

Operational Assessment of the Housing Authority of New Orleans

Submitted to:
The U.S. Department of Housing and Urban Development



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**OPERATIONAL ASSESSMENT OF
THE HOUSING AUTHORITY OF NEW ORLEANS**

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INTRODUCTION

It might seem odd to characterize a report so full of criticism as "good news" but in the broad context of our assignment, that would be quite appropriate. Our task was to complete an across-the-board assessment of the functionality of the Housing Authority of New Orleans. The result of that assessment is embodied in this report. However, the assessment was intended to be a first step in a much larger effort - the ultimate and permanent restoration of HANO as a competent, efficient, well-functioning provider of low income and affordable housing in the City of New Orleans. The good news here is that, in this larger context, there is nothing in what we found to suggest that that objective isn't achievable, and within a reasonable time. In fact, based upon our experience working to rejuvenate troubled public housing programs, it is our view that HANO is eminently "fixable."

The characterization of HANO as a poorly functioning organization dates back to 1977. Its reputation for mismanagement has received highly visible coverage in the New Orleans and national press for years. Along with a small number of other high profile troubled public housing programs, HANO helped foster the unfortunate and undeserved public perception of public housing as a poorly managed government program. As others with whom it shared that responsibility improved, HANO has continued to stand among the few agencies in the country still unable to manage its own affairs. The cyclical impact is clear both in how HANO is viewed in the city and how its employees view themselves and their employer; the city's expectations of HANO are low so HANO delivers on low expectations. HANO's employees feel beleaguered by the negative reputation that plagues them and the agency, so their performance reflects the resulting low morale. At the same time, HANO can be proud of many employees who but for the lack of leadership, performance standards, and direction could achieve at a much higher level. That, too, is very good news.

Over the next few months, HUD will develop a strategy to address the findings contained in this report in order to restore HANO to full functionality and eventually return governance to the City of New Orleans. To accomplish these ends, that strategy will need to include these considerations that, in our view, are central to the nature of a healthy, functional organization.

- A clear, well-defined mission.
- A well-formulated business and operation plan.
- Competent, experienced and visionary leadership.
- Formally approved and published operating and performance standards and policies.
- A streamlined organizational structure to facilitate an efficient chain of command and operating procedures.
- Transparency and accountability at all levels.

- Adequate number of skilled and motivated employees and a personnel system to recruit and support them.
- Consistent and capable direction and leadership at all levels.
- Clearly defined and uniform work methods, procedures, and policies.
- Adequate resources, materials, tools, and equipment.
- Financial management systems that support the organization's purposes.
- Information management systems and communications to integrate the organization.
- Resident services and support.
- Integration into the fabric of the life of the city.

In summary, the work that will be required to re-establish HANO as a quality provider of affordable housing in New Orleans can be described in two ways. First, there is the array of management and organizational repairs that must be accomplished to restore the agency to full functionality. Second, and of equal importance, is the need to re-establish the connection between HANO as a government program to the daily life of the City of New Orleans. For a very long time, HANO has been isolated from the rest of the city in the decisions it makes and the activities it undertakes. Consequently, it is not possible for HANO to do its best work and it is not possible for the city to make the best use of what HANO has to offer. To restore this agency to full capacity but fail to accomplish that reconnection would, in the long run doom HANO to repeat its unfortunate history.

METHODOLOGY

The Administrative Receivership Team undertook the following activities during the 90-day assessment period:

- Reviewed laws, regulations, internal policies and procedures, previous audits and reviews, and other documents related to each area of HANO's operations. Information obtained from the review was used to strengthen our understanding of legal and regulatory requirements, staff workload requirements, staffing levels, and core processes.
- Reviewed position descriptions and compared them to industry standards and actual responsibilities.
- Reviewed and analyzed relevant Housing Choice Voucher documentation including: HANO's Five Year/Annual Plan, Administrative Plan and any other policy documents; any procedural documents and forms currently in use by HANO, including desk manuals, quality control procedures and the like; reports HANO has received from HUD, such as the SEMAP report; and HANO-developed management reports, such as utilization reports.
- Reviewed HANO's Strategic Plan, the delivery schedule for all units, and the extent to which the Plan addresses the specific housing needs of public housing eligible households by household type and need.
- Reviewed HANO's most recent physical needs assessment, estimated modernization costs, and the Capital Needs report in the Annual and Five Year Plans. A review of the obligation and expenditure status of all capital funds was also undertaken.
- Reviewed laws, regulations and internal documents related to the acquisitions of goods and services at HANO including chapter 24 of the Code of Federal Regulations, HUD Handbook No. 7460.8 Rev 2, and internal policies and procedures.
- Selected and reviewed a statistically relevant sample of acquisitions over the past three years in order to determine HANO's level of compliance with existing laws, regulations, and policies and procedures.
- Requested and reviewed additional data from HANO, including but not limited to data related to the Authority's existing organizational structure and staffing, payroll and human resources, contracting and vendor payments, operating policies and procedures, property management reports, REAC scores, development plans, funding plans, PIC data, VMS submissions, financial records, audit reports, information technology plans and other documents, supply and inventory data, resident services and other available internal data.
- For our Maintenance Assessment, we reviewed HANO information provided to the team which included Annual Workload Volume: Emergency, Urgent, Routine, PM, and All Other from FY2003-Present; Maintenance Procedures/ Operating Instructions; Maintenance

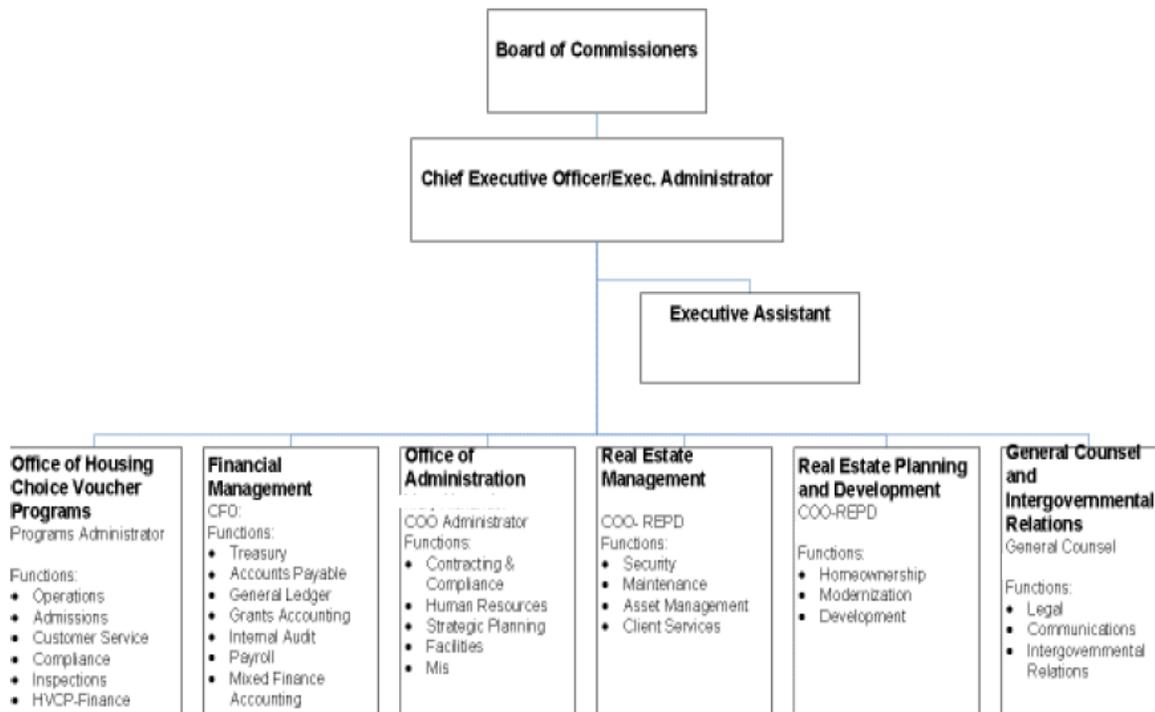
- Reviewed and analyzed third party documentation including reports prepared by the HUD OIG, Southeast Louisiana Legal Services, Greater New Orleans Community Data Center and the Greater New Orleans Fair Housing Action Center.
- Conducted site visits at all of HANO's conventional public housing communities, redevelopment projects and most scattered site properties.
- Conducted interviews with staff in all areas of operations and administration to understand assigned duties and responsibilities, gauge staff workload requirements, evaluate staff skills and experience in relation to job assignments, and understand core processes in all functional areas of HANO operations and administration.
- Interviewed contractors and other third parties such as developers, lenders and staff at privately-managed properties.
- Attended a kick-off meeting in New Orleans on November 2, 2009 to introduce the Administrative Receiver and his team, clarify the objectives of the 90-day assessment, and meet with HANO staff to get an overview of the Authority's activities and information sources.
- Participated in regular meetings with HANO staff either in person or via conference call, including weekly meetings concerning HANO's ARRA obligation performance and the progress of various development projects.
- Participated in meetings and conference calls with HUD officials.
- Participated in Administrative Receivership Team meetings and conference calls to review preliminary findings of assessments of functional areas; and reviewed interdependencies of department functions.
- During the course of this assessment, team members met with and received input from resident leaders and external stakeholders such as Advisory Panel members, local elected officials and their staff, and members of the local business and advocacy communities.

NOTE: Due to extensive problems with HANO's internal recordkeeping and reporting systems, all figures cited herein are subject to revision.

ORGANIZATION, STAFFING AND HUMAN RESOURCES

Current Conditions

Excluding members of the Administrative Receivership Team, HANO has 180 employee positions (with 159 filled) and numerous contractors on-site on at least a half-time basis, spanning seven departments. Prior to the current Administrative Receivership, HANO’s organization was as follows:



The organizational structure has largely remained the same under the current Administrative Receivership, with the addition of a Deputy General Manager for Administration and a Deputy General Manager for Operations, each of whom would be directly under the Chief Executive Officer on the chart.

Prior to 2008, HANO employees were members of the Louisiana Civil Service. In a Determination dated April 15, 2008, then-HUD Secretary Alphonso Jackson ordered that HANO be exempt from Louisiana Civil Service laws and rules, except for those relating to civil rights. In addition, there are no collective bargaining agreements in place.

The Human Resources Department consists of two HR Specialists. One specialist was recently transferred from another department and has no HR experience. The other employee has some knowledge of HR tasks as they pertain to data entry into the ADP Human Resources Information System (HRIS). Her prior experience in the Payroll Department equipped her with

this skill. These two specialists are supervised by the Chief Operating Officer for Administration (COO/A), who has the following departments reporting to her through a director: Strategic Planning, Contracts and Compliance, Management Information Systems and Facilities Management. There is no HR management representation in this organizational cluster. The COO/A assumed responsibility for Human Resources in September, 2008 and had no prior experience supervising this function. Two years ago, the department was staffed with nine (9) employees, including a director.

The hiring process involves several departments. The Department Director (hiring official) notifies the COO/A of the need to fill a vacancy or create a new position within their department. New positions are approved by the Executive Administrator or designee. The COO/A drafts the vacancy announcement/advertisement and sends it to the Communications Department for review and external posting. The HR department is brought into the process when they observe applications being submitted or, when inquiries are made in response to vacancy announcements. The HR staff receive the applications and resumes and forward copies to the department director who schedules and conducts the interviews and makes the selection. The salary is determined by the COO/A.

Upon receipt of the Executive Administrator's approval of the hiring, the HR specialist conducts background checks, pre-employment tests and schedules the start date. The HR specialist conducts the new employee orientation and the department director conducts the departmental orientation. The new employee information is entered into the ADP HRIS by HR. Upon receipt of the approved hard copy hiring documents, Payroll abstracts the relevant information to create a payroll file.

Findings

1. Many departments within HANO are understaffed, resulting in an agency overly dependent on contractors.

Interviews with staff from several departments in HANO – Housing Choice Vouchers, Real Estate Management, and Real Estate Planning and Development in particular – confirmed the significant roles consultants play in HANO's daily activities. In fact, if the consultants were to cease providing services, activities within these departments would essentially come to a halt.

2. Those departments that are not understaffed still suffer from inappropriate staffing and improper or missing job descriptions.

A wide cross-section of position descriptions was reviewed including senior management to entry level positions. There is obvious misunderstanding between the categories of Job Responsibilities and Essential Job Duties as well as Qualification/Requirements and Competencies. The same performance statements are repeated in position descriptions at progressive levels. Some position titles do not match the duties and responsibilities that are outlined in the position description. The COO/A has the responsibility of developing and classifying position descriptions and determining the salary levels. The COO/A indicates she has

no classification training or experience but relies on similar positions within the organization or through research on the Internet. This practice creates inconsistencies and equity issues.

Job descriptions do not exist for numerous positions (e.g., the job descriptions for at least 11 positions within the Housing Choice Voucher Programs department do not exist, including the HCVP Director). For those job descriptions provided, some are obsolete and/or do not accurately reflect the actual or appropriate roles and responsibilities for the respective positions. In other cases, position titles do not reflect actual assignments and responsibilities (e.g., Asset Managers performing property management assistant functions).

3. HANO lacks a credible salary scale. Pay bands appear to have been created to reflect what currently exists, not what is appropriate.

One of the primary responsibilities of HR is to design, maintain and manage the administration of a pay structure that:

- is consistent with the overall mission of the organization;
- is internally equitable and externally competitive;
- ensures equitable pay for work requiring similar skills, effort, responsibility, education/training and working conditions; and
- is administered with consistency with regard to job evaluations, promotions and pay assignment.

In HANO's case, however, the pay bands that are affiliated with the various position descriptions bear little relation to the assigned salaries and the job functions associated with the respective positions. In fact, when pay bands were implemented many employees found themselves (perhaps not coincidentally) at the top of their respective bands. Others, however, were placed at a lower level with no cogent explanation, fostering an impression of inequity and arbitrariness.

The HR staff indicated that they have never seen an actual Salary Scale and that all salary is assigned by the COO/A. The Pay Scale document that was provided by the COO/A was labeled "Proposed FY2009 Staffing Chart". The document listed eighty-six (86) position titles and a corresponding pay range for each position – High and Low. The ranges spread from five thousand dollars (\$5,000) to forty-seven thousand dollars (\$47,000). There is no policy or procedure on salary determination and staffing. Simply put, the chart cannot be interpreted as a Salary Scale or Pay Plan. Positions are not classified into occupational series or grades and there are no pay factors to determine salary.

A comparison of the Staffing Chart and the Budgeted Position Listing was made and there was no definite pattern to discern any trend. Positions seemed to be grouped by department and not by occupation.

In addition, current HANO policy states that a merit increase may be recommended for employees who achieve at least a satisfactory rating in their annual performance reviews. This, of course, creates little incentive for an employee to perform at a higher level than simply satisfactory.

4. HANO lacks a position control system.

A position control system establishes the foundation for oversight of personnel operations by allowing an agency to have a formal mechanism to track positions that are created, filled, vacant, or abolished. An effective position control system allows an agency to accurately report on personnel activity, to determine the financial position of an agency's personnel budget, and to make informed management decisions concerning organizational and staffing changes.

5. HANO's performance evaluation system is outdated, cumbersome, and inapposite in many respects, resulting in cursory, unhelpful evaluations.

HANO continues to use the Louisiana State Civil Service Performance Planning and Review System for evaluating employees. The evaluation tool is a 10-page document with sections that may not apply to each position. Partially as a result of the overly cumbersome nature of the system, the completed evaluations that were reviewed had very little relevance to the actual work being performed by the employee. There were too many instances where the numerical rating did not match the written comment. Ratings seemed overly positive or uniformly neutral (there were many instances of employees receiving the same score in every performance category). These evaluations are of no benefit to the employee or the organization.

It is not unusual for supervisors to view the performance evaluation task as a daunting one. However, it is the role of the HR department to design a system that is as user friendly as possible without compromising its effectiveness. An effective performance management system should be a continuing process, not an activity restricted to the completion of a 10-page form on the employee's anniversary date. The systems can be designed to encourage supervisors to provide periodic performance feedback and progress toward performance goals that will help the process to be much less daunting.

6. The Human Resources Department suffers from a severe management deficit.

HR management involves a broad range of activities, which include recruiting and training the best employees, ensuring they are high performers, dealing with performance issues, ensuring that the HR practices conform to various regulations, and designing employee benefits and compensation to support organizational needs. The success of any organization depends a great deal on the performance of its employees. In HANO's case, the two employees assigned to the department lack the appropriate knowledge, skills and abilities to provide the required level of human resources support to the organization. The supervision of HR practice is at "arms length" and does not receive adequate attention and management. The COO/A is located in another area of the building and is often unavailable to answer questions or provide day-to-day guidance to the HR staff.

7. HANO suffers from a lack of ethics training.

Given the high profile ethical and criminal allegations against various past HANO officials, the agency's employees have been poorly served by lack of ethics education and training.

8. The policies and procedures outlined in HANO's Personnel Manual are generally adequate, but can be improved. Compliance with the Manual, on the other hand, is lacking.

In absence of Civil Service rules and any collective bargaining agreements, HANO's personnel practices have operated mainly under the rules outlined in its Personnel Manual. The policies and procedures outlined in this document are generally adequate, covering important compliance issues such as Equal Employment Opportunity, Family Medical Leave and Immigration Reform. However, throughout the Personnel Manual, reference is made to, and significant responsibility is placed on "Human Resources" and the "Human Resources Coordinator" as the enforcer and the advisor. There is no "Coordinator" position in the HR structure and neither of the two HR specialists possesses the requisite skill or authority to provide policy interpretation, guidance and enforcement. Interviews with personnel indicate that the organizational practices have not yet caught up with the provisions of the Personnel Manual, which was written recently.

The Personnel Manual serves as an important communication tool between the Agency and the employees. It sets forth expectations for the employees and describes what the employees should expect from the Agency. However, HANO's non-compliance with its own policy could place the organization in an untenable situation with regard to employee relations.

9. HANO's hiring procedures are unacceptably *ad hoc*.

Critical aspects of the hiring process circumvent the HR department. The hiring and recruitment tasks are disjointed and lack any coordinated effort. There is no compelling recruitment/marketing strategy or targeted recruitment to find qualified candidates for positions that are traditionally difficult to fill.

The question of accountability is significant, particularly as it relates to the rules outlined in the Personnel Manual for HR responsibility as well as the documentation/evidence that must be kept for Equal Employment Opportunity Reports and cases.

10. HANO has no plans for internal teambuilding and interdependence among departments.

As a result, employees in each department don't work as cooperatively and productively as they could with other departments.

11. HANO lacks any formal training program or succession planning.

Consistent with HANO's general lack of long-range planning, HANO expects its employees to learn on-the-job and does not provide opportunities for employees to develop skills required

for anything beyond basic job functions. Likewise, no preparation is made for advancing employees through a logical career progression.

12. HANO's HR records management practices are unnecessarily burdensome and are observed more often in the breach. Recent attempts to reform the system have only worsened conditions.

Human Resources is the custodian of all employee records. Each employee has three personnel files with the contents organized as follows:

- File #1: benefits, dependent information
- File #2: performance reviews, salary increases, performance history
- File #3: rates, garnishments, credentials, demographics, company vehicle information, job changes, EE changes, payroll information, identification, address changes, company property information, drug testing results

The HR staff are now in the process of reorganizing the files based on recommendations from an outside firm. Under the new filing system, each employee will have four personnel files organized as follows:

- File #1 is labeled *Personnel* and contents are filed under three sub-sections as indicated below:
 - *Recruitment Section*: civil service status, employment application, resume, reference checks, offer letter, and emergency contact.
 - *Separation Section*: company property check-out forms; resignation letter, receipt of company property forms.
 - *Employment Section*: signed job description, certificates, licenses, degrees, policy acknowledgement, receipt of company property forms, training records, performance appraisals, compensation adjustments, changes in status, disciplinary notes, awards and commendations.
- File #2 is labeled *Confidential* and contents are filed under four sub-sections as indicated below:
 - *Recruitment Section*: background investigations, references, interview notes, pre-employment tests.
 - *Benefits Section*: election forms, other benefit-related forms, COBRA election forms.
 - *Employment Section*: supervisory notes, attendance records.

- *Demographic section*: self-identification forms.
- File #3 is labeled *Restricted File/Medical Information* and includes following documents:
 - ADA accommodation requests and related documents, results of drug/alcohol tests and related documents, medical history information, medical evaluations and related documents, notes from doctors, FMLA forms, workers compensation history, claims and related documents present health and medical condition, and pre-existing conditions.
- File#4 is labeled *Payroll File* and contents are filed under two sub-sections as indicated below:
 - *Taxes Section*: State and local tax withholding forms, W-4 withholding forms.
 - *Ongoing Payroll Section*: timecards, leave requests (vacation, sick, PTO), non-medical specific business expense reimbursement submissions.

There is a significant backlog of filing to be done and staff requested additional clerical assistance to create new files and organize content into the files and sub-sections described above.

Most, but not all, job-related business records should be contained in an employee's personnel file including documents used to determine the employee's eligibility for employment, promotion, compensation, discipline or other personnel actions. However, HANO's personnel records management system as described above is burdensome, redundant, prone to errors and expensive to maintain. For a workforce of HANO's size, HR should not be required to maintain four files for each employee, resulting in almost 700 individual personnel files with approximately 7000 sub-sections.

Maintaining employment records in an efficient manner deserves special attention because records are often critical to an organization's ability to prevail in litigation and employee relations issues. Conversely, failing to maintain the records can turn a simple instance of discipline into expensive litigation. For these reasons it is important to focus on efficiently maintaining complete, accurate and relevant records.

FINANCE

Current Conditions

The Finance Department, headed by a Chief Financial Officer, has a budgeted staff of 11 (with nine positions filled) divided into three areas:

- *General Accounting* – This area is organized under an Accounting Manager who supervises a Treasurer to oversee all bank accounts and banking transactions, a General Ledger Accountant to perform bank reconciliations and process journal entries, a Grant Accountant to track capital fund, subsidy, HOPE VI and all other HUD draw downs of funds, an HCVP Accountant to process HAP Payments, an Accounts Payable Coordinator to process invoices, an Accountant Specialist to manage utility payments and miscellaneous tasks and a Payroll Specialist to process payroll through ADP. During the assessment period the General Ledger Accountant was out on disability leave. Additionally the Accountant Specialist position became vacant after the incumbent was moved to the HCVP Accountant position when that individual resigned approximately two weeks into the assessment.
- *Mixed Finance Accounting* – This area has a single Finance Manager to participate in the process of closing development financing deals, monitor and track development project budgets and funding and identify and track finance-related matters on development projects for HANO.
- *Internal Audit* – This position was vacant during the assessment period.

Prior to mid-2009, the CFO position was held by a consultant. The consultant staffed the Finance Department with HANO and non-HANO employees. Most of the core functions in the department were performed by the non-HANO employees with little dissemination of information to the HANO employees. In mid-2009, HANO hired a CFO and began staffing the department. During the transition period between the consultant CFO and the newly hired HANO CFO, two defalcations were alleged. The first involved the consultant CFO. He was charged with embezzling approximately \$900,000 of HANO funds between 2008 and 2009 through invoicing for services that had not been performed. He has pleaded guilty. The second alleged defalcation involved the billing for services not rendered through collusion between HANO employees in the Procurement and Finance Departments. The employees involved are currently suspended pending the outcome of the investigation. This alleged defalcation was about \$700,000 between 2008 and 2009.

In August 2009, in reaction to the alleged defalcations HANO contracted with the accounting firm KPMG, using a sole source procurement. By then it was clear that HANO did not have sufficient staff knowledgeable in the necessary areas of Finance and that the financial records were not up-to date or organized. The contractual arrangements with KPMG were to provide Forensic Accounting services, write selected policies and procedures, provide project management services for the Finance area of the Yardi implementation, provide temporary

staff to prepare the accounting records for the FY2009 audit, setup the accounting records for FY2010 in Yardi and perform other miscellaneous tasks as needed.

In August 2009, the scope of the Forensic Audit was to review transactions that were run through the CCS computer application's Accounts Payable system over a 4 1/2-year period from October 2005 through June 2009. By December 2009, the Administrative Receivership Team learned that HANO funds were not processed through a single Accounts Payable System, but through multiple computer systems and methods (e.g., wire transfers that did not go through an Accounts Payable System but were "journalized" to the general ledger, HAP payments processed through the Visual Homes computer system, QuickBooks transactions for what were supposed to be modernization and select development-type payments). As a result the initial scope of the Forensic Audit did not cover a large portion of the payments made by HANO over the period of the review. In December 2009, the Administrative Receiver team increased the scope of the Forensic audit to include payments made from all systems and methods. The final report(s) of the Forensic Audit are still pending.

At the time the Administrative Receivership team took control of HANO in November 2009, the Finance Department was in a state of chaos:

- The FY2009 accounting records were not complete and held in multiple computer applications that did not interface; the FY2010 Budgets were not complete.
- The implementation of Yardi was incomplete and flawed, with some areas impacting the ability to process invoices for payment.
- Almost all invoice payments were late, including payments to vendors for operations, modernization activities and development projects.
- Proper due diligence was not being performed on invoice payments.
- Monthly HAP payments were sent out on the 5th of the month or were late, and payments were made during the entire month in small payouts and in a mid-month run that did not consistently go out on the 15th of the month,
- There were no reconciliations of HAP Payments to vouchers being performed despite the fact that the HAP payment run did not match the amounts to be paid according to the voucher reports sent over by the HCVP Department.
- HANO had not collected large amounts of equity payments nor completed compliance on various projects resulting in pending defaults from investors.
- HANO had not tracked its financial commitments so that it could determine whether it had adequate funding.
- Many entities were requesting/demanding funds from HANO for various matters that were not considered in any HANO spending plan

Findings

1. HANO's overall financial management is poor, with significant operating losses in its Public Housing program.

HANO has routinely increased its financial commitments for individual real estate development projects without consideration of its ability to complete the development program as a whole. HANO began the process of opening a Section 8 waiting list without consideration of the amount of funding required.

2. HANO's public housing program (including Central Office) did not adopt asset based budgeting and accounting until FY2010.

HANO had not adopted Asset Management accounting principles until FY2010. In prior years, although HANO coded invoices to different projects or central office areas, the information in the computer databases could not be distributed in a manner to separate Central Office costs from Low Income Public Housing. Therefore all costs that would be considered Central Office costs were combined with Low Income Public Housing transactions. As a result, HANO may not have been able to diagnose its operating expenses appropriately to compare the budget to asset based Project Expense Levels (PELs).

3. Public Housing (including Central Office) is accumulating operating losses.

Each year HANO Public Housing (including the Central Office area) has incurred operating expenses in excess of operating revenue as follows:

FY2007	FY2008	FY2009
(audited)	(audited)	(unaudited)
(\$7.7 million)	(\$2.3 million)	(\$1.8 million)

In FY2010 HANO projects a \$6.7 million loss. This does not include the Asset Repositioning Fees it will receive. Each year these fees will be reduced, and HANO has not fully contemplated how it will survive on reduced operating subsidy and management fees; over time the majority of operating subsidy will be for ACC units that will not be HANO-owned.

4. Public Housing (including Central Office) could have a dwindling cash balance available for operations.

At the beginning of each of the last three months, HANO has maintained a cash available balance in the Operating accounts of around \$18 million. However it is difficult to determine

HANO's true cash position because HANO does not pay bills on time and does not consistently pay bills with the planned source of funds. HANO also does not draw down funds from HUD consistently, sometimes drawing down before the invoice is paid, sometimes after the invoice is paid and sometimes when a staff member realizes that the drawdown has not been done. HANO has a commitment of over \$16 million of Operating Funds to the 2006 901 Program. At least \$5 million is expected to come from the Modernization account, although with the multiple transactions and inter-fund transfers, it is difficult to determine if the Modernization bank account has enough funds to cover the 901 commitment. With continuing operating losses, HANO will not have enough cash set aside for emergencies and could eventually find itself in default on vendor commitments or unable to obtain key goods and services needed to run the properties or maintain the Central Office. HANO's current cash position available for operating is masked since all 901 funding commitments were not moved to the 901 bank accounts as the HCVP 901 funding commitments were.

Under Asset Based Accounting principles, HANO is required to divide its cash among the AMPs and the Central Office. Once HANO completes this division of cash, it may find itself even further cash-constrained particularly at the Central Office level because of the potential additional uses of operating cash as outlined below.

5. Public Housing (including Central Office) has additional potential non-operating uses for operating cash.

Many of the mixed finance developments that are completed and occupied have appealed to HANO for additional funding for their properties. HANO has yet to determine whether these are actual responsibilities under the mixed finance agreements. To date, however, HANO has not only failed to address these long-standing issues, it does not appear to have documentation available to assist in the resolution of issues and it has not prepared any contingencies for possible payment. For example:

- River Garden I – The Developer has interpreted the subsidy agreement to provide it funds greater than the amount that HANO has provided to them and possibly greater than the amount that HANO has requested in relation to this project since 2005.
- River Garden II – This development is coming on-line in early 2010 and the issues are similar to River Garden I.
- Fischer IV – Forty Homeownership units are coming on-line in early 2010. If they are not sold by a certain date, the units automatically convert to rental units. HANO will then have to cover the costs (e.g., insurance, lease-up) to operate the site until either sales income or sufficient rental income is received. Additionally, it appears that over \$1.2 million of Program Income that HANO is to receive from the home sales to pay various project expenses (including Developer Fee) would not be available, thus producing an additional cash shortfall that may have to be paid out of

operating funds because HANO's Program Income and non-federal funds are set aside for development projects.

- CJ Peete Homeownership – This development is coming on-line in early 2010 and the issues are similar to Fisher IV.
- Abundance Square and Treasure Village – The developer has been unsuccessful in obtaining *ad valorem* tax exemptions for these developments from the City of New Orleans. Although the Developer is responsible to pay the taxes, they have appealed to HANO for funding for 2006, 2007 and 2009 taxes (2008 taxes were paid by the developer). Over \$165,000 in back taxes are due at this time for both Abundance and Treasure. The developer is in the process of reducing services to the development in order to cover the cost of the current year taxes.
- Guste Resident Management Corporation (RMC) – The RMC has maintained over the last few years that HANO owes it additional subsidy for costs incurred in managing the Guste high and low rise development. In FY2008, the claim was for over \$350,000.
- Resident Councils – The annual subsidy includes a tenant participation component of \$25 per occupied unit that can be used by resident councils to serve their communities. Several HANO resident councils maintain that over the last few years they have requested amounts to be used for services at their developments. In a review of the last two years of HANO financial transactions recorded in the finance department, none of the resident councils appears to have received its portion of the subsidy and it is unclear if payments made either to members of resident councils or to contractors on behalf of those resident councils were in lieu of a direct payment to the respective council.

6. Public Housing (including Central Office) has many problems that negatively impact operating performance and cash.

The FY2010 Budget process should have been completed prior to September 30, 2009. However, the process is being completed currently. Although the FY2010 budget is organized for Asset Based Budgeting, no analysis of the budget had been done to determine the reasons for the operating losses, how expenses should be redistributed between the AMPs and the Central Office or cost-saving/revenue producing measures.

Complicating the matter is that some costs (e.g., the current payment of claims incurred from a period when HANO was self-insured) may have to be absorbed by the Central Office without funding because the development where the loss was sustained is no longer owned or under the control of HANO. HANO had not set aside reserves and therefore must use current cash for payment. HANO has also not moved towards a possible appeal to HUD regarding the AMP PELs. Highlights of the problems with the Operating Budget and Cash are:

- There are no reserves or cash set asides for development related costs that are not yet reimbursable from a project budget.
- HANO has large sums of funding that are still outstanding (e.g., equity draws) or may never materialize as offsets for development costs in the operating budget (e.g., Program Income reallocated to another project).
- HANO has not appropriately staffed the Finance Department, requiring the agency to rely heavily on consultants.
- For years, HANO used two different computer systems for financial transactions, did not process all transactions through the Accounts Payable subsystem so that vendor payments could be tracked and did not process transactions consistently through the systems. This makes an analysis of budget to actual information extremely difficult.
- There have been excessive payments for claims incurred for periods when HANO was self-insured and are still being paid.
- HANO incurs high legal costs for pending claims.
- Funds that HANO holds from insurance proceeds are used for development activities and not to pay insurance claims.
- HANO has had documented fraud and theft by former staff and contractors.
- HANO has an over-reliance on sole-source contracts versus competitively procuring goods and services to get the best price.
- HANO does not view financial information in the business context of profit/loss and data has been reported in a commingled and confused fashion.
- HANO routinely did not pay bills on time making it difficult to determine or analyze cash position. For example, in the month between the announcement of a new administrative receivership team and the on-site presence of the team, HANO processed almost \$1million of non-current invoices.
- HANO has been sustaining operating losses and several of their occupied mixed finance projects have been experiencing losses. PEL calculations may need to be reviewed and a subsidy appeal to HUD may be needed.

7. Development initiatives at HANO are not managed as a strategic redevelopment program but as isolated projects or funding sources. HANO cannot produce a Master Budget of its development program or the current status of the funding.

Attention is paid to financial matters that relate to the obligation/expenditure deadline of the moment. Tracking of Plan to Actual is not consistently maintained. Funding gaps are not addressed but allowed to linger. As projects close, some cash is placed in separate bank accounts to fund the project. However, the non-federal dollars are not segregated or tracked in this manner. Complicating this situation, several of the equity draws have not been received and developer fees that are needed to complete a project or roll into another project as a funding source are in jeopardy of not being paid. There are no reserves or contingencies in place.

8. The development program as a whole may have financing gaps.

Many of the development projects have required HANO funding in excess of that originally planned. As a result, HANO continues to roll costs of the projects into next year's funding sources without regard for the entire Program. This failure to consider the funding requirements of the entire Program will put the later phases of individual projects at risk as additional, unanticipated funding is required to sustain the earlier phases. An example is the Savoy II project that is pending closing, where HANO is now expected to provide \$7 million in additional funding over the original commitment.

9. The development program has cash gaps.

HANO has not set aside sufficient operating funds for the 2006 901 commitment and therefore could end up spending development funds on operating or other costs.

Several equity draws have not been received. Three projects have been completed and occupied, yet the equity draws have not been received because HANO has not complied with the requirements to receive the funds. Over \$11 million of equity draws for Guste I, Fischer I and Fischer III have not been paid because of failure on HANO's part to provide the required timely audit reports, break-even analysis and the filing of Form 8609s. There are several reasons why these normally straightforward requirements are not completed to date (e.g. Guste I Audit Report had to be reissued because HANO provided incorrect information to the auditors, Form 8609s cannot be completed because HANO was told to reprocess its tax credit application). The biggest issue seems to be that HANO does not resolve its problems in a timely fashion, leaving them to linger for years.

Not receiving the equity draws places an unplanned reliance on other cash sources to fill the gap, thus complicating an analysis of cash available as HANO moves money from one account to another to cover temporary or permanent shortfalls in the original funding source.

Additionally, key elements of the project are not funded such as ACC Reserve accounts, requiring either HANO or others (in the case of Guste I, the RMC) to provide the funding.

Developer fees are in jeopardy. As stated above, when there are shortfalls in funding for a project or receipt of funds, the HANO developer fee earnings do not get received. HANO has generally pledged these fees to another project. This practice produces a temporary or permanent funding gap.

10. The development program has other potential payouts from development cash.

As with Public Housing, there are other potential payouts from cash for development projects that were not planned, such as a payment to the developer for Lafitte of \$1.3 million for a ground lease for which the developer seeks reimbursement.

11. The development program has project investments in jeopardy.

As discussed in the Development and Capital Planning Activities section of the report, HANO with HUD approval did early starts on two projects. These projects need an extension of the PIS date and the GO Credits otherwise the investments in each will be lost unless additional funding can be obtained or another planned use for the sites developed.

12. Housing Choice Voucher Program (HCVP) payments are not reconciled with vouchers within the Voucher Management System (VMS), which has resulted in inaccurate VMS reporting to HUD. HANO does not track its cash flow. HANO does not have an accurate Net Restricted Assets balance and staff have not reconciled the amounts carried by HUD.

In an HCVP the monthly payments for vouchers and adjustments should be reconciled to the voucher counts. Monthly cash available should be projected and the Net Restricted Assets reconciled. HUD has requested various refunds of excess funds that HANO should have for different programs (e.g., overpayments due HUD requested on Form 52681). HANO has not responded to the HUD requests nor has HANO identified funds with which to repay HUD.

Although HANO has multiple voucher programs, none of these programs was reconciled monthly. HANO HCVP passed a report to the Finance Department (for the first and the mid-month run) outlining the vouchers to be paid for, but Finance did not understand or reconcile the difference between the reported amount for processing to the amount of dollars that would be actually spent on the voucher run. HANO HCVP would also submit vouchers for payment outside the two scheduled (1st of the month and midmonth) HAP runs and Finance would pay these vouchers outside the two scheduled processes. HANO HCVP would submit data for VMS without reporting all of the prior month adjustments. As a result, the VMS counts were incorrect resulting in an incorrect projection at the end of the period of net available vouchers for the waiting list, net cash flow for the period and net restricted assets at the end of the period.

Complicating matters during the last year (2009) is that the number of authorized vouchers more than doubled, thousands of families were moved from one voucher program to another (i.e. the DHAP to HCV Conversion), and the terminations of families in the programs along with the lease-up of the vouchers was not timely.

After the Administrative Receivership Team identified the problems within VMS in January, the VMS numbers that had been reported were corrected. The margin of difference was large enough that if HUD calculated the CY2010 funding on the incorrect numbers, HANO would have received millions of dollars less than what it would get using the correct VMS numbers.

13. HCVP 901 financial commitments for CY2009 may be overstated.

The amount of money allowed to be set aside for 901 each year is the projected excess of funding received over funding spent on vouchers. HUD uses VMS to formulate the estimate. A new estimate of 901 availability for CY2009 will be required as a result of the VMS corrections.

14. There is a lack of financial partnerships with business partners.

HANO's partnerships with Mixed Finance Developers depend heavily on HANO for financial assistance. Yet when a problem occurs, HANO does not attempt to reach a resolution in a timely manner, allowing relationships to deteriorate and financial conditions to worsen.

The FY2008 audit opinion of the Guste Resident Management Corporation (RMC) for FY2008 was qualified as a result of an inability to determine the accuracy of accounts receivables claimed by the RMC to be owed by HANO. Through the years, a reconciliation of the two sets of books had not been completed. Budgets prepared by the RMC are incomplete, information is not forthcoming from HANO and the two entities do not work together to complete the budget so that monthly reporting can be provided. As a result, it is difficult to resolve the accounts receivable problem or to determine whether the RMC is compliant financially. There have been various long-standing issues between the two entities. Yet as each side blames the other, a current attempt to identify the prior period Guste transactions using HANO books and records disclosed that HANO had a difficult time in appropriately identifying and classifying the Guste transactions that HANO had tracked and paid.

As stated above, Resident Service Councils have requested resident participation funds for their communities, yet HANO has not responded.

15. Audits have not been completed in a timely manner.

As of December 2009, HANO had several audits and tax returns that were at least 9 months overdue to various authorities. In one case, the audit had been issued (FY2008 Guste 1) and HANO had to have the audit redone because of an error found in the Accounts Receivable that was identified by HANO subsequent to audit issuance. In another case, the FY2008 HANO audit was issued and the Louisiana State Auditor would not accept the audit because of the long-standing audit opinion qualification relating to the Guste accounts receivable. Late audits cause HANO possible default penalties by investor groups. These late audits have been one of the causes of HANO not being able to collect equity payouts and diminish HANO's ability to borrow or leverage funds for future development work. The Administrative Receivership Team was able to get the two aforementioned audits issued and HANO is awaiting approval by the Louisiana State Auditor. Two additional audits for HANO subsidiaries that depended on the

issuance of the Guste 1 audit are in the process of being completed so that they do not delay the issuance of the FY2009 HANO Audit. The tax returns relating to these audits must also be completed.

16. There is a lack of organization and employee capacity.

The ultimate responsibility for financial management resides in the Finance Department but every department has a responsibility to understand and communicate their budgets in relation to the activities they plan. HANO employees do not demonstrate an understanding of managing finances, an understanding of HANO's finances or their role in protecting the assets of HANO.

HANO Departments work in silos when it comes to finance matters. The operating departments spend the money and the Finance Department pays the bills. There has been little sustained coordination between the departments, in particular between the Real Estate Planning Development Department and the Finance Department. REPD will define a project budget without detailed funding sources, in particular for non-Federal funding sources, and the Finance Department does not provide any additional detail. The Finance Department will pay the invoices without informing REPD about precisely how the bill was paid. Neither department takes responsibility for tracking funding and payments. A primary example is the transactions that have been questioned by the Inspector General relating to the 2006 901 bank account.

The prior CFOs, for the last few years, left HANO employees largely in the dark about key transactions and activities. As a result, when documentation cannot be located, there is no company "historian" to help fill in the gaps so that an issue can be resolved or a task completed.

The Finance Department does not have an adequate number of employees to perform all of the tasks required nor does it have enough of the appropriate skills to effectively participate in finance activities. There are gaps in bank reconciliation preparation, accounts receivable and accounts payable segregation of duties, HCVP accounting reconciliation, budget preparation, year-end closeout and audit preparation, Yardi system implementation, financial analysis, development accounting and general ledger postings. Many of these tasks were being performed by outside consultants with minimal cross training of HANO staff.

The Finance Department has little in-house capacity at the management/supervisory/analytical level to guide and teach lower level staff. Decisions have been made at the project/activity level without regard for the financial health of the organization as a whole. As a result, neither the Real Estate Planning Development Department nor the Finance Department prepares a development budget for the Development Program or track the payments for the Development Program. Instead they rely on the contractors/developers to track these amounts at the individual project level or they do the same. However, as obligations and funding sources change regularly, this approach to individual projects is highly susceptible to error and as a result funding gaps can emerge across the Development Program. The same questions continue to be asked (e.g., how much non-federal money is available), yet staff have not

understood that to answer the questions they must be cognizant of the entire Development Program.

The Finance Department functions as little more than a processing department with an inordinate amount of time spent with routing processes such as processing checks, receiving funds and responding to minute-to-minute crises such as vendors not being paid on time.

17. There are inadequate computerized application tools and the Yardi implementation has been flawed.

Computer applications are to be used to capture transactions in a manner by which they can be analyzed and reviewed. HANO did not have adequate computer-based applications and the applications they had were not configured in a manner to capture transactions so that useful reports could be produced and analyzed. Until FY2010, the Finance Department recorded transactions in three different applications – CCS (an old application for public housing and HCVP) for the HANO general ledger, Visual Homes (an application for public housing and HCV) for LIPH and HCVP financial transactions and an off-the-shelf product – QuickBooks.

These prior period transactions were not consistently processed through the same computer system, nor were they processed consistently through an Accounts Payable process and were not consistently paid via wire or check. The transactions were not coded at a level that made it easy to consolidate and therefore review. To obtain information requires going back to the source document, but source documents are not readily available or current staff cannot locate/does not know of the existence of the document.

In FY2009, HANO implemented Yardi for its HCVP and LIPH Programs and in FY2010, the Finance module of Yardi was installed. Although the move to a single financial application is a positive one, HANO did not understand its own financial needs. As a result, HANO cannot produce Development Budgets and cannot determine the financial status of project payments with current data. The application has not been set up in a manner to provide useful information *via* reports such as vendor payments. Electronic Funds Transfer (EFT) processes have not been established. The Positive Pay service, which is intended to minimize the cashing of fraudulent checks against the HANO accounts, was not working. The beginning balances for FY2010 were still being developed. The policy for reporting of transactions by third parties, such as the RMCs and the mixed finance developers, has not been refined. Financial reports that would be needed to manage the process had not been identified. It is unclear whether the Yardi application has adequate toolsets to budget, plan or forecast financial data for the Development Program.

18. HANO does not have reserves and contingencies.

HANO routinely has to disburse more cash than initially planned. Yet there are no financial contingencies or reserves set up to fund these items. This perpetuates the cycle of constant funding source changes, which increases the complexity of planning and tracking the Development Program in particular.

19. HANO has allowed the same audit findings to persist for years. Audit findings from the year-end auditors, Inspector General and HUD are not compiled and organized so they can be corrected and cleared.

HANO has no database or tool to track and monitor the findings so that they can be resolved.

20. HANO has overpaid vendors for service.

Failing to follow standard accounts payable protocols for data input, paying invoice copies versus invoice originals and late payments all contribute to this condition.

21. HANO routinely pays vendors late.

If there was an issue with an invoice, the issue was not resolved and the invoice would not get paid until the vendor complained loudly enough. The invoice would then get rushed through the process to be paid. This contributes to the difficulty in identifying actual cash position. At times these late payments are made from accounts other than the appropriate ones, with a subsequent transfer to reimburse the paying account. This transfer, however, does not necessarily take place right away.

22. HANO has not monitored its activities in relation to 901 Compliance

HANO must demonstrate that 901 funds are used only for designated purposes and only families that meet the 901 criteria receive the benefit of 901 funds. Although these were the known criteria, according to the Inspector General's review, HANO withdrew funds from the 2006 901 accounts incorrectly. Additionally, HANO has not provided HUD with a list of families for which 901 funds could be used. Although the Master Developer agreements for the mixed finance projects have priority given to 901 eligible families, HANO was not monitoring the lease-up of units that were funded with 901 funds to ensure the lease-ups were compliant.

AUDIT AND COMPLIANCE

Current Conditions

The internal audit function of an agency serves to provide agency leadership with an independent assessment of an agency's financial, operational, and control activities. The Administrative Receivership Team conducted a review of the audit and compliance function. As previously noted, there have been numerous audits and evaluations of the organization conducted by HUD and other independent entities that highlight issues related to internal controls and compliance throughout the organization.

As has been widely reported, in the past year a procurement scheme involving a HANO staff member resulted in allegedly more than \$700,000 paid to unauthorized vendors. Moreover, a former consultant who served as the agency's Chief Financial Officer was convicted of stealing more than \$900,000 from HANO. In recent months, the former executive implemented certain measures to combat internal control issues:

- Hired an independent consulting firm to conduct forensic audit activities on procurements activities and to assess the adequacy of existing controls and identify gaps. The Administrative Receiver requested that the forensic audit activities be continued until all required testing is complete. Final reports are pending from both assessments.
- Implemented a new computer system that would require electronic approval of purchase orders and address some existing control issues.

The following are findings from our assessment related to HANO's capacity to evaluate compliance, performance, and control issues, as well as identify areas of risk.

Findings

1. There is no existing staff within HANO designated for audit and compliance.

Although HANO has taken some steps to identify and address internal control issues, there is substantial work to be done to enhance the level of monitoring and accountability throughout the organization and to address the inadequacy of internal controls.

Currently, there is no staff internal to the organization to monitor compliance or measure organizational performance. An audit and compliance unit existed pre-Hurricane Katrina. Post-Katrina, the unit was disbanded.

Currently the only compliance work within HANO is being performed by the Contracting and Compliance Department and is primarily related to Section 3 compliance and is limited in scope.

2. The agency is adversely affected by weak internal controls and is vulnerable to fraud waste and abuse.

The most recent incidents of fraud and the deficiencies identified throughout this report and in current and previous HUD OIG reports clearly demonstrate the current exposure of the organization. Some of the issues identified include, but are not limited to, the following:

- Poor management of the HCV program;
- Inappropriate documentation to support the use of federal funds;
- Payments being made to vendors without appropriate documentation or vendor-related information;
- Circumvention of the procurement process by HANO staff;
- Deficiencies in the implementation of the new ERP system; and
- Lack of documented procedures for key areas of operation.

These issues clearly indicate the need for a more comprehensive approach to monitoring the agency's performance. It is a critical tool for leadership in any organization to ensure that internal controls are defined and functioning appropriately to provide reasonable assurance that it is achieving the following objectives: (1) producing and maintaining reliable financial reports, (2) operating efficiently and effectively, (3) complying with laws and regulations, and (4) safeguarding assets as well as prevention of fraud, waste, and abuse.

3. It has been reported that the agency has not been particularly responsive to requests from the HUD OIG.

The HUD OIG reports that responsiveness of the agency to requests related to audits and investigations has not been adequate. Additionally, the Administrative Receivership Team received similar feedback from independent auditors and consultants. The establishment of a mechanism to monitor compliance and review activities of the organization should assist the agency in being more responsive.

HOUSING CHOICE VOUCHER PROGRAM

Current Conditions

Oversight and management of the Housing Choice Voucher Program (HCVP) Department was contracted out via a short term “interim letter of agreement” (LOA) to a third party contractor, MFR P.C., on September 11, 2009 following the indictment of HANO’s HCVP Administrator. The contractor assigned an “Acting HCVP Administrator” to oversee daily operations and to provide direction to the combined workforce that now includes 66 HANO employees, 16 independent contractors (HQS inspectors) and 22 MFR employees, three of whom are part time. An additional 15 positions are currently vacant. A HANO employee has been designated as “Interim Director” of the HCVP Department working under the direction of the Acting HCVP Administrator.

The organizational structure of the HCVP Department is presently in flux as a result of recent developments and can be expected to further evolve in the coming months in response to current priorities and the issues identified by the Administrative Receivership Team. The current structure includes the following operating units:

- Operations – This unit consists of 50 allocated staff (of which 12 positions are vacant) with primary responsibility for HCV continued occupancy functions including rent increase processing, interim and annual recertifications. Administration of special programs including Project Based Vouchers (PBV), Portability, Homeownership, and Family Self Sufficiency (FSS) is also the responsibility of this unit.
- Admissions – This unit consists of 10 allocated staff and contractors with primary responsibility for managing the waiting list, voucher issuance and new leasing activity. One position is vacant.
- Inspections – This unit consists of 28 allocated staff and contractors with primary responsibility for all inspection and rent reasonableness related activities. One position is vacant.
- Compliance – This unit consists of seven staff with primary responsibility for PIC reporting, file room management, quality control and program compliance activities. The Compliance Manager is currently on leave.
- Finance – This unit consists of one staff person now supported by three part-time contractors with primary responsibility for VMS reporting and financial operations.
- File Room – This unit consists of five allocated staff and contractors responsible for file room management, mail, etc. One position is vacant.
- Customer Service and Call center – Two units perform these functions. The Call Center is staffed with 10 contractors, and services both HCV and DHAP related matters. The

Customer Service unit consists of 4 staff and contractors, with responsibility for reception and other customer services functions.

- Hearing Officer – One staff (currently out on leave) serves this function.

As is evidenced from the findings discussed below, staff will require significant training in order to improve their ability to conform to HCV regulatory requirements. Further, the organizational structure needs to be revised in order to sharpen the focus on key programmatic areas, improve accountability and implement effective quality control and performance standards.

By program and budget size, the HCVP Department is HANO's largest functional area. As of December 31, 2009, the HCVP Department administers approximately 12,280 leased units, including 55 Section 8 Homeownership units¹. An estimated 326 vouchers are reserved under the Project Based Voucher (PBV) program including units under HAPs and AHAPs. HAP expenditures for CY2009 totaled approximately \$102.1 million.

The total number of units leased under the HCV program increased by 75% in 2009, primarily as a result of the "DHAP to HCV" conversion program, which grew from 0 in March 2009 to 3,954 leased units by December 2009 (of the total 4,404 DHAP to HCV units authorized by HUD). In addition to DHAP households that have already leased HCV units, there are approximately 716 households eligible for "DHAP to HCV" conversion assistance that have been issued vouchers and are currently seeking housing. All eligible DHAP Katrina/Rita families have now been transitioned to the "DHAP to HCV" program; however, as of December 2009, 479 households are receiving assistance under the DHAP Ike program.

In January 2009, HANO's baseline number of HCV authorized units was 12,033. HUD is expected to adjust the baseline to reflect new increments received over the course of the year. HANO has not received its CY2010 HCV funding letter from HUD; therefore, there is uncertainty as to the number of units that can be leased in 2010. HUD has indicated that HCV CY2010 funding will be based primarily on units leased and HAP expended for the Federal Fiscal Year ending September 30, 2009, adjusted for new voucher increments and any applicable pro-rations. HUD has also indicated that it will consider additional leasing activity for the remaining months of 2009. HANO's leasing increased by 410 units during the last quarter of CY2009. Note also that a significant percentage of the "DHAP to HCV" voucher holders are expected to lease up during the first quarter of CY2010.

Housing Authorities are allowed to lease up to their baseline number of HCV authorized units; however, HUD will not necessarily fund this activity out of the annual funding award. Funds for additional leasing not provided through HUD's annual funding award must be provided through the agency's Net Restricted Assets (NRA) account. Note that HANO previously obtained HUD approval to transfer approximately \$178.4 million in pre-2009 NRA funds for other non-HCV authorized 901 purposes limits.

¹ It should be noted that HANO staff report having served 90 families with homeownership vouchers.

In May 2009, HANO outsourced the opening of its waiting list to a third party contractor, Smart, Inc. HANO received more than 28,000 applications over the three-week application period ending in September 2009. Plans are underway to notify applicants of their wait list placement; however, the number of vouchers that HANO can issue in the coming months is uncertain pending notification by HUD of CY2010 funding levels.

Findings

1. The HCVP Department is seriously troubled and out of compliance with HUD regulatory requirements.

For the Fiscal Year ending September 30, 2009, HANO self-reported a score of 40 out of a possible 145 points, which equates to a “troubled” agency rating under HUD’s Section Eight Management Assessment Program (SEMAP). In the event of a HUD on-site confirmatory review, the PIC-scored indicators may result in the score dropping to 20 based on an initial assessment of agency data and files. The low SEMAP score underscores the fact that the HCVP Department has lacked effective management, well-trained staff, written policies and procedures that are compliant with HUD regulations, and a systemic approach to ensuring that program transactions are subject to quality control reviews. HUD will require that HANO develop an action plan to address all deficient SEMAP areas; however, moving the agency out of troubled status in the short term may not be feasible in light of the fact that more than one quarter of the fiscal year is over.

2. HANO lacks the capacity and systems needed to ensure full utilization of HCVP resources.

As noted below, HANO’s current financial management and information technology systems are deficient with respect to support for HCVP operations. The Administrative Receivership Team’s assessment indicates that HANO does not have an effective system in place to ensure that voucher issuance activity, lease up activity and budget utilization information is regularly and systematically produced and reviewed. The goal of this type of information system and management review should be to optimize and maximize the utilization of available HCVP resources. Implementation of a leasing/budget utilization tracking system is essential in light of the limited Net Restricted Asset reserves now available and the complexity of HUD’s annual funding system.

3. Effective and stable management of the HCVP Department is essential to correcting operational problems and achieving full utilization of available resources.

HANO’s HCV Administrator was terminated following his indictment on corruption charges in August 2009. Oversight and management of the HCV program was contracted out via an “interim letter of agreement” (LOA) to a third party contractor, MFR P.C., on September 11, 2009. The LOA was subsequently amended on September 29 to run through December 31, 2009. This \$600,000 time and materials contract appears to have been issued with no procurement process. A decision will need to be made quickly as to whether to extend this contract. If not, HANO will need to either hire or contract for HCV management services. It is

essential for a stable and qualified management team to be put in place in order to oversee the extensive activities needed to address the findings of this and other third party reports.

4. HQS inspections have not been conducted in compliance with HUD requirements including the requirement to conduct timely annual HQS inspections.

HANO's HQS inspection activities have been substantially out of compliance with HUD regulations. For example, HUD OIG Report 2009-AO-0001 dated December 12, 2008 cited HANO for housing eight of ten randomly selected households in units that did not meet HQS standards. A limited number of random inspections conducted in November 2009 confirmed that this problem still exists. PIC data indicates that 33% of annual inspections are overdue. The MTCS HQS inspection report for the Fiscal Year ending September 30, 2009 indicated that 39% of annual inspections were conducted late. Further, the assessment confirmed that HANO has operated without written inspection procedures.

From 2007 to August 2009, HANO outsourced all HCV inspection activities except for quality control inspections to a third party vendor, Inspect Services. Management oversight of the vendor appears to have been very weak. It was reported that no annual inspections were performed from August to October 2009 as a result of a contract dispute with the vendor. HANO's records of the inspection process are also deficient as a result of a flawed data conversion effort and the contractor's failure to provide timely and complete information. For example, the contractor did not provide documentation of failed inspections to HANO. The contractor was officially terminated in November 2009.

Since October 2009, MFR has provided additional contractor resources to support HANO staff in conducting HCV inspections. These efforts focus on eliminating the backlog of annual inspections due from July to October 2009, maintaining required production levels to meet all current inspection needs, deploying appropriately trained inspectors, and implementing at least the minimum level of quality control inspections required under the regulations. If HANO terminates MFR's HCV oversight contract, alternative inspection resources and clear written procedures will need to be identified and deployed immediately.

5. Annual reexaminations are not conducted on a timely basis.

While PIC indicates that over 1,000 reexaminations are overdue (8.6% of the program participants reported to PIC), the actual number is likely to be higher. The discrepancy is a result of problems with the conversion to a new computer system noted below.

6. Rent reasonableness has not been determined for most units under lease, and high numbers of program participants have Total Tenant Payments (TTP) in excess of 30% of adjusted income.

Staff reported that from the time of Hurricane Katrina to at least March 2009, rent reasonableness reviews were not conducted despite regulations that require that rent reasonableness be determined prior to initial lease up and before approving rent increases. A

review of a sample of rents approved after March 2009 indicated that more than 80% of rent reasonableness determinations were not completed until after the HAP/Lease effective date. Further, an initial data review indicates that there are substantial numbers of participants with TTPs exceeding 30% of adjusted income, including at least one case where the participant's TTP appears to exceed 100% of adjusted income. Given HANO's failure to conduct rent reasonableness reviews, it is possible that the number of participants with TTPs greater than 30% would decrease if rent reasonableness were correctly determined. As part of recent staffing changes, two HANO employees have been assigned to conduct rent reasonableness determinations using the recently procured Nelrod Rent Reasonableness software. HANO lacks a uniform process to ensure that rent reasonableness is determined prior to HAP contracts and rent increases. It is possible that a rigorous approach to rent reasonableness may have the positive effect of lowering the average contract rent and HAP payments. Note also that HUD has indicated that the proposed Fair Market Rents (FMRs) for New Orleans are likely to experience a substantial decrease.

7. A majority of participant files have multiple irregularities related to non-compliance with income and/or rent calculation regulations.

An August 2009 limited review of 8,193 HCV participant files conducted by MFR with assistance from Nan McKay and Associates detailed extensive, systemic problems related to correct income and rent calculations. For example, the review found that over 30% of files did not have proper documentation/verification of household income sources; 52% of files had discrepancies in the HAP due to owner; 51% of files had discrepancies in the amount of tenant rent due to owner; etc. Numerous required documents were missing from files. These results are consistent with the observations made by the Administrative Receivership Team and with comments made by advocates who are working with owners and program participants. The scope of this problem points to a lack of uniform procedures, an absence of effective quality control and inadequately trained personnel. HANO paid approximately \$1.4 million for this file review; however, no file errors were corrected as part of the scope of the contract.

8. Project based voucher administration does not conform to the requirements of the Final Rule.

A limited number of files reviewed by the Team indicate that the PBV program is not being uniformly administered in conformance with regulations. The review identified examples of incorrect rent calculations (i.e. participants paying higher than 30% of income as Total Tenant Payment) and contract rents in excess of the maximum allowed.

9. Utility allowances have not been updated in accordance with HUD regulations.

HUD regulations require that utility allowances be reviewed annually and adjusted if there has been a change of 10% or more in any utility rate category. Documentation of the annual review must be retained by the agency. HANO last updated its utility allowances in 2004, and no documentation was provided to indicate that the required annual review was conducted. Note

that in December 2009 HANO contracted with Nelrod to conduct the analysis needed to update the utility allowances.

10. HCVP Finance operations are not appropriately staffed resulting in inadequate utilization planning, recurring payment problems and delays in VMS reporting

Only one HANO staff member is currently assigned full-time to the “finance” function within the HCVP Department. In addition to overseeing the HAP/UAP payment process, this person is also responsible for entering updated data into the VMS system. The scale of the HCVP operation, which is now responsible for over \$100 million in annual payments, mandates the involvement of additional staff resources to ensure that vendors are appropriately vetted, and that payments are properly documented and processed. The finance function also needs to provide updated budget information needed to ensure full utilization of available resources. MFR has been providing interim Finance support *via* three part-time MFR staff. It was also determined that VMS reporting is not being effectively managed including failure to enter adjustments in a timely fashion. Also, the assessment indicated a high level of reported owner dissatisfaction with HANO’s payment processing, a factor which negatively impacts HANO’s ability to attract and retain quality property owners to HCVP and inhibits voucher holders’ ability to find and secure decent housing.

11. Automation support for HCVP operations is seriously deficient, and PIC reported data does not match HANO’s internal records.

HANO went “live” on a new computer system (Yardi) beginning in April 2009. The system is intended to automate HCV, Finance, Procurement, Public Housing and all other operational areas; however, HANO’s contract with Yardi did not provide for any custom reports or letters. At present, the system is not producing any letters to applicants or landlords; thus, the level of actual automation support for HCV is very weak. It was reported that HCV staff had no substantive involvement in the definition of system requirements or in acceptance testing. Data conversion from the prior system was deficient in many respects. For example, staff must refer back to the prior system in order to determine the last annual recertification date. In response to serious implementation issues, HANO contracted with KPMG to provide Yardi project management services. KPMG’s role has recently been expanded to include documentation of additional functional requirements, training and other needs in order to maximize use of the system and to support HANO’s operating needs. Finally, the data in the Yardi system needs to be reconciled with PIC as there are significant differences between the two systems’ data.

12. The Family Self Sufficiency Program is not being administered as required by HUD regulations.

PIC reports only 12 families enrolled in the Family Self Sufficiency Program, compared to the minimum program size of 573; however, HANO staff records indicated that approximately 100 families are enrolled. The VMS system reflects \$0 in FSS escrow deposits.

13. The HCVP Department lacks well-defined job descriptions, job-related performance standards and written procedures.

The findings contained in this report reflect the absence of basic systems that are essential to a well-run HCVP operation. Currently, job descriptions lack clear and understandable job requirements and performance standards. A standard training program including required training certifications and training on agency-specific written procedures has yet to be developed and implemented.

14. Dissatisfaction with HCVP administration inhibits the ability of voucher holders to secure decent housing.

Reports of landlord dissatisfaction with the HCV program are widespread, primarily due to processing and payment delays. The Greater New Orleans Fair Housing Action Center published a report in 2009 that included the results of a telephone survey of one hundred property owners. The results found that, "Landlords denied voucher holders the opportunity to rent units eighty-two percent (82%) of the time, either by outright refusal to accept voucher holders or by the addition of insurmountable requirements..." Seventy-five percent of landlords surveyed refused to accept vouchers at all. Note that state and local law do not prohibit discrimination on the basis of income source. At present, HANO has insufficient processing abilities, which would be required in order to increase the number of landlords prepared to accept vouchers.

DEVELOPMENT AND CAPITAL PLANNING ACTIVITIES

Current Conditions

The Real Estate Planning and Development (REPD) Department is headed by a Chief Operating Officer (COO) and is comprised of three Divisions:

Development Division – responsibilities include planning and managing HANO's mixed-finance and other redevelopment activities using HOPE VI, RHF, FEMA, 901, LIHTCs, etc. to create viable communities in support of the agency's mission to provide decent, safe and sanitary housing.

Modernization Division – responsibilities include planning and managing HANO's demolition and modernization activities, the Capital Fund Program (CFP), and other capital funding sources that support these activities.

Homeownership Division – responsibilities include planning and managing HANO's Housing Choice Voucher (HCV) and Public Housing Homeownership programs.

REPD's COO has been with HANO for many years, rising through the ranks to her current position. Twelve employee positions are currently filled in the Department. For development and modernization activities, the COO is supported by six project-level staff, one finance specialist, and one administrative position. The Homeownership Division includes three full-time staff positions. The majority of the work in REPD, however, is contracted out to two consulting firms.

A HANO-funded contractor focuses primarily on modernization and maintenance activities. The principal-in-charge for this HANO contract has been working with the agency for more than five years and is knowledgeable about HANO developments and their capital needs. This contract supports five full-time positions. The current contract end date is February 2010 and HANO currently plans to re-procure these services in March.

HUD directly funds the other professional services contract to provide technical assistance for all development activities related to HANO's Big Four mixed-income sites (CJ Peete, BW Cooper, Lafitte and St. Bernard), as well as Fischer, Desire, Guste and River Garden. This procurement and subsequent contract monitoring is handled by HUD's Denver office. The contract end date is August 2010. The HUD contract supports a project director; four development/budget managers; four construction managers who monitor construction, change orders, and draws; and one administrative position.

HANO's portfolio, comprised of 10 large sites and several hundred scattered sites, is in the process of a major transformation. Prior to Hurricane Katrina, HANO had a public housing inventory of 7,379 units, of which 5,146 were available for occupancy and 1,001 were approved for demolition. HANO already had started the process of demolishing outdated and obsolete units and replacing them with mixed-income communities using HUD's mixed-finance approach to public housing development. Post Katrina, flooding completely destroyed the Desire and

Florida sites and rendered St. Bernard, Lafitte, CJ Peete, BW Cooper, and the majority of the scattered sites uninhabitable. Slow progress has been made to date – more than four years later – in redeveloping these sites.

Today HANO's portfolio count is 3,517 total units, of which just over 3,000 units are affordable rentals (see table on following page)². HANO's 2008 Strategic Plan calls for redeveloping all 10 public housing sites over a multi-year period, ending up with a final unit count of 7,652 including public housing units, project-based units, tax credit units, market-rate rentals, and affordable and market-rate homeownership opportunities. The Big Four sites received substantial Gulf Opportunity (GO) Zone tax credit allocations after Katrina and are in various stages of predevelopment through construction. Desire is being rebuilt; River Garden and Fischer are nearing completion. The remaining HANO properties (Iberville, Guste, and Florida), however, lack approved redevelopment plans.

In Summer 2009, HANO contracted with an engineering firm to undertake a detailed Physical Needs Assessment of Iberville, Guste High-rise, Fischer Senior Village, and scattered sites. This information has been used to guide modernization activities at these developments and to determine which scattered sites should be renovated vs. demolished. An RFP for an Authority-wide Energy Audit has been drafted but has not been issued.

² It is important to note that the data contained in the table on the following page was supplied by HANO REPD. The Administrative Receivership Team is unable to verify this data, particularly in light of inconsistencies between the data supplied by REPD and that supplied by HANO's Real Estate Management staff.

Housing Authority of New Orleans
December 2009

Housing Site	December 2009 Units											Total
	Affordable							Market				
	Public Housing Only*	Public Housing/ LIHTC**	PBSs	PBS/ LIHTC	LIHTC Only	Other Affordable	HO	Subtotal Affordable	Market Rental	HO	Subtotal Market	
Fischer												
Senior Village	100							100			0	
Low-Rise								0			0	
Fischer I		8			12			20			0	
Fischer III		67			36			103			0	
Fischer IV								0			0	
Total Fischer	100	75	0	0	48	0	0	223	0	0	0	
Guste												
Low Rise Temp	216							216			0	
High Rise	385							385			0	
Guste I		67		15				82			0	
Guste II								0			0	
Guste III								0			0	
Off-Site Homeowner								0			0	
Total Guste	601	67	0	15	0	0	0	683	0	0	0	
Lafitte												
Lafitte I On-Site		0		0	0		0	0		0	0	
Lafitte I Off-Site							10	10			0	
Lafitte II								0			0	
Lafitte Temp (1941)								0			0	
Total Lafitte	0	0	0	0	0	0	10	10	0	0	0	
B.W. Cooper												
Cooper I		0			0			0	0		0	
Cooper II								0			0	
Off-Site								0		0	0	
Cooper Temp	302							302			0	
Total Cooper	302	0	0	0	0	0	0	302	0	0	0	
St. Bernard												
Phase I - Onsite		42			41			83	17		17	
Phase II - Offsite							0	0	0	0	0	
Phase III - Offsite								0			0	
Phase IV - Elderly (Onsite)								0			0	
Phase V - Onsite								0			0	
Phase VI - Onsite								0			0	
Total St. Bernard	0	42	0	0	41	0	0	83	17	0	17	
C.J. Peete												
C.J. Peete On Site Rental	1	32			25			59	21		21	
C.J. Peete Homeownership							10	10			0	
Total Peete	1	32	0	0	25	0	10	69	21	0	21	
River Garden												
CS I		122						122	174		174	
RG Elderly					57			57			0	
RG Historic					37			37			0	
RG Homeowner							15	15	23		23	
CS II		60			64			124	186		186	
Off-Site Rental								0			0	
Off-Site Homeowner								0			0	
Total River Garden	0	182	0	0	158	0	15	355	360	23	383	
Desire												
Treasure Village		23		6	5			34			0	
Abundance Square		48		14	11			73			0	
New Savoy Phase I		105		51				156	2		2	
New Savoy Phase II								0			0	
Homeownership								0			0	
Total Desire	0	176	0	71	16	0	0	263	2	0	2	
Florida												
Phase I	77							77			0	
Total Florida	77	0	0	0	0	0	0	77	0	0	0	
Iberville												
Iberville	821							821			0	
Total Iberville	821	0	0	0	0	0	0	821	0	0	0	
Various Sites												
General Ogden								0			0	
Mazant Roysl								0			0	
Other Various	208							208			0	
Total Various Sites	208	0	0	0	0	0	0	208	0	0	0	
Total Units Available	2,110	574	0	86	288	0	35	3,094	400	23	423	

* Straight Public Housing - 80% Area Median Income Cap
** 60% Area Median Income Cap

Development Funding Resources

HANO has received (or will receive) substantial funding for capital improvements and development, including: \$34.5 million in ARRA formula funds, \$8 million annually in Capital Funds, \$75 million in RHF funds, \$51 million in FEMA funds, and over \$200 million in Section 901 funds (\$97.9 million in FY2006, \$66.7 million in FY2007, \$30 million in FY2007, and \$20 million in FY2009)³. Each of these funding sources has obligation and expenditure deadlines as well as different eligible activities that can be funded. Careful planning of redevelopment activities with the appropriate source of funds (and expenditure deadline information) is critical to HANO's portfolio repositioning. HANO also issued \$49 million in Capital Fund Financing Program (CFFP) bonds in 2005 for the redevelopment of three housing sites, resulting in \$1.6 million bond debt service (annually).

It should be noted that because HANO is a troubled agency, HUD must review all pending obligations and expenditures. Each HUD-funded modernization activity must go through an OSAR 1 and OSAR 2 review and approval process prior to bidding and obligation, and an ESAR review and approval prior to expenditure. This requires careful (and constant) coordination with the HUD local office.

This assessment does not include a review of the detailed financial and evidentiary documents associated with each closing that has occurred to date and does not provide any findings related to HANO's previous business decisions and the impact these decisions might have on the long-term operations and viability of the new communities.

Findings

1. There is no common vision shared by HANO staff and contractors to guide their day-to-day activities and decisions regarding development, modernization, and capital planning.

HANO's 2008 Strategic Plan is outdated and does not reflect current and future needs, housing market conditions, staff capacities, and realistic financing approaches. A recent capital planning spreadsheet (dated January 26, 2010) roughly estimated that the cost of developing the remaining number of public housing units per the 2008 Strategic Plan is double the amount of development funds currently available to HANO. A clearly articulated and shared sense of mission is needed to ensure that Authority staff are working in concert to provide quality housing that is financially sustainable in the long-term. Key issues to address in revisiting a long-term strategic plan for HANO include:

- What type of housing authority should HANO be five years from now – an asset management agency with all third party property managers, or a conventional housing authority with in-house property management and maintenance functions?

³ It has been difficult to confirm the total amount of funds awarded to HANO, as well as their obligation and expenditure status. There does not appear to be a single financial report that accurately summarizes the status of development-related funds.

- How many units will HANO control? Where should it rebuild? What are the priorities for redevelopment?
- For whom is HANO building after the Katrina-displaced households have been housed? If the demand is for smaller units (1- and 2-bedroom units) – which is the national trend – what is the most appropriate housing type? Should HANO provide resources to house special needs populations?
- Should HANO self-develop or use experienced developers? What are the staffing needs for these two different approaches and does current staff have the requisite skill sets?
- After expenditure of current development-related funds will additional development and/or rehab be needed to meet demand and if so, where will the necessary funds come from?
- Will the new units be operationally sustainable for the long term?

Revising the Strategic Plan will require a collaborative effort – not only Authority-wide but with the broader New Orleans community given the important role HANO plays in providing much needed affordable housing and in stabilizing neighborhoods. Once a more realistic Plan is in place, then all HANO departments can work towards its implementation. Currently the departments act as silos, have their own priorities, and do not act cooperatively or supportively towards the same goals. Project decisions are constantly revisited and changed; there is lack of clear prioritization for contractors and staff, leading at times to hasty and poor decision-making and constant revisiting of previous decisions.

2. HANO’s Real Estate Planning and Development Department substantially relies on contractors rather than staff to provide the requisite skills to plan and implement HANO’s development and modernization activities.

HANO’s current REPD development staff, many of whom worked in other HANO departments before being assigned to REPD, generally lack modernization knowledge and development experience. Given workload demands, staff training is difficult to schedule. The majority of the technical work and project management is performed by contractors. Information is only shared by the department on an as-needed basis and there appears to be a lack of sophisticated financial understanding and ability to problem-solve on the part of contracted project managers overseeing complex mixed-finance deals. There is no system in place to provide performance reviews of HANO staff; and contractors are requested, on occasion, to back up inexperienced HANO staff, thus making it difficult to assess individual performance and hold staff persons accountable for assigned tasks. At this time it will be difficult for HANO to hire in-house the expertise currently provided by the contractors. Consideration must also be given to how long HANO will be involved in this intensive level of development and modernization. Most of the current funding for development will be expended in five years, reducing the need for a large-scale REPD department in the future.

3. There is inadequate HANO senior oversight of strategic decision-making, staff and contractors.

The Chief Operating Officer of REPD directly supervises all department staff (the majority of whom are project managers or below, with little experience) and provides direct oversight of the two contractors. There is no middle management structure (with the exception of the Homeownership Director), thus creating a substantial management burden on the COO. In addition, the COO represents HANO development and capital planning activities in all meetings with HANO executive staff, residents, the City of New Orleans, financing agencies, developers and investors. She participates in the procurement process for all professional services in the department and in all HANO planning processes, coordinates with other HANO departments to resolve development-related issues, facilitates key department meetings, and prepares memos for the Administrative Receiver. Project managers review all project-level decisions with the COO before reporting to contractors, developers, consultants, or other HANO staff. As a result of such centralized decision-making, project schedules are often delayed.

4. There is limited effective interdepartmental cooperation to support development activities.

Modernization and development activities impact almost all HANO departments:

- Asset Management is involved in lease-up and property management (directly or through oversight) as well as enforcement of the R&O;
- Rehab and redevelopment activities often trigger the need for relocation;
- The Finance Department must ensure funds are available when needed;
- Project-basing of units and executing AHAP and HAP contracts requires input from the Section 8 department;
- Procurement gets involved with all construction bids and the procurement of professional services; and,
- Legal must review all contractual and regulatory issues associated with mixed-finance development.

These tasks require numerous coordination meetings that, with other day-to-day operational demands, limit the ability of department staff to engage in timely decision-making. It is also not clear who has the authority to make decisions on issues that span across departments. Negotiations with developers affect the entire agency – such as developer fees collected by HANO; reserves set in place; amount of operating subsidy given to the owner; etc. These decisions affect the future performance of the agency, not just the ability to create units, but also the ability to operate them long-term.

For more detailed information on the impact of development initiatives on the Finance Department, see the Finance section of this assessment.

5. The lack of an integrated management information system for development activities contributes to poor decision-making that is not informed by real-time data.

REPD has developed a number of detailed tracking spreadsheets to document the status of various development-related processes, schedules, and budgets. These Excel spreadsheets are a) not linked to each other and therefore are not interactive; b) controlled by individuals who manually update them on an as-needed basis; and c) accessed only by request (or *via* hard copies distributed at meetings). Accessing data from other departments is even more challenging, and the information is not always in a format that facilitates decision-making. Basic information such as waiting lists are either incomplete or unavailable, making it difficult to plan for housing needs at other sites. This has led to an environment where decisions are not data-driven – either because the data does not exist or is difficult to access because someone must manually produce it. In the absence of good, accessible data HANO has developed a culture that is comfortable with uninformed decision-making. The Yardi module for Construction and Grants Management, when it is implemented in the near future, is expected to provide data regarding the management and expenditure of development and capital funds but additional data reporting systems are needed to assist with integrated capital planning needs.

6. HANO is expected to meet ARRA's obligation and expenditure deadlines, but not without substantial effort that could have been avoided with more careful planning.

A total of \$34.5 million in ARRA formula funds must be obligated by March 17, 2010 and completely expended two years later or the funds will be recaptured. The HUD Office of the Inspector General (OIG) performed an assessment of the Authority's capacity to administer ARRA funds in May 2009 and identified a series of deficiencies related to internal controls associated with staffing levels and segregation of duties; financial operations; and procurement capacity. The Receiver has been working with staff to address these deficiencies but challenges remain. As of January 20, 2010, \$14.8 million was obligated and \$20.7 million was in the process of being obligated. In the event the total amount of these funds cannot be obligated (primarily due to variations in construction bids vs. budget estimates), REPD identified three alternative work items that could be funded with ARRA funds: relocation costs, the purchase of energy efficient appliances, and the awarding of a program management contract for modernization services. Substantial departmental effort has been devoted to ensuring these funds are obligated on time, taking attention away from other REPD activities. Once funds are fully obligated, REPD will need to carefully monitor the expenditure deadlines, particularly at sites where occupied units are being rehabbed and relocation is involved (Iberville, Guste and scattered sites).

7. HANO does not have a comprehensive plan for meeting other funding deadlines, resulting in inadequate time for planning and programming obligations and expenditures.

HANO currently focuses only on meeting the most pressing obligation deadline and so moves from one impending deadline to the next. This again leads to expeditious but not always wise decision-making regarding how funds should be expended. After the ARRA obligation deadline in March, HANO must obligate all CFP'08 funds by June 2010 and FEMA has expressed its desire to see immediate progress on new construction units they are funding by August 2010. The RHF Plan will also need to be revised and 901 funding obligation deadlines are coming up annually (5 years from year of award). Much of this funding will need to be leveraged with tax credits or other non-federal funds, as the combination of soft costs and construction costs exceed HUD TDC limits. Procurement of developers and the preparation of community-approved master plans will be required. All of this takes time – up to two years prior to obligation of funds. There is no overall management plan to guide the planning efforts associated with projects potentially targeted for funding in the near (or distant) future.

8. HANO's scattered site portfolio has been distressed for years and is a management and maintenance challenge.

Prior to Katrina, HANO had an inventory of 773 scattered public housing units, many of which were in serious state of disrepair and vacant. This inventory sustained substantial flood damage after Katrina; in early 2009 only 144 scattered sites had been reoccupied. HANO's previous administration started the process of disposing of more than 500 units, with the goal of retaining 208 scattered units. The recent Physical Needs Assessment (PNA) recommended that many of the 208 units be removed from rehab designation, calling for demolition instead because of their deteriorated state. There is no agreement between departments at this time regarding which scattered site units should be rehabilitated vs. demolished.

9. Two of HANO's Big Four mixed-income deals are in jeopardy.

Lafitte and BW Cooper risk not moving forward as planned if Congress does not pass a Placed-in-Service (PIS) extender bill in the immediate future. The two other Big Four high profile developments are under construction. CJ Peete has closed on all 460 rental units and the initial phase of off-site homeownership. Construction is underway with initial occupancy scheduled for early 2010. St. Bernard has closed on its first rental phase (410 units), which is under construction but additional units remain to be developed. BW Cooper and Lafitte developers are building infrastructure under early start agreements. These latter two Big Four sites are at serious risk of not proceeding because the GO Zone extender for Placed-in-Service date has not been acted on by Congress. In addition, the Lafitte master plan for subsequent phases (total of 1500 units) may be outdated in light of the current market conditions and unstable financial sector, and the BW Cooper developer continues to struggle with the investor. If the PIS extender is not passed soon, HANO will need to work with the developers on an alternative plan for each site that does not rely on GO Zone tax credits. This will substantially set back the timeline for redeveloping these two big sites.

10. HANO has an effective homeownership program.

HANO runs a successful homeownership program and staff have reported closing on 119 HANO homes for HANO families (90 vouchers and 29 public housing units)⁴. In the immediate future, 44 for-sale units are coming on line at Fischer, as well as 22 off-site units at CJ Peete, and HANO is working with families to get them into these units. To date there have been no foreclosures. HANO staff assigned to homeownership include one director and two support staff. With the homeownership market suffering from the credit crunch, and with limited new homeownership products being developed by HANO or its partners, the Authority may need to rethink what level of resources should be targeted for this program in the next few years.

11. The expenditure of HANO development resources on community facilities rather than increasing the number of affordable housing units at this time may not be fiscally sound.

The expenditure of capital funds for community facilities is under discussion for Desire, Fischer, Iberville and Pecan Grove. At Desire, the original plan called for building a new 28,000 square foot community center on site but it is unclear what the long-term operating plan is for this large-scale building. In addition, two local service providers have expressed an interest in operating a newly constructed community facility at Desire and Fischer, contingent upon HANO providing a commitment of operating support during the initial 3-5 years after construction. Pecan Grove is a stand-alone community building in New Orleans East for use by households in scattered site units (which will substantially decrease in number due to proposed demolition). This HANO-owned building has been vacant since it was flooded in the aftermath of Katrina; it has been the target of vandalism and is in need of substantial rehabilitation. There are no firm commitments at this time from service organizations to cover the ongoing operating costs of any new community facility, and even if operating commitments were in place, HANO will need to determine the best use of its limited resources.

12. HANO does not closely coordinate its housing redevelopment activities with the City of New Orleans and its neighborhood investment strategies.

The City of New Orleans continues to recover from Katrina and the subsequent flooding. The City has recently completed the New Orleans Citywide Master Plan and Comprehensive Zoning Ordinance, which has undergone substantial review prior to its intended adoption. It describes in detail the policies and strategies to be used by the City to guide its physical development for the next 20 years. It also describes the 17 targeted redevelopment areas that the City identified post-Katrina for substantial investment and collateral improvements, which included neighborhoods associated with HANO's Big Four sites. Given that there are still approximately 59,000 vacant and blighted properties throughout the city, primarily in flooded areas, and neighborhoods are recovering at different rates, it is critical that HANO align its redevelopment activities with the city's priorities and investments. Continued concurrent and collateral development strategies are necessary for HANO to not only ensure the long-term sustainability

⁴ This number is uncertain, as our Housing Choice Voucher Program Assessment indicates that HANO's HCVP records show 55 active homeownership vouchers.

of new units but also to serve as a catalyst for larger neighborhood reinvestment. For example, the city has thoughtfully supported development in and around the Big Four sites, suggesting that completing the redevelopment of these four mixed-income communities is a high priority for both the city and HANO.

HOUSING MANAGEMENT

Current Conditions

According to HANO Real Estate Management staff, HANO currently manages 1,029 public housing units. Of the 821 public housing units at Iberville, 539 were occupied as of January 26, 2010. 142 of the 208 scattered sites units were occupied as of January 26, 2010.

Property Name	Project Number	# of Buildings	# Available	# Occupied	# Vacant
HANO Managed Properties					
Scattered Sites- Downtown	LA001099103	20	87	49	38
Iberville	LA001015302	76	821	539	282
Scattered Sites- Uptown	LA001099104	22	78	53	25
Scattered Sites- West Bank	LA001099105	23	43	40	3
Subtotal		141	1029	681	348
Privately Managed Properties					
B.W. Cooper	LA001007303	26	305	264	41
Fischer I	LA001071601	10	20	20	0
Fischer Senior Village	LA001062101	1	100	95	5
Guste Homes High Rise	LA001015301	3	383	331	52
Guste Homes Low Rise	LA001015302	3	50	50	0
Fischer III	LA001072602	55	103	86	17
Treasure Village	LA001065703	15	23	23	0
River Gardens Phase I	LA001058701	88	122	118	4
Abundance Square	LA001064702	29	48	48	0
Subtotal		371	2183	1716	467
All Properties		512	3212	2397	815

As noted in the Development and Capital Planning Activities section of this Assessment, all unit counts were provided by HANO staff, with inconsistent results depending on the exact source of the data.

Until recently HANO had a contractor serving as Chief Operating Officer (COO) of Real Estate Management. The position is currently vacant. In the housing management area, reporting to the COO is a Vice President, two Senior Asset Managers, and four Asset Managers. The department has a clerk position; with the incumbent currently out on medical leave.

One Senior Asset Manager acts as a property manager for Iberville and also oversees the work of the Asset Manager assigned to manage the scattered site properties. The other Senior Asset Manager supervises the other three Asset Managers, whose purported responsibility is the oversight of the privately-managed and mixed-finance properties. In reality, the three Asset Managers spend a significant amount of time at the property management office at Iberville assisting with clerical tasks and basic property management functions such as recertifications.

The total cost of the four Asset Managers and two Senior Asset Managers to HANO is approximately \$500,000, including benefits.

1. There is a lack of written policies and procedures related to real estate management.

When asked to provide HANO's written policies and procedures related to real estate management, a document entitled "DRAFT Asset Management Standard Operating Procedures" was supplied. Further inquiry revealed that at one time written policies and procedures did exist, but apparently lapsed. No one was able to locate a copy of these documents.

2. There has been little to no in-house unit turnover in the recent past.

Units are currently not being turned over as they are vacated, and HANO staff indicate that there is no stock of materials to facilitate the re-occupancy of units, with the exception of the temporary housing program mentioned herein. Prior HANO administrations have announced HANO's intention to moderately rehabilitate several units at Iberville to use as temporary housing for residents of scattered sites under renovation. However, no such units have been rehabilitated. In addition to reducing the citywide stock of affordable housing, this approach increases Iberville's security costs (the security grates used on units are rented and are apparently expensive) while decreasing revenue in the form of rent and subsidy. In addition, the failure to reoccupy units at Iberville has tended to exacerbate existing maintenance issues, due to heating/cooling disparities between occupied and unoccupied units.

3. In-house public housing waiting list administration does not reflect a city in need of decent affordable housing.

According to HANO staff, the pre-Katrina waiting lists were comprised of approximately 14,000 individuals, with approximately 9,000 unduplicated names (there were separate waiting lists for public housing and HCVP and people were encouraged to sign up for both). The waiting list has since been purged and closed. HANO's ACOP was modified in 2008 to provide for site-based waiting lists, with approximately 134 individuals on the Iberville list and a little more than 100 on the scattered-site list. By way of example, Guste and Fischer each have between 10 and 30 names on their waiting lists. At Fischer no families are being selected from the list; instead, families currently occupying scattered site properties slated for renovation are sent to Fischer when vacancies arise. At Guste, the number of vacancies exceeds the number of those on the waiting list. Staff from Guste's resident management company have indicated that marketing efforts were underway, but the property has proven difficult to market.

4. Oversight of privately-managed and mixed-finance properties is weak.

As noted above, HANO currently employs – at great expense – three Asset Managers whose official responsibilities mainly consist of oversight of the public housing at privately-managed and mixed-finance properties. In addition, there is a Senior Asset Manager who in turn oversees the three Asset Managers. Collectively, the cost of these four positions is approximately \$313,000, including benefits. Unfortunately for HANO, this money has secured little oversight of the privately-managed and mixed-finance properties. Interviews with staff at several privately-managed and mixed-finance properties revealed that oversight on the part of HANO’s Asset Managers typically involves a site visit once per month and the receipt of the property’s monthly report. Indeed, several staff members at one property could not recall ever having seen HANO’s Asset Manager on site. While HANO’s Real Estate Management Department has indicated that the Asset Managers themselves claim to visit the sites more often, there is scant evidence of this. One may attribute this failure to the general lack of performance standards referenced throughout this Assessment, but there appear to be additional specific reasons.

First, the Asset Managers are often called upon to perform management-assistant-type duties for the in-house properties, taking attention away from their actual duties. Interviews with HANO staff reveal that each Asset Manager is expected to spend two days per week performing such duties. Regardless, it does not appear that HANO is receiving rigorous oversight services during the other three days of the week given what the Team learned through interviews.

Second, when HANO converted its software to Yardi, it was envisioned that private managers would have access to it and enter information to be available in real-time to HANO staff. This has not happened and there appears to be a general acceptance that it never will. Some management companies don’t use Yardi or use different versions that are somehow incompatible with HANO’s version.

HOUSING MAINTENANCE

Current Conditions

The HANO maintenance organization resides within the Real Estate Management Department. The Organizational Chart dated November 2009 identifies the Vice President of Asset Management as responsible for oversight of the maintenance delivery function. The Senior Maintenance Repairer Specialist provides day-to-day operational oversight of all services. An additional Senior Maintenance Repairer Specialist and Senior Maintenance Specialist supervise sixteen maintenance specialists. Although the site-based maintenance staff are assigned to the Asset Management Project groupings (AMPs), they report up through the chain of command to the Senior Maintenance Repairer Specialist and ultimately to the Vice President of Asset Management.

Existing HANO Central and Site-Based Staffing Distribution by Full-Time Equivalencies

Staff Position	Iberville AMP	Scattered Sites AMP	Central Operations	Total
Administrative/ Supervisory Staff				
Vice President for Asset Management			1	1
Senior Maintenance Repairer Specialist			1	1
Senior Maintenance Repairer Specialist		1		1
Senior Maintenance Specialist	1			1
Maintenance Specialist (Serving as Maintenance Clerk)		1		1
Maintenance Staff				
Maintenance Specialist	5	10		15
Total Available Units by AMP	821	208	1,029	1,029
Total Maintenance Staffing By AMP	5	10	0	15
Maintenance Staffing Ratio	164:1	21:1	-	69:1
Total Administrative Staffing By AMP	1	2	2	5
Administrative Staffing Ratio	821:1	104:1	515:1	206:1

The overall maintenance staff/unit ratios are appropriate at HANO, particularly in light of the physical condition of HANO's properties. However, the maintenance staff/unit ratio is high in the scattered sites program, due to an official allocation of staff that does not reflect reality. In our opinion, the ratio of units to maintenance staff in a distressed Public Housing Authority should be in the range of 40:1 to 60:1 until such time as PHAS physical scores have achieved a rating of 70 or better.

For work beyond the site maintenance team capability, such as painting, major renovations, complex mechanical or electrical problems, the site manager must acquire support from contractors. All vacant unit preparation including clean-out is currently performed by HANO staff.

Although there are technically two Senior Maintenance Repairer Specialists, one of them serves as the *de facto* supervisor of HANO's maintenance operations. During interviews, he exhibited a general understanding of work distribution, including setting priority and scheduling work, and could articulate performance targets for his department despite the nonexistence of written standards. However, he was not clear about the type of data required to document performance for PHAS certification and was not fully knowledgeable of the detailed requirements for each of the PHAS component calculations.

Maintenance staff spoke very highly of each other and spoke often of teamwork and cooperation. A renewed sense of commitment to the residents, the work and the developments was exhibited among most staff members interviewed.

Unit inspections are conducted on all units annually and are performed by two maintenance specialists. The forms used to perform the inspections are not UPCS-compliant and cannot attest to the actual standards used.

Unit turnaround performance is a shared responsibility with housing management staff, which is responsible for timely notification to Maintenance of vacant units and timely leasing of the units once they are repaired. Maintenance is responsible for the period from when they are notified of a vacant unit by housing management until the unit is ready for occupancy (make ready time).

After-hours emergency work orders are handled by a rotating crew. According to the Senior Maintenance Repairer Specialist, staff assigned is adequately trained and the system appears to be working well.

Staff members are issued uniforms although they have not received new uniforms for several years. Staff appearance is acceptable. Radios are used to communicate between the maintenance shop and the field. Staff are required to use their own tools to perform their duties. The Iberville and Scattered Sites fleet consists of five vehicles: two pick-up trucks, one van, one stake-body truck and one step-up van. The reviewer observed a cracked windshield on one of the vehicles.

Iberville, which was built in 1939 and occupied a year later, and the scattered site properties vary in age. During four site visits, the reviewer found the majority of the Iberville site relatively free of debris and litter. Little graffiti exists throughout the site but the neighborhood surrounding the property is heavily marked. Garbage pickup services are provided by HANO. Residents are required to put out their trash in dumpsters picked up by HANO three times per week. Catch basins are located throughout the site in paved areas and are free of debris. Other basins are located in lawn areas and are poorly designed resulting in significant ponding during heavy rains. The site suffers from substantial erosion and rutting with some settlement and cracks present on walkways and paths. Limited signage is well maintained and in good condition. A sign located in the window of the management office was out of date in that it displayed the correct telephone number for after-hour emergency calls but included the name of a former employee and not the current contact name.

There are few recreational areas on the sites. Security lighting in and around the parking is insufficient. Fencing and exterior handrails are well maintained and structurally sound. The reviewer observed missing handrails in two locations in the rear of two buildings. Building entrances are free of debris and properly illuminated. Entrance doors are generally in average condition and are sealed and caulked properly. Screens were missing throughout the sites and vents, downspouts and gutters were observed as damaged or missing at a number of addresses. Building exterior fascia and trim, although not attractive, are generally in good repair.

The last REAC Uniform Physical Condition Standard Inspection conducted by a third party on December 16, 2008, resulted in an initial score of 56.4 out of a possible 100 points. An additional 30 points were deducted due to the presence of exigent health and safety violations resulting in a failing score of 26 points. Systemic deficiencies noted included lavatory sinks damaged, obstructed accessible routes, holes in walls, deteriorated window caulking, expired or missing fire extinguishers, damaged hardware and locks, missing or cracked outlet covers and inoperable smoke detectors. Staff were not able to certify that all deficiencies identified during the inspection resulted in work order generation or whether or not all deficiencies have been corrected or abated or referred to the current capital plan as required.

An unannounced unit inspection was conducted on a recently reoccupied two-bedroom unit at Iberville. It was randomly selected and representative of the development's unit mix. Apartment doors and locks were in poor condition but in working order. The rear screen door spring closure was not attached. Walls, ceilings and floor surfaces were well maintained. Surfaces were free of holes, cracks and defects. Painted surfaces were in good condition although the painters applied paint to receptacle and switch plate covers. Floor tile in bathrooms and kitchens were free of defects. Bathroom fixtures were in average condition. Although aged, kitchen appliances, cabinetry, countertops and lighting were in good working order. Windows did however show signs of water penetration. Toilets, lavatory faucets, tubs and kitchen faucets and all associated plumbing were in working order but near the end of their useful life. Tubs and sinks were caulked appropriately.

Findings

1. HANO's existing maintenance structure does not promote the concept of strategic maintenance management planning or operations.

Although HANO is committed to a decentralized property management and maintenance organization within the asset management structure, HANO maintenance staffing is not currently organized in a way that establishes overall maintenance accountability and responsibility at an appropriate level. Maintenance staff report directly to supervisors outside of the AMP and do not report directly to the Senior Asset Managers.

2. There is an apparent lack of accountability and maintenance management skills at all levels in the maintenance organization.

The managers and supervisors demonstrate lack of awareness of top management direction (explained in part by the changes in top management personnel) and of ability to direct their work groups to achieve high levels of performance. The workers, by their comments, suggest that the skill levels vary widely among the work force and indicated that additional skills training is needed.

3. Position descriptions exist for all maintenance staff, but current position titles do not match those descriptions.

The three most common job descriptions (Senior Maintenance Repairer Specialist, Senior Maintenance Specialist and Maintenance Specialist) were reviewed to determine their relevance to the work done at HANO. As described in the Human Resources Assessment Section, in most instances specific job duties and quantifiable performance standards are not clearly defined. As a result, the supervisor cannot adequately monitor staff performance. The Senior Maintenance Repairer Specialist interviewed indicated that he believes that he currently holds a Facilities Manager job title and description and not that of his current Senior Maintenance Repairer Specialist position.

4. Basic standardized systems and procedures required to properly plan, direct, control and document the workload of the in-house maintenance workforce are not being used or do not exist.

Although the management and maintenance functions and procedures are well documented in the Draft Asset Management Standard Operating Procedures Manual and the Maintenance Plan, HANO has not implemented them consistently. For example, the Senior Maintenance Repairer Specialist does not maintain written standards for vacant unit preparation or time standards for routine work requests with which to compare information on actual staff productivity.

Maintenance staff interviewed evidenced a clear and consistent understanding of what constitutes an emergency but there is no written definition and a review of the work order report found some inconsistencies with how and when the definition is applied. As a result, HANO may not be properly classifying work orders and therefore underreporting the number of emergencies corrected or abated within 24 hours. For example, a number of work items that would be considered emergency in nature including active leaks, faulty wiring, broken glass, main drain stoppages and expired fire extinguishers have been classified as routine and a number of routine work requests conversely have been classified as emergency.

Although HANO has published written policies or procedures related to maintenance functions, staff does not follow it. HANO does not implement its preventive maintenance plan based on an assessment of the physical needs of the properties or building systems.

5. HANO's maintenance staff utilizes the Yardi automated work order system to generate work orders but does not fully utilize the tools available through the system to organize and manage the work, such as reports for tracking open work orders, completion time and productivity.

The existing automated system appears to provide an adequate foundation for organizing maintenance work, but staff does not utilize the system to its full potential.

6. There is concern regarding the validity and accuracy of work order data, work orders are not entered when the original deficiency is discovered or when residents notify HANO, outstanding work orders are voided and reestablished when they exceed turnaround time thresholds and there is little monitoring or supervisory review of hours reported and material costs.

An analysis of existing work order reports found some errors that will require further investigation. HANO reports that 3,535 work orders were issued for all conventional housing, including Iberville, Guste, B.W. Cooper and Scattered Sites during the period of October 1, 2009 through January 21, 2010, of which 2,998 were routine, 328 were emergency in nature and 132 were voided. Nearly ten percent of emergencies took greater than 24 hours to complete, some of which remain outstanding. Routine work orders average 18 days to complete – a notable accomplishment – however, given the delay in data input and inability to capture generation dates, this performance measure is suspect.

It was reported to the reviewer that when a work order remains outstanding beyond a 30-day period, it is voided and re-issued with a new request date. Additionally, work items identified during UPCS inspections are not entered immediately but are issued and closed when the work is performed resulting in a reduced turnaround time for these work requests.

Questionable reports, possible data errors or miscalculations suggest that the PHAS supporting documentation may not be accurate and that HANO cannot validate agency performance. Productive labor hours are not consistently or accurately reported. There are no re-inspections

completed on a regular basis to ensure quality control of the work performed. Material costs are not captured on completed work orders.

7. There is acute absence of work/production control at the property, AMP and Headquarters level.

Work accomplishment is highly reactionary in nature instead of being anticipated and strategically scheduled in advance. Actual labor hours consumed are not systematically measured, evaluated, accounted for, nor reconciled. Prioritization of tasks is done on a day-to-day basis. Labor standards are not used to determine suitable times required to accomplish specific tasks. Consequently, the cost of work accomplishment is unknown.

Beyond workers signing in the morning and out in the evening, the maintenance workforce is not being monitored in a way that allows management to know how available labor hours are being consumed. Consequently, maintenance workers are not receiving proper credit for time worked. Labor hours are not recorded in Yardi and those that are recorded on the printed work order are highly suspect and no attempt is made to reconcile actual labor hours consumed against those available. Labor rates recorded on the printed completed work order are also not properly recorded in the Yardi system.

The Senior Maintenance Repairer Specialist and Asset Managers have no indicator to measure the effectiveness of their staff in providing quality service to the resident population. Compilation of relevant data is not generally required of the property management staffs and inadequate amounts of data are being provided to them precluding the ability to perform a self-assessment. Resident satisfaction is not being measured, which can be done by collecting feedback using survey forms distributed at completion of the work order at the time the resident signs the work order.

8. There are concerns regarding the HANO's ability to renovate and reoccupy vacant units in a timely manner.

Although few vacant units have been turned recently, due in part to issues in tracking worker performance fully through the existing work order system, HANO cannot adequately analyze vacant unit productivity and costs.

9. HANO staff require training in several areas.

These include immediate attention in planning, estimating, and scheduling work; maintenance skills enhancement; time management, communicative skills for supervisors; stress management; and motivational techniques. Asset Managers and the Senior Maintenance Repairer Specialist generally lack the skills and training necessary for successful execution of an in-house maintenance work plan.

10. There is no program in place to re-inspect units, building systems, common areas, building exteriors or site for quality control. Additionally HANO does not maintain an effective efficient inspection and repair system to maintain their portfolio.

Uniform Physical Condition Standards (UPCS) inspections do not result in work order generation. The results of unit inspections that identify various deficiencies in varying levels of severity, including non-operable smoke detectors, have not been entered into the work order system. Further review is needed to determine whether the UPCS inspection forms utilized at HANO are appropriate for state and local standards.

11. It is clear from interviews with staff that HUD requirements for systems inspections are not understood and that, as a result, required inspections are not performed.

Contractors and staff inspect major systems annually but since no major system inventory exists, it is difficult to determine whether all systems are inspected as required. Formal site inspections are not conducted on a schedule that is appropriate to the individual systems.

12. No formal inventory control and management system exists at HANO. It was reported that a full warehouse inventory was performed in September 2009 and previously in May 2008. Annual fixed asset inventories on some items are conducted but not fully reconciled against existing records.

All Maintenance staff have access to supplies on an as-needed basis and a log record is kept of supplies taken from the storage area. All materials and equipment are stored at the property storage areas and maintenance facilities. One site storage area inspected at Iberville was disorderly, insufficiently stocked and poorly managed with insufficient bench stock. Items were mislabeled and disorganized. Most storage areas are open and accessible, except for limited high cost items. During our preliminary review, staff stated that needed materials have not been replenished since August of 2009.

There is insufficient stock and stock/material control at the properties. Local material inventory control is unsatisfactory. Managers maintain unquantified material storage levels with no standing inventory, no established reorder points, and only marginal security in place. A requirement to reconcile withdrawn or consumed material costs at the property with cost reports run by the stockroom is not possible. Materials that are not available at one property are often drawn from storage at another property with manual logs and reporting. Consequently, pilferage cannot be effectively measured.

RESIDENT SERVICES

Current Conditions

Resident services at HANO are coordinated through HANO's Client Services Division under the Real Estate Management Department. The division is headed by a Vice President and supported by a single case manager and two additional staff who are considered 'floating', i.e. assigned to projects in other areas as needed. The department is also supported by graduate student interns from Southern University of New Orleans (SUNO). This division is responsible for the following:

- Relocation: Client Services assists with relocation related to modernization and redevelopment activities. The division is currently coordinating the relocation of households from HANO's scattered sites and within Iberville, making way for ARRA-funded modernization.
- Supportive services. This division is responsible for coordinating agency-wide supportive services to HANO households, including HOPE VI and non-HOPE VI-funded projects. It is unclear, however, if the division is also responsible for providing supportive services to Housing Choice Voucher households.

Supportive services at all HANO properties are delivered via two principal models.

- There are HOPE VI and mixed-finance-funded supportive services, such as those being provided *via* developer subcontractors at CJ Peete and St. Bernard. In this model, HANO's selected developer contracts with a third-party case management provider for a relatively well-defined scope of work that follows a typical HOPE VI CSS model. These contractors are responsible for assessing family needs, developing supportive services plans, providing case management to active clients, brokering relationships with local service providers for programs, developing training programs, securing additional funding to sustain services beyond initial grant period, and tracking individual-level outcomes. Under this model, HANO has little direct oversight of supportive service contracts and outcomes; instead, HANO receives monthly activity reports. HANO also has no oversight of the supportive services staff under this model. These developer subcontractors liaise with HANO principally through HANO's CSS Coordinator.
- There are HANO-funded contracts, such as those at Fischer and Desire. In this model, HANO has entered into direct contracts with the resident association and/or individual residents directly. Under this model, there is generally a loose scope of work, ill-defined outcomes and minimal tracking.

Overall, the provision of supportive services under this model and the quality of the services available is weak, fragmented, and with no clear indication that the services or the approach meet the needs of residents.

For residents living in Section 8 housing or a development without a CSS program, their access to ongoing case management and supportive services is limited or non-existent.

There is no departmental budget for Client Services. Instead, budget for staffing and programs are included under Asset Management as a central office cost, and at the project level for direct supportive service contracts, if there are any such contracts.

HANO is bound by a 2004 consent decree for services at Desire. The terms of this consent decree include the following:

- The provision of at least \$3 million to finance supportive services for Desire households;
- The development of a 'resource center' by HANO to be operated by the Desire Area Resident Council (DARC), which is to work with HANO to determine programming;
- The establishment of a Section 8 homeownership program with escrows; and
- The provision of technical assistance by HANO to the DARC to allow them to raise additional funding beyond the \$3 million in HANO commitment.

This assessment did not include a review of resident supportive services needs, resident demographic information, availability of quality services in the city, or city-wide services gap analysis.

Findings

1. HANO lacks a strong, coordinated, high quality, needs-based and outcomes-oriented human services program capable of meeting the needs of residents.

The service delivery model at HANO is currently fragmented and wholly contingent on availability of HOPE VI funding. Developments with HOPE VI grant funding have some level of case management assistance and those without have little to no case management support. The system's fragmentation occurs on several levels:

- At the basic level, there is no consistency across the supportive services initiatives that are managed by contractors, in part because HANO has not been able to articulate a clear vision of its strategic priorities with respect to human capital plan outcomes. It is important to note that individual providers often have strong site-based programs, but they are localized and limited to residents of that development only or residents participating in a particular program.
- At the agency level, fragmentation is evident in the absence of clear coordination between departments and functional areas. For example, resident return criteria at St. Bernard include a work requirement. Assisting residents to meet this requirement and – importantly – remain in compliance with the lease is part of Client Services functional responsibilities. However, coordination between property management and Client

Services is inconsistent and uncoordinated. Client Services staff are generally unaware of these specific requirements, which may lead to miscommunication with services contractor and with residents.

- Supportive services are currently funded through an assortment of initiatives that are localized at the individual site level. For example, there is an approved HOPE VI endowment trust for Fischer of approximately \$723,000; St. Thomas has an approved budget of \$240,000; and Desire has a budget of \$276,000 with CSS funds remaining from the original HOPE VI grant.
- A quality human capital plan includes many of the following elements: family-based case management, a menu of programs to meet a multiplicity of needs, extensive partnerships, a management information system that integrates relocation and case management and effectively tracks both process and outcomes, clearly defined programmatic outcomes, and a well developed strategic and funding plan. HANO lacks most of these essential elements in its current fragmented configuration.
- HANO's current Strategic Plan does not adequately address resident services. It does not articulate a strategy for improving self-sufficiency outcomes for residents over the long term, nor does it outline HANO's mission regarding an integrated and comprehensive service delivery model. The Strategic Plan does not address resident services as a key agency-wide priority.

2. HANO's Client Services Division is currently ill equipped to successfully oversee a strong human services program as envisioned in the previous finding.

The current staffing arrangement is weak and inadequate to meet the needs of HANO's resident population. The division is also underfunded and will require significant funding to implement a strong, outcomes-oriented human services strategy to move residents on a path to increased economic independence and self-sufficiency. There is only a single case manager to coordinate case management for a majority of the traditional public housing sites. Families living in Section 8 units do not access case management services in their communities. While families living at sites under redevelopment are able to access a case manager, these contracts will expire and there is no long-term strategic plan to sustain the investment (except at Fischer where there is a HOPE VI CSS Endowment Trust). While the current vice president does an admirable job of trying to develop individualized programs, there is a lack of overall management skills necessary to develop and expand this functional area at HANO.

3. There is little to no agency-wide coordination internally and with other initiatives across the city.

HANO has entered into memoranda of understanding with several local service providers. However, these are individualized at the site/development level. Absent an agency-wide strategy, this individualized strategy may lead to duplication of efforts as contractors seek to develop targeted programs with the same providers. There is also a noticeable lack of

coordination with the city and other local government entities that fund direct services programs, and there is a lack of engagement of local and national foundations that provided significant funding resources during the aftermath of Hurricane Katrina. Internally, there is inadequate cross-agency coordination. For example, as units are coming on line in various stages, Client Services has limited knowledge of the status of developments or any agreed-upon reoccupancy criteria, and thus is not equipped to communicate this information to residents or contractors.

4. HANO redevelopment efforts underway and in the pipeline create employment opportunities that should be better exploited on behalf of residents.

Construction and property management at the 'Big Four' and ARRA projects create employment and Section 3 opportunities for residents. While individual developers attempt to meet contract requirements for Section 3, HANO lacks a clear and integrated Section 3 strategy that articulates the agency's vision and goals, strategies for meeting goals, and penalties for lack of compliance. Currently, the communication around Section 3 is fragmented and it is unclear the extent to which residents are able to access employment opportunities at any scale. Furthermore, the training pipeline that allows residents to be trained for construction and other jobs is also fragmented by developer and individual programs; there is no coordinated agency-wide employment training initiative that links employment and training opportunities. There is also little to no connection to citywide employment and training initiatives that could directly benefit HANO job seekers.

5. The implications of the Desire Consent Decree are unclear.

The absence of specific compliance reports on HANO's performance under the Desire Consent Decree means the Administrative Receivership Team is not able to determine at this time whether HANO has met its obligations under the terms of this settlement. Of immediate concern is the status of the Resource Center (refer to Development Assessment Section for a discussion of community facilities). While redevelopment plans call for a community center to be built at Desire, the terms of the consent decree may impact programming and operations, particularly HANO's ability to attract a capable third-party operator willing to assume long-term operations of this facility.

6. The lack of good data hinders the ability of the Receiver Team to make definitive statements about programming and performance.

There are available HUD quarterly reports for HOPE VI-funded sites, but there is no overall database on resident needs and outcomes to date. The team is not able to determine the profile of families living in public housing and Section 8 at this time, except for those living in redeveloped sites. The team is also not able to confirm the numbers of households currently eligible for supportive services AND living in New Orleans, versus pre Hurricane Katrina families who may be eligible for services but have not yet returned or are likely to not return. This data allows for better planning of funding, staffing and other resource needs and forecasting across the agency.

SAFETY AND SECURITY

Current Conditions

The HANO Police is a special police operation commissioned by the New Orleans Police Department (NOPD). It consists of one Chief, one Lieutenant, one Sergeant and six Officers. Its members are uniformed and armed. Their jurisdiction is limited to HANO properties. By arrangement with the NOPD, they have arrest powers on those properties but do not prepare official incident, offense or arrest reports. Its members do prepare internal reports of activity and are called upon to provide court testimony on arrests they make or when they provide assistance to NOPD officers.

The current responsibilities of HANO Police members are multiple and varied. They provide weekday/daytime enforcement patrols to the Iberville development. They provide intermittent weekday/daytime quality of life patrols to other HANO developments. One officer provides weekday/daytime monitoring of the security cameras installed at the Iberville development. One officer provides weekday/daytime security at the HANO main offices and acts as the radio dispatcher. One officer provides weekday/daytime security at the HANO Housing Choice Voucher offices. Officers provide tag and tow services at HANO properties in conjunction with a towing service for abandoned, disabled and illegally parked vehicles. Officers respond to court and provide testimony in trespass and criminal cases. Officers provide transport of collected rents from the Iberville development to HANO Headquarters. Officers conduct resident checks on vacant units throughout the properties. Officers provide security for HANO Board of Commissioners meetings. They provide property security at demonstrations conducted at HANO facilities. Officers conduct internal investigations for all employee related vehicles accidents and on-the-job injuries. They also contact the SPCA and assist in the removal of dangerous and stray animals. They provide special event security and provide a bus driver for dignitary visits. Finally, the HANO police are included in the City of New Orleans Emergency Management Plan and are prepared to assist in future resident and employee evacuations.

The unit has been in existence for a number of years and has employed as many as 80 members. Just prior to Hurricane Katrina, the unit was comprised of 23 members. The current staffing (9) is an all-time low. The number and variety of current responsibilities fully engage the staff and also limit it to only daytime and weekday operations. The inconsistency and size of the staff limits the Director in maintaining existing responsibilities and in planning any new security initiatives. Three of the eight operational positions are currently fixed posts, allowing only 5 members to accomplish all other tasks.

Currently, HANO employs three types of security personnel at its developments: unarmed contract security at two senior developments, HANO police, and contracted NOPD officers at the Iberville and Fischer developments.

Unarmed contract security personnel are employed to conduct access and egress monitoring at the Fischer Senior and Guste Senior developments.

Three HANO police officers are currently committed to fixed post security assignments, the remaining three officers and two supervisory personnel currently patrol the Iberville development and provide quality of life, through intermittent patrols, to other developments.

Through a Cooperative Endeavor Agreement, two NOPD officers are assigned, in an overtime capacity, each day to the Iberville and Fischer developments. These officers, by agreement, are assigned in addition to the baseline services provided by NOPD. Of these four officers, two are funded by HANO and the funding for two is absorbed by the NOPD. HANO's funding commitment for the officers it funds is \$174,720 annually. Additionally, through the agreement, the City agrees to: provide statistical data for crime in all HANO developments and monthly data for Iberville and Fischer, provide bi-weekly reports on the officers' activities to HANO, provide the assigned officers for civil proceedings initiated by HANO, provide weekly reports on one-strike violations committed on HANO properties, have the affected District Commanders for Iberville and Fischer meet with management and residents quarterly, conduct a quarterly meeting with HANO to review the contract and operations plan, have affected District Commanders attend semi-annual and annual HANO Board Meetings, and provide, at no cost to HANO, criminal records checks of prospective applicants for public housing. This contract was entered into in June of 2009, but implementation was delayed several months. The fourth quarter crime report will provide the first true indicator of the value of this agreement.

The relationship of HANO to the NOPD appears excellent. The HANO Director of Security is a 32-year veteran of the NOPD. He is a proven police professional, having risen to the rank of Deputy Chief of Police within the NOPD. He is an experienced manager and instructor and maintains multiple contacts within the NOPD.

The HANO police conduct periodic "quality of life" patrols at all developments. From the enforcement perspective, quality of life is most often measured by the control of several factors: abandoned vehicles on properties, graffiti and other criminal enterprise indicators on properties, and unsecured vacant dwellings. HANO engages a private towing company to assist in its "tag and tow" operation for abandoned vehicles. It also engages a private contractor to secure vacant dwellings. The HANO "quality of life" patrols appear to be highly effective. During the site visit, only one apparent abandoned auto was noted. This vehicle, however, was tagged and awaiting the expiration of the prescribed time limit for removal. All vacant units appeared to be secured. No graffiti was observed at any of the developments visited.

HANO staff have indicated that intermittent resident engagement has occurred since the return of residents after Hurricane Katrina. However, staff have indicated a willingness to re-institute resident education forums. One forum has recently been conducted and another is in the process of being scheduled. Lack of staffing was indicated as an inhibitor to more extensive engagement.

Findings

1. HANO does not have a sufficient fixed or consistent number of public safety positions.

Each time a position becomes vacant, the Director must seek approval to have the position filled.

2. HANO officers are not sworn police officers, yet they often provide patrols and engage in contacts that are normally reserved for sworn officers.

In Louisiana, sworn police officers are Police Officer Standards and Training (POST) certified. This certification requires formalized, documented initial training and yearly in-service training. HANO hires experienced law enforcement professionals as officers and provides yearly weapons qualification. While this limited training meets the established standard for armed security officers; it heightens the potential civil liability for the actions of its officers; especially in use of force, false arrest and citizen complaint situations.

3. Public Safety equipment needs replacement.

The staff currently use vehicles, weapons and bullet proof vests secured in a one-time purchase by the then HUD Receiver in 2004. The vehicles, while well maintained by security personnel, are near the end of their useful lives. The vests that remain have exceeded their warranties and are in need of replacement.

4. Crime Data available to HANO is not timely.

The NOPD provides crime data to the HANO Director of Security on a quarterly basis for each HANO development. The data consists of both a quarterly and year to date comparison with the previous year of FBI Uniform Crime Reporting (UCR) incidents occurring in and around HANO properties. The Director of Security then provides a report to HANO senior staff interpreting and including the data provided by NOPD. The report provided to HANO senior staff through the Director of Security accurately reflects crime occurring in and around HANO properties and is sufficient to meet reporting requirements to HUD and is useful for long term planning. The quarterly nature of the report and the delay in delivery to managers, however, is insufficient in providing timely data that would be useful in short term planning and immediate measurement of security personnel deployment and other security measures employed.

5. It appears that current property maintenance and redevelopment are conducted without significant concern for Crime Prevention through Environmental Design (CPTED) concepts.

The Director of Security indicated that his department is minimally or not at all contacted in regard to property modernization. With the exception of lighting – which is generally regarded as insufficient – physical security measures were absent from both the traditional and redeveloped housing. Even in redeveloped properties, the differentiation between public, semi-public, semi-private and private space is minimal. An exception to the lack of physical security

is the securing of vacant dwellings. These dwellings are secured by a private contractor with a metal grating system that appears highly effective, although very expensive.

6. The camera systems employed at Iberville and contemplated for Fischer are costly to install, maintain and operate.

The system at Iberville currently employs more than 40 cameras and is hard-wired to a monitoring station at the Iberville management office. The coverage, functionality and clarity of this system are excellent and it can be a highly effective tool in crime suppression and detection. The cost of the camera installation at Iberville was approximately \$600,000. The anticipated cost at Fischer is \$1,000,000. A decision must be made to operate these cameras either actively or passively. Totally active operation (24 hours X 365 days) by HANO police officers would require 10 FTE's and cost approximately \$600,000 per year. Totally passive operation (record and playback without monitoring) would incur no labor cost. An alternative proposed by HANO's Asset Management department would outsource the monitoring at \$18/hour and monitor only 8 hours/day at a cost of slightly more than \$100,000 per year.

A Surveillance Camera Implementation Plan submitted by the Real Estate Management Division on December 18, 2009 recommends outsourcing the monitoring of the cameras at each site for a period of 8 hours daily at a total cost of \$105,120 per year. The plan does not include yearly maintenance costs for the systems after installation.

CONTRACTING AND PROCUREMENT

Current Conditions

An effective procurement function ensures that goods and services, supplies and equipment are acquired from the most appropriate source, in the appropriate quantity, of the highest quality, and at the lowest price. Within HANO, the Administrative Receiver is ultimately responsible for ensuring that goods and services are procured, taking into account the aforementioned goals, in a manner consistent with federal, state, and local laws and regulations and the internal policies and procedures of the organization.

The procurement function is carried out by the Department of Contracting and Compliance. Organizationally, the Department of Contracting and Compliance is placed within the Office of Administration. The department is led by the Vice President for Contracting and Compliance and consists of one Contract Specialist and a Contract and Compliance Monitoring Specialist.

The Department of Contracting and Compliance provides support and technical assistance to agency directors, AMP managers, and designated administrative staff in acquiring goods and services using the most appropriate procurement method (e.g., price quotes, sealed bids, competitive bidding through RFPs, etc.).

The level of activity for the department has increased tremendously as a result of the need to obligate and expend funds related to the American Recovery and Reinvestment Act (ARRA), the Capital Fund Program, FEMA, and other programs. Because of limited staffing resources, the department is obtaining some assistance and support from asset management and modernization and development staff and consultants to procure goods and services.

Findings

The results of our analysis indicate that HANO has been presented with significant challenges in the area of contracting and procurement. There has been some progress recently, but much work remains. The Vice President of Contracting and Compliance appears knowledgeable of the federal and state and local purchasing requirements. The remainder of the staff (Contract Specialist and Contract and Compliance Specialist) have only been with the agency less than a year and will require additional training. Since the Contract and Compliance Specialist is dedicated primarily to Section 3 compliance, there are only two individuals responsible for purchasing activities and the department has limited clerical support. Staffing resources appear inadequate given the existing and anticipated level of activity.

Overall, there is a need for greater transparency in the process to ensure efficiency and to hold individuals accountable. The actual implementation and coordination of procurement activities must be improved to ensure compliance with applicable laws and regulations and that goods and services are acquired in a manner that is in the best interest of the agency. The following are findings resulting from the 90-day assessment of the procurement function.

1. Internal controls over the procurement function are insufficient.

Information obtained during the assessment period from various sources (interviews, document review, review of prior audits/examinations, etc.)⁵ provides sufficient evidence that the existing controls over procurement activities are ineffective. Effective controls provide agency leadership a system of “checks and balances” to detect and prevent fraud, waste, and abuse. Control issues identified during the assessment include, but are not limited to, the following:

- **A significant amount of procurement activity occurred outside of the normal procurement process.**

An examination of purchase orders, vendor payments, contract logs, and other pertinent procurement-related documentation for the past three fiscal years revealed that there was considerable activity that does not appear to have gone through the procurement process (i.e., using the appropriate procurement vehicle to select a vendor and establishing a requisition and purchase order prior to receiving goods and services). During staff interviews, procurement personnel provided anecdotal information and reported that there have been problems in the past with program managers and personnel acquiring goods and services and then presenting a check request to Finance for payment, effectively circumventing the procurement process. While there are certain services (e.g., utilities, travel, training, etc.) for which organizations normally make “direct payments” and would not necessarily go through the normal procurement process, the level of activity outside of the process appears excessive. Currently HANO does not have a strict policy on the use of direct payments. Specifically, we found many payments recorded in the system did not have an associated purchase order, therefore, we could not make a determination as to whether procured appropriately (see table below). While in some cases we were able to eventually identify purchase orders to support some acquisitions – and the data demonstrates that the agency has made some progress over time – the ability to pay vendors without the accurate and appropriate information presents a severe control issue. The following chart illustrates this issue:

Fiscal Year	Total Payments in AP	Total Payments without Purchase Orders	Variance	% without PO
2009	\$29,272,604.21	\$18,380,318.89	\$10,892,285.32	37%
2008	\$53,106,011.70	\$24,868,491.99	\$28,237,519.71	53%
2007	\$70,511,869.30	\$11,321,451.73	\$59,190,417.57	84%

Source: HANO financial Management System

⁵ Information from prior audits/studies were derived primarily from previous HUD OIG reports and the internal control assessment currently being performed by the independent consulting firm hired by HANO.

- **HANO implemented the purchasing module of its new computer system without adequately addressing controls issues related to the procurement function.**

In October 2007, HANO implemented the purchasing module of its new computer system (Yardi). The purchasing module, however, was implemented prior to issues related to controls, policies and procedures, and training being adequately addressed. For example, a final decision on authorized approvers and associated dollar thresholds was not made prior to implementation. In addition, the system also appears to have been implemented by HANO without a true understanding of its capacity or appropriateness for processing procurements. Some of the problems with the implementation that present major control issues include:

- The requisition process has not been initiated. Instead, requisitions are currently processed manually. Further, the certification of funds by budget is also performed manually. Under the manual process, the processing of requisitions is cumbersome, extremely challenging for procurement managers to track and monitor activity for compliance and performance purposes, and difficult in the detection of control violations or irregular activity on the front end. It is also important to note that the current configuration of the systems does not allow for funding certification at the requisitioning stage. Instead, funding is not certified until the purchase order is ready for approval. If the system is not customized (which may be costly to the organization) HANO will have to alter its existing requisitioning process to suit the capacity of the system.
- The receiving function has not been initiated. In addition, some staff identified as “Receivers” do not have access to the system or were not trained on how to use the receiving function. Currently, the receiving function is manual and staff are not actively alerting the purchasing department when goods and services are received.
- The contracts module of the system has not been implemented. Moreover, “as is” the capacity of the system does not allow for the association of a contract with a purchase order. As a consequence, payments are not linked to the accounts payable function and contracts are currently being managed and expenditures tracked on an Excel spreadsheet maintained in the Finance Department. Tracking activity outside of the system leaves the organization vulnerable to overpayment or payments not in accordance with contract terms (e.g., payments for unallowable activity).
- Staff in both the Finance and the Contract and Compliance Departments have the capacity to enter vendor information in the system. Historically, this has been the case at HANO and has resulted in vendors being paid without complete and accurate information (e.g., tax ID, address, etc.), being input into the system, unauthorized vendors established and payments made, as well as duplications and incorrect information in the system because of the lack of accountability and

quality control. HANO failed to address this issue prior to system implementation.

- The procurement department does not control the collection of price quotes associated with micro purchases (purchases under \$2,000 that require at least one price quote) and small purchases (greater than \$2,000 but less than \$100,00 that require three price quotes). Some price quotes are collected by the purchasing department and others by program personnel and inconsistently validated by the purchasing department.
- HANO does not have formal procedures to purchase goods and services with credit cards or petty cash. This finding was identified during the assessment process and through analysis conducted by an independent consulting firm. Further, procurement staff do not have access to information related to the purchases of goods and services that occur outside of the established procurement process. Without a defined policy on the uses of either the credit card or petty cash, violations of procurement policy, laws, and regulations may occur.

2. Procurement files were inadequate to demonstrate compliance with laws and regulations and internal procurement policies.

In accordance with HUD Handbook No. 7460.8 Rev 2, Section 3.3 B. all PHAs are required to retain all significant and material documentation and records concerning all procurements they conduct. The records must be retained for a period of three years after final payment and all matter pertaining to the contract are closed.

Further, HANO procurement policy, Section 5.70 (which is consistent with HUD and Louisiana State regulations), requires that sole source contracting be applied given only the following conditions:

- a. The item is available only from one single source, based on a good faith review of available sources;
- b. An emergency exists that seriously threatens the public health, welfare, or safety, or endangers property, or would otherwise cause serious injury to HANO, as may arise by reason of flood, earthquake, epidemic, riot, equipment failure, or similar event;
- c. HUD authorizes the use of non-competitive proposals; or
- d. After solicitation of a number of sources, competition is determined inadequate.

The policy also requires written justification to support the noncompetitive procurement, specifically indicating that the lack of planning shall not constitute justification for emergency sole source procurement.

The Administrative Receivership Team reviewed 40 procurement files from fiscal years 2007 through 2009, covering a range of solicitation methods (e.g., micro purchase, small purchase, sealed bids, RFPs, sole source, etc.) to determine compliance with federal and state regulations and the HANO procurement policy. The sample was selected from contract logs and a complete list of vendor payments made in the respective fiscal years. Overall, we found that the Housing Authority failed to maintain adequate records to demonstrate compliance with state and federal laws and regulations, as well as internal HANO procurement policy. Our review revealed the following problems:

- Files were in disarray, did not appear to be maintained in a consistent format and, in some cases, contained information related to other procurements. However, files from the most recent fiscal year were in better condition than the previous two years.
- A statistically significant portion of the files reviewed (over 27%) had serious deficiencies, including missing or improper authorizations and lack of competing bid information; in several cases no procurement documentation was provided.
- Documentation for some sole source contracts was inadequate to determine compliance with laws and regulations and HANO procurement policy, including insufficient or implausible justification and lack of board approval.

During our review, we found several transactions that warrant further investigation. Simultaneously, some of the same issues were identified by the firm conducting forensic audit activities. The Administrative Receiver has referred this matter to the HUD Office of Inspector General.

3. Monitoring of procurement activities is inadequate.

HANO managers failed to actively review and analyze data related to the overall activities of the agency in acquiring goods and services. Key findings include:

- Procurement managers failed to routinely track or monitor purchases (through financial or other management reports) to determine irregularities, violations of policy or procedures, or compliance with contract terms.
- Historically, HANO failed to identify Contract Monitors for each contract awarded. In April 2009, HANO began assigning monitors for each contract and provided those individuals with a document identifying the responsibilities of a contract monitor. Procurement personnel also report that they meet with assigned individuals to make sure they understand their responsibilities. It appears that many did not receive adequate or appropriate training to effectively oversee contracts and evaluate vendor performance. HANO has no formal training program for contract monitors to prepare them to adequately oversee contract activity and vendor performance.

- HANO does not have a strict policy related to vendor management. As reported earlier, both Finance and Contracting and Compliance personnel collect and enter vendor information into the system. As a result, the information is not updated regularly and is inadequate and incomplete. Vendor information is currently being updated by HANO staff because of the new system implementation (it is important to note that this should have happened prior to implementation). Further, the agency engaged in contracts with several vendors with prior criminal convictions (specifically, public corruption charges) or that had been previously debarred. HANO has no policies or procedures for collecting, recording, and updating vendor information or obtaining certifications from vendors related to principal members of the organization or present and past business activities, etc.
- There are no formal, regular meetings between the Contracting and Compliance and Finance Departments. It is critical for effective communication to occur between those responsible for acquiring goods and services on behalf of the agency and those budgeting and paying bills. Inadequate communication can result in vendor overpayments or payments not in accordance with contract terms. Prior audit work by HUD and independent consulting firms have established that this has occurred at HANO.

Without appropriate systems of accountability, effective communication and established procedures for monitoring procurement activity by responsible individuals, the vulnerability of the organization to potential fraud, waste, and abuse remains. Had these mechanisms been in place, some of the reported fraud and malfeasance could have been detected and mitigated much sooner.

4. Existing procurement processes are highly inefficient.

An effective and efficient procurement process allows reasonable lead times for the purchase of goods and services based on the method of procurement. HANO has formal procedures for purchasing activities that require various levels of approval depending on the procurement method.⁶ In response to the past issues related to misconduct and misappropriation of funds, the former administrator made the decision to review and approve all requisitions and sign all checks. This process was never adopted into HANO's formal procurement policy. Although admirable, given that HANO has an overwhelming number of small procurements, this process sometimes bottlenecked the system and does not prevent further misconduct if adequate internal controls are not implemented. Simple procurements in HANO can often take unreasonable timeframes to complete. This is a result of a combination of limited resources dedicated to the procurement function and HANO's adoption of inefficient practices. Some additional examples of inefficient practices include: (1) a requisition is currently done for office supplies for each department for every single acquisition. This amounts to an enormous

⁶ The existing policies and procedures have been evaluated as a part of the internal control analysis conducted by the independent consulting firm and a draft policy has been circulated to HANO.

amount of work as each acquisition must go through the procurement cycle (independent estimates, quote collection, etc.). The cost of processing the requisition is sometimes more than the items purchased and (2) Individual solicitations are done for all properties requiring grass cutting services. This is highly inefficient and leads to additional cost to the agency and workload for staff.

5. There is no formal procurement planning process at HANO.

HANO leadership failed to establish a formal process or produce an annual plan to guide annual procurement activities. In accordance with HUD Handbook No. 7460.8 Rev 2, Chapter 3.1, a PHA should engage in advanced procurement planning to maximize competition, decrease procurement costs, reduce administrative cost, and to ensure that all supplies and materials are obtained without the need for re-procurement. Ideally, this process should occur simultaneously with the annual budget process. Given the existing staffing resources dedicated to the procurement function, the limited knowledge of managers and other individuals involved in the procurement process, reported fraud and theft at HANO and overall need to operate more efficiently, this is a particularly glaring omission.

6. Ineffective communication and training exists among departments with procurement-related responsibilities.

Under the asset management model, the purchasing process requires participation on the part of staff at the developments and the central office. During interviews of staff with responsibilities related to the purchasing function, there was great concern expressed regarding the lack of effective communication among Asset Managers, central office managers, purchasing agents, and accounts payable staff related to the process for acquiring goods and services and the payment for such services. Some of the major issues identified included individuals purchasing goods prior to having an authorized purchase order, individuals not “receiving” goods and services in a timely manner to acknowledge delivery or facilitate payment, and missing or incomplete documentation to support payment of invoices. These activities have negatively impacted the effectiveness in the organization in ensuring compliance as well as paying vendors in a timely manner. Evidence obtained through a review of documentation validates many of the aforementioned concerns.

Staff within the procurement department have received some recent training commensurate with their level of responsibility. However, there does not appear to be an established plan for training for the procurement department. Other staff outside of the purchasing department with some level of responsibility in the procurement process, however, have received no training at all. In accordance with HUD Handbook No. 7460.8 Rev 2.5, procurement employees should have training and experience commensurate with requirements of their duties. Further, agencies should develop training and experience standards for procurement positions.

HANO’s failure to ensure continuous opportunities for personnel exposes the agency to issues of noncompliance with laws and regulations, the conducting of illegal or inappropriate

procurements, and to the acquisition of goods and services at prices that are less than favorable.

MANAGEMENT INFORMATION SYSTEMS

Current Conditions

HANO's Management Information Systems (MIS) Department has primary responsibility for maintaining the agency's network including workstations, servers, software, and telecommunications. At present, there are approximately 250 staff and contractors using HANO's system. Locations include the main office at Touro, the West Bank Housing Choice Voucher Program (HCVP) office and individual housing development sites (BW Cooper, Columbia, Estates, Fischer, Guste, Harmony Oaks, River Garden, Iberville); however, there is no physical connectivity among these locations, i.e. users connect via the Internet to HANO's Virtual Private Network (VPN).

HANO is currently in the process of consolidating its servers and implementing Storage Area Network (SAN) technology. The SAN will involve two servers located in the main office that will back each other up for redundancy. A third SAN server will be located in an off-site location in Dallas, TX. The off-site server is a key part of HANO's planned disaster recovery solution.

Beginning in mid-2008, HANO converted to a third party software package known as Yardi Voyager under license from Yardi Systems. The Yardi Voyager system is the primary software package used by HANO staff and contractors. It is intended to automate all financial/procurement, public housing management and HCV program functions. It is intended to replace previous third party systems licensed by HANO including the Emphasys, Visual Homes and Quick Books packages. Yardi hosts the Voyager application and HANO's data on its own servers. HANO users access the system through an Internet browser.

The first phase of the Yardi implementation in February 2009 involved conversion of existing data and automation of the HCVP Department functions. A second phase in October 2009 included financial reporting, public housing management, and contracts management. A third phase currently underway involves conversion of ongoing construction projects. While the system is now "live," as discussed below there are significant data conversion issues still to be resolved along with extensive staff training, report writing and other tasks that need to be addressed.

The position of Director of MIS is currently vacant. The department has two staff (MIS Coordinator, MIS Technician). Support for the Yardi Voyager implementation was contracted out to Yardi, which served as the systems integrator for the project. All configuration, customization, security and other setups, and user training was provided by Yardi. More recently, commencing in August 2009, KPMG was engaged by HANO to provide project management support and to assess the risks associated with the phase two go-live. The Receivership team has also requested KPMG support to assess the status of all phases including identification of customization, reporting, training and other needs in order to meet HANO's business objectives and maximize utilization of the software.

Findings

1. HANO did not provide effective oversight of the Yardi implementation.

Based on the KPMG review and discussions with end-users, it appears that HANO essentially turned over the Yardi planning and implementation effort to Yardi itself. Beginning with the procurement process, there was inadequate involvement of business process owners who should typically be fully involved in shaping the requirements listed in the Request for Proposals. The process was driven largely by HANO's Chief Financial Officer, who left the agency in January 2009 and was subsequently charged with embezzlement of HANO funds. Following the CFO's departure, a weekly Steering Committee was held; however, on a day-to-day basis, there was little or no oversight of the contractor's work. Fundamental project management protocols were not utilized. For example, while a project plan was initially developed, it was not regularly updated and was not utilized by the Steering Committee to identify resource, scheduling and other issues. Dedicated business process owners were not identified and involved at the level required for a mission-critical application such as Yardi. The end-user testing processes appeared to have been perfunctory, did not involve agreed upon test scripts, and were not customized to reflect HANO's actual business needs.

2. Conversion of data to the Yardi system was not properly planned or executed.

HANO's business owners were not adequately involved in determining data conversion requirements or in the pre go-live testing. Further, generally accepted practices such as a detailed plan for data cleansing and mapping were not followed. The result is that the now-live system has serious problems with data quality, requiring staff to consult with paper records and/or with the prior Visual Homes and CCS system files for current processing and to validate historical transactions. In the area of HCVP, for example, Yardi data related to inspections, annual recertifications, FSS enrollment and other areas does not match data from either PIC or Visual Homes. This problem is not specifically related to the Yardi system; rather, it reflects the poor organization and planning that went into the implementation effort.

3. HANO's business needs and functional requirements are not being fully met by the Yardi system as currently configured.

The Yardi Voyager system provides significant functionality that addresses a substantial percentage of the needs of a Public Housing Authority; however, fully supporting the automation needs of an agency such as HANO requires modification including the development of custom letters and reports. The KPMG review of phase two concluded that the Yardi system implemented at HANO was essentially a standard Voyager installation that was not customized to fit HANO's business needs. HANO's contract with Yardi did not include any customizations or report writing services. Thus, for example, no letters to HCV applicants, participants or owners are currently produced by the system. Staff must utilize manual and other sub-systems to address this fundamental need. A review is currently underway to identify the reports, letters and other customizations needed in order to maximize utilization of the Yardi system and improve operational efficiency. Unfortunately, HANO lacks institutionalized knowledge of the

Yardi system, and therefore has no ability to pass this knowledge on to new employees and contractors through structured training. The current training system relies almost exclusively on the training support provided by the vendor.

4. HANO does not have internal staff capacity to manage/administer the Yardi system on an ongoing basis.

As noted above, HANO has relied extensively on the vendor to support the Yardi implementation, and has not engaged in any meaningful effort to develop internal capacity needed to efficiently manage and maximize utilization of the system in the future. Given the mission critical nature of the business functions automated by Yardi, HANO needs internal staff or other contractors that can manage security and provide report writing, help desk and training support so as to minimize reliance on expensive Yardi resources.

5. HANO does not have an effective process to manage and control software licenses and system access.

HANO does not have a clearly defined system in place to manage staff and contractor access to its computer systems. Thus, for example, there is no updated source to determine whether all licenses assigned by the software vendor (and paid for by HANO) are actually in use. Standard industry practices require a structured sign off process for all add/delete/changes to user access.

6. HANO does not have an operational disaster recovery strategy for its MIS operations.

HANO is in the process of installing a Storage Area Network that will include a remote, off-site location containing a near real-time copy of all HANO data. Completion of this project, along with publication of a detailed procedure to ensure continuity of operations in the event of another disaster, is overdue.

COMMUNICATIONS

Current Conditions

The Administrative Receivership Team conducted an examination of the HANO Communications Department because of the constant flow of negative stories surrounding the agency in recent years and to determine why the public seemed inadequately informed of HANO's and HUD's positive activities and why existing media coverage seemed consistently unbalanced. HANO has a responsibility to competently report on the Authority's activities; our assessment determined that responsibility is not being met.

The Communications Department is responsible for coordinating and managing communications, both internal and external. The department manages relations with New Orleans area print, broadcast and Internet news media as well as trade publications. This responsibility includes building and maintaining effective, professional, working relationships with news agency reporters, producers, editors and photographers as well as writing and editing news releases and media advisories that promote a specific HANO message.

Other responsibilities include overseeing the agency Web site; planning and managing large-scale, high-profile events that include groundbreakings and ribbon cuttings; writing speeches and talking points for HANO executives; writing, editing and designing the agency's newsletters, event invitations, event programs and department brochures and flyers; and helping HANO Executive Department and other departments distribute important information to employees.

The department is comprised of two staff members, both of whom report to the General Counsel:

- Communications Director - serves as the main contact with the news media. The incumbent also oversees the Web site, writes and edits news releases and prepares speeches and talking points, making sure HANO communicates a specific, clear message.
- Communications Specialist - is available to write news releases and media advisories; take photographs at HANO events; and write, layout and design the agency newsletter, event invitations, event programs and department flyers and brochures. The communications specialist also prepares monthly board meeting packets and handles audio equipment at board meetings. He also represents the department at events when the director is unable to attend.

Effective, strategic communications will be critically important for HANO to accelerate the pace of change. Like other HANO departments, the current Communications Department possesses inadequate capacity and skill to properly keep internal and external audiences informed and supportive of HANO activities and accomplishments.

Over the past several years, HANO employees have seen their agency maligned in the media, criticized by clients, and witnessed the exit of unethical and allegedly criminal employees who have helped earn HANO a negative reputation. The Communications Department has lacked

the capability to cope with these circumstances and bring attention to the positive outcomes and activities that have occurred. For example, the agency has consistently failed to inform the public of its development program, which includes several sites near or under construction.

Findings

1. There is no concise Mission Statement or Statement of Guiding Principles.

HANO lacks a clear and consistent mission statement upon which to base its improving operations and concurrent communications strategy. Therefore, the agency lacks core values from which to produce external and internal messaging. Employees, residents, lawmakers, opinion leaders and the general public do not have access to clear and transparent messaging responsive to positive and negative developments at HANO.

2. HANO lacks adequate communications staff.

Currently, the agency is dependent upon under-skilled employees to disseminate critical external and internal messages. Both the Communications Manager and Specialist have some of the skills required to perform their functions and have potential to be productive, but only with training and continuous strategic guidance.

3. There is inadequate rapid response capability.

Not all department heads understand the need to provide accurate, documented information in a timely manner. The Communications Department is not qualified or empowered to provide the kind of training and strong leadership that could alleviate this problem, providing balance in negative media reports that currently do not include HANO's best information. (Experience at successful organizations shows that as positive media coverage begins to flow, department heads become eager to provide requested information).

4. HANO has an unnecessarily negative relationship with news media.

The relationship between HANO and news media is largely adversarial at this point. HANO lacks a plan that helps convert media outlets into allies, or at the least completely impartial observers. The relationship should be such that even on those occasions when HANO falls short on performance, media will treat the agency fairly.

5. There is inadequate management of Freedom of Information Act (FOIA) requests.

The current system to obtain information does not follow an appropriate flow. Such requests are now sent directly to the General Counsel, with responses sometimes dispensed without the knowledge of the Communications Department.

6. HANO lacks an adequate community outreach plan.

The agency lacks an effective plan for re-building and strengthening relationships with organizations and civic leaders who shape public opinion and policy.

7. HANO's web site lacks required functionality.

The site is antiquated and does not allow for easy self-publishing, streaming videos or interactive applications. This is particularly important to decrease pressures on the HCV call center and public housing phone system.