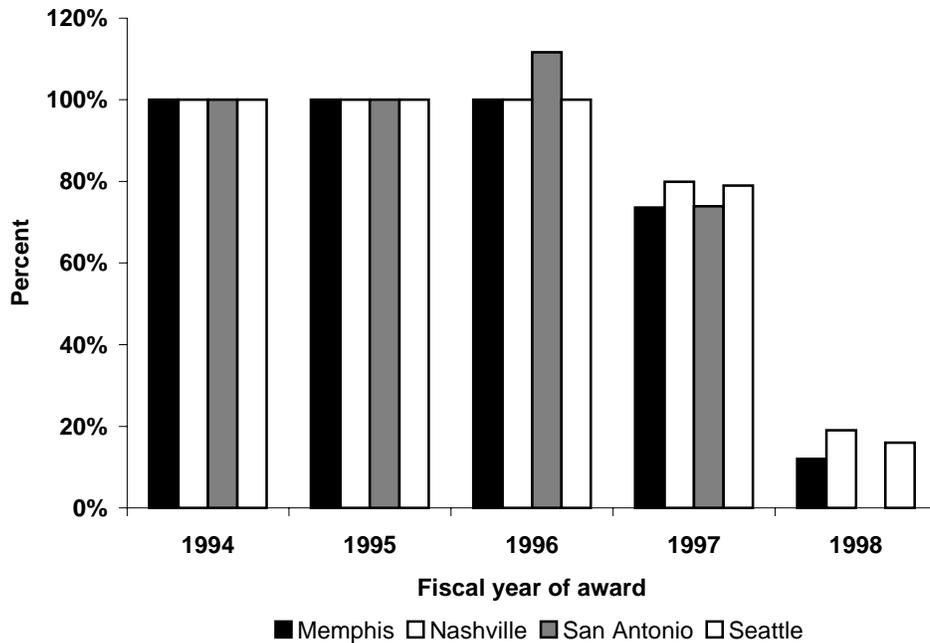
Although HUD established the HOPE VI program in 1993, grant agreements and funding were not available to housing authorities until fiscal year 1995. In July 1998, we reported that a large share of the HOPE VI grant funds awarded from fiscal year 1994 through fiscal 1998 remained to be drawn down across all public housing authorities. We attributed this delay to the lag time between planning and construction as well as unique site-specific delays.⁹

For the years for which we obtained data, MHA drew down a proportion of drug elimination funds similar to that of the other three housing authorities, as figure 3 illustrates.

⁸In commenting on a draft of this report, HUD stated that since MHA hired a new executive director in February 1999, significant activity has taken place in MHA's HOPE VI implementation and planning process.

⁹See *HOPE VI: Progress and Problems in Revitalizing Distressed Public Housing* (GAO/RCED-98-187, July 20, 1998).

Figure 3: Percentage of Housing Authorities' Fiscal Years 1994-98 Drug Elimination Funding Drawn Down by End of Fiscal 1999



Note: HUD does not adjust its disbursement data to reflect funds that public housing agencies return to HUD; therefore, in some cases (e.g., San Antonio in fiscal year 1996), the amount of funds "disbursed" by HUD is greater than the amount originally awarded.

Agency Comments

We provided HUD with a draft copy of this report for review and comment. In commenting on the draft, the Deputy Assistant Secretary for HUD’s Office of Troubled Agency Recovery advised us of HUD’s position that it expects to see a marked improvement in MHA's expenditure of funds as a result of the actions MHA's new executive director has taken, including entering into the memorandum of agreement with HUD. HUD plans to monitor MHA's progress monthly in meeting the terms of the agreement and expects to see, in addition to improvements in MHA's use of funds, a significant overall improvement in the condition of the authority. Because of MHA's history of troubled performance as documented by HUD’s OIG, we believe that such monitoring by HUD would be beneficial. HUD also provided several technical changes and clarifications to the report, which we made, as appropriate.

Scope and Methodology

We compared MHA's use of modernization, HOPE VI, and drug elimination funds awarded by HUD from fiscal year 1994 through fiscal 1998 with that of three similar housing authorities. We selected these three grant programs because (1) HUD awarded a large amount of funding to MHA during the period of inquiry via these three programs and (2) sufficient data were available among the four housing

authorities. We obtained the data from HUD's Line of Credit and Control System database.

Our analysis covered the amounts that HUD had authorized for each housing authority from the grant programs and the amounts that each housing authority had drawn down. For the analysis of the financial data on the modernization and drug elimination programs, we compared the annual draw down of funds by each authority because HUD awarded comparable grants to these authorities during each fiscal year. For the analysis of the HOPE VI financial data, we compared the total amount awarded during the fiscal year 1994-98 period; we carried out the analysis in this manner because HUD did not award comparable amounts to each authority during each fiscal year. However, the HOPE VI grants awarded to the four housing authorities during this period have general similarities. Specifically, all of the authorities received one to three small grants as well as one or two large grants during this 5-year period.

We supplemented this analysis with information that we obtained from MHA, HUD officials, HUD's Office of Inspector General, and our reviews of background and other pertinent program information.

We conducted our work from October 1999 through June 2000 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce this report's contents earlier, we plan no further distribution of the report until 15 days from the date of this letter. We will then send copies to the Honorable Andrew Cuomo, Secretary of Housing and Urban Development. We will also make copies available to others on request.

Please contact me at (202) 512-7631 if you or your staff have any questions about this report. Key contributors to this report were Anne Cangi, Bill MacBlane, and Eric Marts.

Sincerely yours,



Stanley J. Czerwinski
Associate Director, Housing, Community Development,
and Telecommunications Issues

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