



Issue Date	January 13, 1997
Audit Case Number	97-AT-201-1001

TO: Kevin E. Marchman, Acting Assistant Secretary for Public and Indian Housing, P

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Memphis Housing Authority¹
Memphis, Tennessee

Pursuant to a request from Secretary Cisneros, we have completed an audit of Memphis Housing Authority (MHA). The purpose of our audit was to determine whether MHA is providing decent, safe and sanitary housing for its tenants. The audit covered the period from issuance of an Office of Inspector General (OIG) audit in 1983 through June 30, 1996, and was extended where appropriate to include other periods. The audit field work was performed between February and August 1996.

MHA is not fulfilling its primary mission of providing decent, safe and sanitary housing for low-income families. MHA's housing stock and grounds are in poor condition due to age, lack of maintenance and ineffective use of modernization funds, and have been for many years. We are recommending that HUD declare MHA in default of its Annual Contributions Contract (ACC), and initiate steps to obtain new management of MHA's maintenance and modernization operations.

MHA should also make more efficient use of its HUD Section 8 funds. It can house approximately 50 percent more low-income families than its program was serving.

Within 60 days, please furnish this office, for each recommendation in the report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Should you or your staff have questions, please contact me (404-331-3369) or Assistant District Inspector General for Audit Rudy E. McBee (423-545-4368). We are providing a copy of this report to MHA.

¹ This version does not contain any graphics, photos or Appendices A, B, C, D, and E. For a complete copy of this report, please send a request to the OIG in Atlanta for one.

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Executive Summary

We have completed an audit of MHA as requested by Secretary Cisneros. The overall purpose of the audit was to determine whether MHA is providing decent, safe and sanitary housing for its tenants. The audit concentrated on MHA's management of routine plant maintenance and capital improvements in the Low-Income Housing Program, and how efficiently MHA used its funding in the Section 8 Program.

MHA's buildings, grounds and individual dwelling units are in extremely poor condition due to age, lack of maintenance, and ineffective use of modernization funding. As a result, MHA is not meeting its primary mission of providing decent, safe and sanitary housing for low-income families. The poor condition of MHA's housing has existed for many years and has been the subject of previous HUD and OIG reviews. We believe the housing will continue to deteriorate unless HUD takes forceful steps to reverse old and established patterns evident in past operations. We are recommending that you declare MHA in default under its contract with HUD and institute steps to bring new management to MHA's maintenance and capital improvement operations.

We are also recommending that you request MHA to more efficiently use its Section 8 funding thereby significantly increasing the number of low-income families housed under the program.

Housing Is Seriously Deteriorated

Findings 1 and 2 discuss deficiencies in MHA's maintenance and capital improvement operations. MHA had not effectively maintained its developments, or effectively planned and implemented modernization activities. Both exteriors and interiors of units suffer from years of neglect. MHA acknowledged that 90 percent of the units in its family developments do not meet HUD's Housing Quality Standards (HQS). Forty-eight of 49 units we inspected had significant HQS violations in various categories such as plumbing, electrical, walls/ceilings, floors, etc. For example, leaking faucets, commodes and waste lines had damaged walls, floors and cabinets; peeling paint was prevalent; bare electric wires hung from missing light fixture locations; smoke detectors were missing, not properly secured or lacked batteries, posing a fire hazard.

The aged and unattractive buildings often have rusting or broken windows, incomplete gutter systems, and missing or deteriorated siding and trim. Many sidewalks are deteriorated, missing, or undermined by erosion. Common areas in some developments have little grass or landscaping and are littered with hazardous broken glass. Twenty-two percent of the units are vacant and boarded up, most awaiting major renovation or repairs. We compared the exteriors of selected MHA developments with projects of similar age at three other Public Housing Authorities (PHAs) in the Southeast comparable in size, age of developments, location, and modernization funding. The projects at all three PHAs had either been better maintained or modernized to the extent their exterior appearance is much better than MHA's.

The problem is compounded by a high percentage of old and obsolete units. Seventy-one percent, or 5,012, of MHA's 7,090 units were built between 1938 and 1960, and are 36 to 58 years old. The units are functionally obsolete - major systems such as heating, electrical and plumbing need to be replaced, and kitchens, baths and bedrooms are too small compared to modern apartment complexes. The developments have twice as many units per acre as projects built in later years.

A significant factor in the deterioration is poor maintenance. Other causes are poor planning, inability to accomplish renovation projects timely, and ineffective use of modernization funds -in short, poor management.

Because the deterioration of MHA's housing stock is extreme, has existed for many years, and shows little sign of being reversed, we are recommending forceful actions to improve the living conditions of MHA's residents. We recommend that you:

- Declare MHA in substantial default;
- Obtain an independent assessment of need in MHA's maintenance and modernization programs, to provide a basis for obtaining new management; and
- Implement one of the following alternatives for managing MHA's maintenance and modernization operational areas:
 - (1) Select a third party to manage the areas under contract, or
 - (2) Undertake joint management consisting of the existing MHA administration and HUD.

Section 8 Funds Should Be Utilized

Finding 3 discusses MHA's failure to efficiently use its Section 8 Voucher Program funds. Instead of fully using its funds to house low-income families, MHA has for years left unused approximately 40 percent of its annual funding. MHA can provide housing to 50 percent more families than the 650 its program was serving.

MHA argued that HUD regulations did not require MHA to assist more families with the unused funding, therefore they had violated no HUD regulation and this issue should not be a finding. MHA also indicated they were not the only Section 8 landlord in Memphis, and did not have sole responsibility for meeting the housing needs of its low-income people. They indicated they believed other PHAs in Tennessee were operating in a similar manner. Since the Tennessee State Office of Public Housing (OPH) also disagreed with the finding, they may be correct.

We recommend that you request MHA to better utilize its annual Section 8 Voucher funds. If MHA persists in its position that it does not have to spend the funds, we suggest you reduce its funding and provide the funds to a PHA that will use them. We also recommend that you require OPH to

determine if other PHAs in its jurisdiction are significantly under-utilizing annual funding similar to MHA, and if so, assure that they use the funds as intended.

Management Assessment Program May Need Further Study

MHA is currently considered a "standard" performing PHA, and is off the HUD list of "troubled" PHAs, within the context of HUD's Public Housing Management Assessment Program (PHMAP). As we discuss in Findings 1 and 2, MHA is not meeting its primary goal of providing decent, safe and sanitary housing, and has not for several years. We believe some may find it difficult to understand that a "standard" performing PHA, as that term would generally be defined, should have the problems MHA is experiencing in its housing.

We expressed concern in a draft finding about PHMAP misrepresenting the condition of MHA's housing, arguing that HUD needed to revise PHMAP to place more emphasis on condition of PHA housing stock. Headquarters Office of Public and Indian Housing (OPIH) advised it would change the PHMAP rule to clarify that it only reflects management performance in specific program areas, and should not be viewed as reflecting overall operational performance. OPIH also advised of separate initiatives to address condition of PHA housing stock. We deleted the draft finding on the PHMAP system from this final report based on OPIH's plans to better define the role of PHMAP and to place additional emphasis outside of PHMAP on housing conditions. However, the impact of OPIH's planned changes and new initiatives may warrant further review at a later date.

Exit Conference

We discussed the results of the audit with HUD officials in OPIH in Headquarters on October 30, 1996, and considered their comments in preparing the final version of the report.

We also discussed the findings during the course of the audit and at an exit conference held on November 25, 1996, attended by the following persons, as well as other MHA and HUD staff:

Jerome D. Ryans, MHA Executive Director
Jose' A. Bosque-Perez, HUD Headquarters Office of Public and Indian Housing
Ginger Van Ness, HUD Tennessee State Coordinator
Wynona J. Batson, Director, HUD Tennessee Office of Public Housing
Rudy E. McBee, Assistant District Inspector General for Audit, HUD Office
of Inspector General

MHA disagreed with our findings and recommendations. In general, MHA's position on Findings 1 and 2 was: (1) that our report rehashed old known issues that are not current management's fault or responsibility, which all other old PHAs also experience; (2) that physical improvements were not made because of a shortage of funds compounded by statutorily imposed spending; (3) that MHA has plans to deal with the issues we raised, and has made progress in doing so, which we did not give them credit for; and (4) that our draft recommendations (that HUD consider new MHA-wide management) were extreme and unnecessary.

We agree the issues are old and are not fully the fault of current management. It was not a purpose of our audit to pinpoint blame on a particular management team; however, we believe current management must bear some responsibility, given the length of their tenures at MHA. We also agree many PHAs have similar problems with physical condition of older developments, but other PHAs, specifically the three we compared MHA to, have dealt better with such problems.

It is true limited capital improvement funds have been insufficient in recent years to meet all of MHA's renovation needs; however, this has much to do with the extremely poor condition of MHA's plant and the correspondingly large amount of funds needed to renovate it, due in large part to poorly performed maintenance and renovations over the years. The three comparative PHAs had aged projects and funding levels similar to MHA, but were in much better condition.

We disagree with MHA's comments about progress already made, but acknowledge recent planning efforts at addressing the condition of its housing units, especially within the last 12 months. However, such plans have been referred to before by MHA with little appreciable lasting improvement.

We narrowed our recommendation for new and improved management to the maintenance and capital improvements areas of operation discussed in Findings 1 and 2. We believe the degree of adverse housing conditions, plus the length of time they have existed without improvement, warrant extreme corrective measures.

MHA's comments are included as Appendix E. Voluminous Exhibits are not included, but MHA provided copies to all exit conference participants. We summarized and evaluated MHA's comments following each finding, and included an evaluation of voluminous comments on Finding 1 in Appendix F.

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Abbreviations

ACC	Annual Contribution Contract
ARA	Albert Ramond and Associates
CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
CIAP	Comprehensive Improvement Assistance Program
EAI	Engineering Associates, Inc.
ED	Executive Director
FMC	Facility Management Consultants, Inc.
FMS	Financial Management System
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
LIH	Low-Income Housing
MHA	Memphis Housing Authority
MROP	Major Reconstruction of Obsolete Public Housing Program
OIG	Office of Inspector General
OPH	HUD Tennessee State Office of Public Housing
OPIH	HUD Headquarters Office of Public and Indian Housing
ORA	HUD Headquarters Office of Rental Assistance
PHA	Public Housing Authority
PHMAP	Public Housing Management Assessment Program
VRP	Vacancy Reduction Program

Introduction

Background

MHA was created by Memphis City Commission in 1934 as the Memphis Municipal Housing Commission, and became the Memphis Housing Authority in 1935. Its primary purpose is to provide decent, safe and sanitary housing for persons of low income in Memphis.

A seven member Board of Commissioners governs MHA. Board members are appointed by the Mayor of Memphis to serve five-year terms. The Board is responsible for setting policy, approving an annual operating budget, and hiring an Executive Director (ED). The ED is responsible for day to day operations and oversees a staff of approximately 400 employees. Since 1974 MHA has had five EDs. The current ED was hired in 1993, and also held the position from 1984 to 1989.

Program activity - MHA owns and operates 22 Low-Income Housing (LIH) developments with 7,090 units serving a resident population of about 30,000. Some of the 7,090 units have been deprogrammed or used for drug prevention or social services activities. At July 27, 1996, MHA was accountable for occupying 7,002 units. About 47 percent of MHA's housing stock, or 3,311 units, was constructed between 1938 and 1941, and is over 55 years old. Another 24 percent, or 1,701 units, was constructed in the 1950s and 1960. MHA acquired the remaining 2,078 units in the early 1970s, mostly purchased from the private sector and rehabilitated. MHA administers a Section 8 Program of about 3,800 units (2,700 certificates, 650 vouchers, and 450 moderate and substantial rehabilitation, and project-based units).

Funding - MHA received approximately \$15 million per year in HUD operating subsidy the last few years, and \$161 million in various capital improvement funds from 1986 through 1996, as follows:

Funding Source	Years	Amount (Millions)
Comprehensive Improvement Assistance Program (CIAP)	1986-1992	\$34.4
Comprehensive Grant Program (CGP)	1992-1996	67.5
HOPE I	1995	.2
HOPE VI: Planning	1993, 1995	.9
Implementation	1995, 1996	51.5 ²
Vacancy Reduction Program (VRP)	1995	6.6
Total Capital Funding		\$ 161.1

² HUD awarded MHA an additional \$9.8 million for Section 8 Relocation and Replacement related to the 1996 HOPE VI grant of \$4.5 million.

MHA has program-wide discretion over the spending of only the CGP and VRP monies, as CIAP, HOPE I and HOPE VI funds are project specific (HOPE VI funds revitalization of severely distressed projects). MHA applications for other HUD grants such as Major Reconstruction of Obsolete Public Housing Program (MROP) were not approved. MHA received no State or local funding.

Management performance - HUD designated MHA financially troubled in 1979 and it remained troubled until 1986, when its reserves reached 40 percent of maximum, the threshold HUD then used to designate financial well being. From May 1992 to October 1995, MHA was on the troubled PHA list because of low scores under the PHMAP³ due to various problems such as excessive vacancies, slow unit turnaround, poorly performed unit inspections, slow correction of HQS deficiencies, outstanding work orders and high tenant accounts receivable. After an initial PHMAP score of 48 percent for 1991, its score dropped to 39 percent for 1992, then gradually increased to 56 percent for 1993, and 59 percent for 1994. In October 1995, MHA was removed from the troubled list with a PHMAP score of 68.6 for 1995. We believe some may misunderstand MHA's management performance being described as "standard", as discussed in "Issue Needing Further Study and Consideration".

Audit Objectives, Scope And Methodology

The primary objective of the audit was to determine whether MHA is providing decent, safe and sanitary housing for its tenants. Our initial objective, to assess the efficiency and effectiveness of MHA's overall administration of its LIH and Section 8 Programs, was narrowed to concentrate on the quality of housing provided for LIH tenants, based on a survey of MHA operations. After the survey, we concentrated on routine plant maintenance, capital improvements, and procedures for dealing with tenant abuse of housing. We limited our review of the Section 8 Program to how efficiently MHA used its Section 8 funds.

The review generally covered the period from issuance of an OIG audit of MHA in 1983 through June 30, 1996. However, we reviewed activity in other periods as necessary. The field work was conducted between February and August 1996.

Our review methodology included examination of records and files, interviews with HUD and MHA staff, development site visits, HQS inspections, and reviews of prior HUD, OIG and MHA reviews and studies. Specifically, we used information developed in a prior OIG review of MHA in 1983, a consultant study of MHA maintenance operations we obtained during that review, a management review conducted by HUD in 1992, and a consultant review of maintenance operations obtained by MHA in 1995. Detailed audit testing was based on judgmentally or randomly selected samples representative of transactions in the areas examined. We randomly selected and inspected 49 units for compliance with HQS. In addition, we compared the physical condition of MHA's developments with three PHA's of comparable size, location, age and funding.

³ A management assessment program adopted by HUD in 1990. PHAs are graded "A" to "F" in various categories. The grades are converted to a numeric score, scores are weighted and summed, then each PHAs total score is expressed as a percentage of total possible points. PHAs that score 90 percent or higher are considered high performers, those that score between 60 and 90 percent are considered standard, and those that score below 60 percent are considered troubled.

The audit was conducted in accordance with generally accepted government auditing standards.

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Housing Is Seriously Deteriorated

The City of Memphis in formulating their 1995 Consolidated Plan identified the physical condition of public housing as the number one problem facing MHA over the next three years. We agree, and the problem will extend much longer than three years. MHA's developments have deteriorated to the extent that most units no longer provide decent, safe, and sanitary housing. By MHA's own admission, 90 percent of their family units do not meet Housing Quality Standards (HQS).

Both exteriors and interiors suffer from years of neglect and poor maintenance. Landscaping and grass are almost nonexistent and a number of developments are severely eroded. Peeling paint is prevalent in units that have not been recently renovated. Twenty-two percent of the units are vacant and boarded up. Most are awaiting major renovation or repairs.

The problem is compounded by a high percentage of old and obsolete units. Seventy-one percent of MHA's 7,090 units were built between 1938 and 1960, and are 36 to 58 years old. The 5,012 units built prior to 1961 are functionally obsolete - major systems need to be replaced, and kitchens, baths and bedrooms are too small compared to modern apartment complexes.

Consultant reviews and prior reviews by our office and HUD program staff document poor maintenance and project deterioration over at least the past 13 years, and it is likely it has occurred over a much longer period. A significant factor in the deterioration, ineffective maintenance, is discussed in detail in Finding 2. Other causes are poor planning, inability to accomplish renovation projects timely, ineffective use of modernization funds - in short, poor management.

MHA's financial needs are great; its resources are limited; and its capacity to effectively and wisely spend Federal funding is questionable considering its past performance. For these and other reasons, HUD needs to consider forceful actions to expeditiously improve the living conditions of MHA's residents.

MHA's Mission Is To Provide Decent, Safe And Sanitary Housing

MHA's mission is to provide decent, safe and sanitary housing, in a manner promoting serviceability, economy, efficiency, and stability, to achieve the economic and social well-being of tenants (MHA's Annual Contribution Contract (ACC) with HUD, Part Two, Section 201). MHA must at all times maintain each project in good repair, order, and condition (ACC, Part Two, Section 209).

Units Are Old And In Extremely Poor Condition

Forty-seven percent of MHA's units were built prior to World War II, i.e., 1938-1941, with another 24 percent constructed by 1960. Eighty 80 percent of family units were built prior to 1961. MHA estimates that approximately 90 percent of their family units do not meet HQS.

OPH documented the poor physical condition of MHA's developments in an engineering survey as part of a 1992 Comprehensive Management Review. OPH inspected six developments⁴, three built prior to 1961 and three built in the early 1970s, and concluded the grounds, structures and interiors were all unsatisfactory. MHA applications in 1993 for redevelopment funds for three developments⁵ identified similar conditions that needed to be addressed.

An OIG Construction Specialist inspected nine MHA developments⁶ during our current review, including five constructed prior to 1961, and concluded all nine were in extremely poor physical condition. Preventative maintenance to protect and preserve the properties was practically nonexistent and had been so for decades.

The following summarizes conditions observed during our inspections (and, where noted, OPH's inspections):

Erosion and lack of landscaping

All family developments suffered to some degree from inadequate landscaping, ranging from poor grass cover and broken glass, to severe erosion. OPH noted Hurt Village's grounds were void of grass in many areas and substantial evidence of erosion appeared throughout the development. In our review, erosion was still a major problem at Hurt Village, Lemoyne Gardens, Foote Homes, Fowler, Getwell and Walter Simmons, and a lesser problem at the other family developments. Erosion is worst at Lemoyne Gardens, where foundations, steps, and sidewalks are threatened. Figure 1 (see footnote 1) depicts how erosion is undermining the sidewalks and foundations at Lemoyne Gardens. Appendix A depicts the effects of erosion at three other MHA developments.

Figure 1

Broken glass and debris were scattered over the grounds at all family developments. It was most prevalent in areas of little or no grass cover. Figure 2 (see footnote 1) depicts broken glass and debris at Foote Homes where the problem is worst. The glass presents a safety hazard for children playing

⁴ Lamar Terrace, Hurt Village, Fowler Homes, Graves Manor, Cypresswood, and Getwell Gardens

⁵ Major Reconstruction of Obsolete Public Housing Program (MROP) applications for Lamar Terrace, Lemoyne Gardens and Fowler Homes - total of \$32 million requested

⁶ Lauderdale Courts, Cleaborn Homes, Foote Homes, Lamar Terrace, Lemoyne Gardens, Getwell Gardens, Walter Simmons, Montgomery Plaza, and Ford Road

in yards, and for residents and visitors walking through the grounds. The problem is of such magnitude that it will require layers of top soil to alleviate the problem at the worst developments.

Figure 2

Exteriors

The pre-1961 developments are of brick and concrete construction and their exterior shells appear in reasonably good condition considering their age. The 1970s developments were built less sturdy and their exteriors are in poorer condition. Four developments built in the 1970s as leased housing and later acquired by MHA were built to less stringent requirements than MHA-constructed developments. Most are of wood frame construction.

Wood fascia had deteriorated due to lack of paint and maintenance and gutter downspouts were missing in many instances. OPH noted that porch roofs at Lamar Terrace had leaked to the extent that wood framing, ceilings and fascia, and possibly some rafters, would have to be replaced. We noted similar problems at Graves Manor, Getwell Gardens, Ford Road, and Cypresswood. Siding on Cypresswood had blown off in places, exposing studs and insulation to elements. Figure 3 (see footnote 1) shows a deteriorated stoop over an entrance at Ford Road apartments.

Figure 3

Sidewalks were deteriorated, and sections were missing and undermined by erosion at the older developments to the extent they presented safety hazards. Figure 4 (see footnote 1) depicts such a hazard at Lauderdale Courts. The section has been missing so long grass has grown over the missing section.

Figure 4

Exterior doors and windows were a major problem. All older developments with the exception of Dixie and Cleaborn Homes have original metal frame casement windows. Window frames were rusted, broken or inoperative with panes broken or missing at all family developments. Figure 5 (see footnote 1) shows a deteriorating window at Lauderdale Courts. Caulking around windows was missing or loose allowing air infiltration. Storm doors and window screens were missing, torn, or damaged. Exterior doors were damaged and hardware was loose or broken.

Figure 5

The appearance of all developments suffered from MHA's 1,549 vacant, boarded up units. Vacancies constituted 22 percent of all units at July 31, 1996. Three developments, Dixie Homes, Lemoyne Gardens and Foote Homes, accounted for 65 percent (1,000) of the vacancies. Vacancies at nine other developments exceeded 10 percent of their units. Dixie was undergoing modernization with Lemoyne and Foote scheduled for modernization and partial demolition in late 1996 or 1997. Vacant

Finding 1

units were not always secured, allowing intruders to enter and vandalize units and diminish the safety of residents.

To help evaluate the condition of MHA developments relative to other PHAs, we visually compared the exteriors of selected MHA developments with projects of similar age at three other PHAs in the Southeast. We selected the Louisville, Nashville and Birmingham housing authorities as being relatively comparable in size, age of developments, location, and modernization funding, as shown by the following table:

<u>PHA</u>	<u>No. Units</u>	<u>Percentage Pre-1961</u>	<u>Modernization Funding Per Unit⁷</u>
MHA	7,090	71	\$ 12,736
Louisville	5,967	78	16,508
Nashville	6,529	67	11,520
Birmingham	6,736	71	14,678

Photographs in Appendix B (see footnote 1) contrast the condition of MHA developments Foot Homes, Lamar Terrace, Cleaborn Homes and Walter Simmons with similar age developments at the other three PHAs. Actually, the pictures do not adequately demonstrate the clear contrast apparent to the naked eye. The projects at the other three PHAs have either been better maintained or modernized to the extent their exterior appearance is much better than MHA's, especially in Louisville and Nashville. The Nashville PHA, which had a vacancy rate of less than one percent, has had only three EDs in the last 58 years, and the same individual in charge of maintenance for the last 41 years.

Interiors

Both OPH and our inspector concluded the interiors of MHA units were in poor condition. OPH determined 62 of 64 units inspected (97 percent) failed HQS, rating all six projects "unsatisfactory". OPH summaries of interior conditions at the six projects included two "poors", three "extremely poor to terribles", and one "extremely terrible".

Our inspector's results were similar. Forty-eight of 49 units (98 percent) failed HQS. Our inspections concentrated on significant HQS violations that prevented a unit from being safe, decent or sanitary, as opposed to technical or less significant HQS fail conditions. Units that had not recently turned over were in worse condition. The units were clearly unsatisfactory and descriptions of the conditions as poor or terrible would be accurate. Although four years separate the inspections, the similarity of the results strengthens our conclusion that the quality of MHA's housing has not improved.

⁷ CIAP and CGP funding, 1986 through 1995

The OPH and OIG inspections identified 504 and 430 deficiencies, respectively, in various categories such as plumbing, electrical, walls/ceilings, floors, etc. The 110 units that failed HQS had deficiencies in several categories, as shown by the following graphs (see footnote 1).

(Graphs of unit failures by deficiencies, side by side)

The two inspections each noted very similar deficiencies. Plumbing systems, including water heaters, need substantial repairs. In kitchens, leaking faucets and waste lines had caused countertops and base cabinets to deteriorate. (Our inspections noted in some cases, maintenance had wrapped leaking pipes with duct or electrical tape.) Washing machine connections and drip pans were leaking or rusted out causing severe wall damage. Water heaters were rusted and leaking and pressure relief lines were missing or improperly installed. Faucets and commodes were leaking in bathrooms causing water damage to floors and walls. Lavatories were loose and in danger of pulling off walls, causing serious damage.

Peeling paint was prevalent in units that had not recently turned over. Walls and ceilings had deteriorated to the extent paint would not adhere to surfaces. Holes were noted in walls and ceilings. Interior doors were broken, missing and off their hinges. Hardware on doors was missing or broken. Interior stairways had missing or loose handrails. Floor tiles were broken, missing and deteriorated. Kitchen cabinet doors and drawers were missing or not operating properly.

Electrical switches and outlet covers were missing or broken. Light switches and receptacles were loose in the wall. Bare electric wires hung from missing light fixture locations and light fixture globes were missing. Smoke detectors were missing, not properly secured in brackets or had batteries missing, posing a fire safety hazard to residents.

Appendix C (see footnote 1) provides examples of interior deficiencies noted in our inspections.

Much Of Housing Stock And Major Systems Are Obsolete

Because of the age of their housing stock, MHA is faced with functional obsolescence due to the size and outdated design of units built in the 1930s through 1950s. A consultant concluded it was unlikely MHA's older units, with such features as single space heaters, bare-bulb fixtures, non-vented bathrooms, uncloseted hot-water heaters, and lead-based paint, will ever meet HQS until they are comprehensively modernized.⁸ As of the date of our review, only 1,300 of the 5,012 functionally obsolete units have been or are being comprehensively modernized. As we discuss later, the modernization has not always been effective. In addition, it may not be feasible to renovate some or all of the units. They are too small and lack the necessary amenities of modern apartment living. In addition, the units need major systems replacements and are too densely populated.

⁸ Strategic Resources, Inc., May 23, 1994, Vacancy Reduction Assessment Report

The chart and table (see footnote 1) below illustrates the size obsolescence of MHA's 5,012 pre-1961 units. The square footages in the chart are averages, but even the largest of MHA's units are smaller than the average HUD-insured and non-insured units available in the Memphis market.

Chart and table

Kitchens are too small to meet the needs of residents. Since the units were designed long before ownership of washers, dryers and other modern appliances was commonplace, neither space nor hookups were provided for such appliances. To meet tenant needs, MHA installed some washer utility hookups under kitchen sinks. However, as seen in Figures 6 and 6a (see footnote 1), the connections require residents to install washers in front of the kitchen sink and drain them into the sink, leaving little room to use the sink.

Figures 6 and 6a, side by side

Unit density for the 9 developments built prior to 1961 ranges from 14 to 22 units per acre with an average of 18 units per acre. This compares to only nine units per acre for the nine family developments built in the early 1970s. All of the pre-1961 developments except Oates Manor are located in the inner city, with Cleaborn Homes and Foote Homes' 1,551 units adjacent to each other. Streets are very narrow in the older developments and parking is almost nonexistent, requiring residents to park on the grounds. Figure 7 (see footnote 1) depicts the densely populated Lemoyne Gardens built in 1941, with its narrow streets and absence of parking.

Figure 7

Major systems including heating, electrical, and plumbing are antiquated and need replacing at the older developments that have not been modernized. These developments have either single space heaters, furnaces or boiler systems that are old and inefficient. Nashville noted in their 1992 review that a number of furnaces were not working at Hurt Village and residents were using kitchen ranges to heat their apartments. Original water and sewer lines are 36 to 58 years old and deteriorated. Electrical systems do not have the capacity for today's needs.

Causes Of Housing Conditions Vary

We did not attempt to determine all reasons for project deterioration in this review, but some were apparent. A major cause is an ineffective routine maintenance system. Other factors are poor long range planning as well as poor planning and management of individual renovation projects. As a result, renovation projects are delayed and, even after completion, have the appearance of being piecemeal and of poor quality. In summary, modernization funds were not used efficiently or effectively.

Ineffective maintenance

Maintenance has been a major problem at MHA dating back to at least 1983. A consultant we hired in our 1983 audit was highly critical of MHA's maintenance system, and little has changed in the intervening 13 years. MHA hired the same consultant again in 1995 to assist them in improving maintenance. We discuss MHA's maintenance problems and their impact on the condition of MHA housing separately in Finding 2.

Poor planning and management of renovation projects

MHA has had no master plan to guide the Board and management in prioritizing modernization efforts. (MHA solicited proposals for a comprehensive study and plan in June 1996.) MHA's priorities seemed to change with frequent changes of management and as new funding became available. This delayed modernization efforts and in some instances wasted resources.

MHA allocated \$2.3 million of 1993 CGP monies to renovate 99 units at Lemoyne Gardens, most of which is completed. In early 1995, they received notice of \$47 million in HOPE VI funding for Lemoyne. HOPE VI plans had not been finalized at the completion of our audit, but MHA expects to demolish 758 of the 842 units. Demolition will likely include the newly renovated units.

MHA obligated and/or spent \$38.6 million to modernize 1,300 units at Cleaborn and Dixie Homes, an average of \$30,000 per unit. Neither development has the appearance of a fully modernized development; at least, they do not look like modernized developments at other PHAs. MHA did not demolish any units at either development although unit density was 14 and 15 units per acre compared to 9 for newer developments.

Dixie Homes

After MHA started modernizing Dixie Homes in 1993, it changed administrations. The new ED shut down construction and changed the scope of work, reducing the number of units to be modernized and increasing the work to be done on the remaining units. This delayed construction approximately six months.

We inspected one building just completed. Modernization included drywall replacement, new kitchen cabinets and hot water heaters, bath fixture and door replacement as needed, tubs refinished, and central heat. In two units designed for the handicapped, washing machine connections were installed in the only space available in the kitchen for a refrigerator. MHA later recognized the error and revised the specifications, but in these units, refrigerators will occupy space having hot and cold water connections, and tenants will have no washing machines.

Already small bedrooms were made smaller as walls had to be moved in to enclose new heating duct work. Windows were not replaced as new sashes had been installed in the 1980s under CIAP. Window panes were broken and original window frames were rusted through in places. The window frames, installed when the project was built in 1938, may contain lead-base paint, although we did

not test for its existence. MHA spent \$3 million to abate lead in Dixie's units, including the windows, in the 1980s, but did not replace the frames.

The exteriors of finished buildings looked almost identical to unrenovated buildings with the exception of new exterior lights. Appendix D shows a completed building and one awaiting renovation. City inspectors would not approve completed buildings for occupancy (those with balconies) because of rusty stairs, until MHA promised to make necessary repairs. MHA considered replacing the stairs during the design phase, decided against it, and now must repair them under a separate contract. Water was at least a foot deep in crawl spaces under completed buildings. MHA did not adequately repair the balconies as spalling is evident on the supports (Appendix D-see footnote 1).

MHA retained all 338 efficiencies and one-bedroom units at Dixie although they knew or should have known demand was limited for such units. The photo in Appendix D (see footnote 1) depicts a renovated building of efficiencies and one-bedroom units boarded up due to lack of demand. MHA advertised for college students to fill the units, with limited success.

Cleaborn Homes

MHA spent \$12 million of CIAP monies at Cleaborn Homes abating lead, renovating kitchens and bathrooms, and installing new heating systems, siding, electrical and water distribution systems, windows, doors, roofs and porch roofs. Work was completed in 1990, so we had no before-modernization reference; however, Cleaborn's exterior appearance overall was poor (Appendix B-see footnote 1). In 1994, MHA had to replace the ceilings and rotten floors in 109 units at a cost of \$200,000 after the ceilings fell in on two residents.⁹

Modernization also included a combination hot water heater and heating system. The system has been plagued with problems since installation. MHA now estimates it will cost nearly \$1 million to install individual hot water heaters to correct the problem.

Untimely completion of renovation

It takes MHA an exorbitant amount of time to complete renovation activity after it receives funding. MHA had spent only 53 and 23 percent of its 1992 and 1993 CGP funds, respectively, at June 30, 1996. The grants totaled \$27 million, including \$16 million for Section 504 conversion (handicapped accessibility) at various developments, and modernization at Dixie and Foote Homes.

MHA took 31 to 39 months to get their 1992 CGP-funded Section 504 work underway. It took 20 months (to June 1994) to award an architectural contract for plans and specifications, and another 11 to 19 months (May 1995 to January 1996) to award individual construction contracts. All five construction contracts were still open at June 30, 1996.

⁹ Robinson, Quintin, 1994. "Shabby repairs to cost MHA \$200,000." The Commercial Appeal.

Construction did not start at Dixie until September 1993, using \$9 million of 1990 CIAP funds MHA budgeted \$2.3 million of 1992 CGP funds for the project, estimating they would not be needed before 1995. Due to construction delays the \$2.3 million was not used as of June 1996, and estimated completion slipped from April 1995 to September 1996. (It will be at least 1997 before this work is finished.) MHA committed \$3.3 million of their 1993 CGP to another (final) phase of Dixie Homes. It took MHA seven months (February to September 1995) to negotiate a change order with an architectural firm to complete the design work. MHA awarded the construction contract in April 1996, 2 1/2 years after receiving the funds.

Construction still had not started at Foote Homes, although MHA committed \$1.8 million of the 1992 CGP and \$4 million of the 1993 CGP to the project. MHA hired an architect in May 1994, but canceled the contract in May 1995 after deciding to demolish rather than renovate certain units MHA paid the architect \$174,000 of its \$240,000 contract. MHA contracted with a second architect in February 1996 for \$865,000.

* * * * *

We believe a small modernization staff, a tendency to micromanage contracts, and staff indecision on what to do and how to do it, cause excessive delays. MHA may have recognized construction management limitations as they planned to hire a construction manager for the HOPE VI project at Lemoyne Gardens.

MHA usually hires an architect to design and supervise larger construction projects. However, their staff architect still reviews every bid, change order, and other document in minute detail, creating delays of questionable benefit. Twelve of 21 change orders reviewed on 5 contracts required excessive processing time. Five required 5 to 8 months to approve and seven required 2 to 5 months. Such delays contributed to delays in construction or design work.

During the design stage at Dixie, MHA delayed the architect 8 months considering whether to repair or replace the stairs discussed above, deciding to do neither. MHA suspended construction at Dixie for 10 months (September 1995 to July 1996) while they searched for an economical method to remove asbestos.

Resources Are Limited; So Is Capacity To Spend

In 1990, MHA estimated it would cost nearly a quarter of a billion dollars to renovate their 22 developments and bring all units up to HQS, without considering demolition and/or replacement of obsolete developments. Under current Federal spending reductions, such resources are not likely to be soon available. MHA's CIAP and CGP funds for the last 11 years totaled only \$102 million, although it recently received the \$52 million in HOPE VI funds and \$6.6 million of VRP funding MHA only has discretion in spending CGP and VRP monies as HOPE VI is project specific. MHA applied for, but did not receive, other competitive HUD grants such as MROP, and received no State or local funding. MHA clearly has a shortage of needed resources.

Finding 1

However, additional resources are not the sole answer to improving the current condition of MHA's developments. MHA has not demonstrated a capacity to spend, efficiently or effectively, monies received. MHA received \$56 million of CGP funding from 1992 through 1995, but had spent only \$11 million at June 30, 1996. Eighteen months after receiving HOPE VI funding, they were still in the planning stage, and it took over a year to get the VRP funds under contract. Renovation started at Dixie Homes in 1993 with completion now estimated sometime in 1997. Dixie's renovation included major changes in work scope, indecision on lead abatement, poor specifications, and little visual improvement to building exteriors even after completion. In addition, MHA maintenance is so poor that units soon deteriorate to their pre-renovation state.

Summary

MHA has not maintained its projects in good repair and condition for years, and is not providing decent, safe and sanitary housing for many of its residents. As a result, in our opinion, MHA is in substantial breach of its ACC as that term is defined at Part Two, Section 507, and accordingly, HUD may declare MHA in substantial default under 24 CFR 901.05(w) and 901.205 (1996). We believe MHA's developments will continue to deteriorate unless HUD takes forceful steps to reverse old and established patterns evident in past operations. Deterioration is significant and has occurred over many years. Signs of improvement are minimal or inconclusive, largely consisting of stated plans similar to promises made in the past. It is questionable whether MHA, on its own, can significantly improve its housing stock in the foreseeable future. The ability to effectively and efficiently use available funding to modernize its housing, and to maintain that housing, are probably the greatest challenges older housing authorities must deal with, and MHA has demonstrated inability to do so, over many years.

MHA will need significant funding and considerable expertise to modernize its aged housing. In the past MHA relied on HUD for capital improvement funds; in the future it may need additional funding sources, such as State and local government, to supplement HUD funding. To successfully carry out a large modernization program, we believe MHA will need much assistance and close supervision, both contrary to current trends in oversight of Federally funded programs. For that reason, we believe HUD should exercise available remedies to bring about needed improvements in operations as soon as possible. We suggest HUD limit the remedies to the maintenance and modernization operational areas in accordance with 24 CFR 901.215.

MHA Comments

MHA disagreed with the finding and recommendation. A summary of specific comments is included in Appendix F. In general, MHA's comments invoked three broad themes - (1) that our report rehashed old, known issues that are not current management's fault or responsibility, which all other old PHAs also have, (2) that needed improvements were not made because of a shortage of funds compounded by statutorily imposed spending such as lead paint removal, and (3) that MHA has plans in place to deal with the issues we raised, and has made progress in doing so, which we did not give them credit for in the report. MHA stated it has tried to provide decent, safe and sanitary housing with very restrictive HUD regulations and limited funding.

MHA's said its planning efforts since 1995 have been implemented through several plans addressing public housing, including:

- 5-Year Planning in CIAP and CGP
- Draft Strategic Plan
- Memorandum of Understanding
- Preventive Maintenance Program
- Vacancy Reduction Assessment Report
- 5-Year Work Order Maintenance Plan

The draft strategic plan completed in March 1995 outlined funds available, provided an overview of developments targeted for fund usage, and offered alternatives MHA could consider to effectively utilize limited funding. MHA has plans and strategies to address all external deficiencies, which the report should have given credit for, as well as dramatic progress already made. MHA's plans are sound, its strategies are well researched, and human and financial resources are now poised or in place.

MHA strongly objected to the first three options in our recommendation as being extreme and unnecessary, and said it had already implemented the fourth. (Our draft recommendation was that HUD consider: (1) competitively procuring private management; (2) petitioning a court to appoint a receiver to manage MHA; (3) taking over MHA; or (4) requiring MHA to make other acceptable arrangements for managing its housing.) MHA stated current management had taken aggressive steps to correct years of neglect and return on-line units that more appropriately reflect decent, safe and sanitary housing.

OIG Evaluation Of MHA Comments

The issues are old, and they are clearly not fully the fault of current management. We made no attempt to pinpoint blame on any particular MHA management team. However, the current ED has been at MHA eight of the last twelve years and many others of the current management team have had tenures as long or longer, so they share some responsibility for the physical condition of MHA's developments. It is likewise true that many PHAs have similar problems with physical condition of older developments; however, other PHAs, in particular the three we compared MHA to in the finding, have better dealt with the problems.

Our intent was not to rehash old issues, but to emphasize the length of time the issues have confronted MHA, with little change. For example, the following description of conditions appearing in a June 1981 edition of the Memphis Commercial Appeal would still apply to many units. "There are bare electrical wires, plumbing that goes unrepaired for months and flooded homes, walls that will never hold paint, because of moisture seepage, termites eating through the floors, no hot water, screen doors in need of repair, and the list goes on and on."

We agree limited capital improvement funds have in recent years prevented MHA from doing all needed renovation. However, we believe the primary reason MHA reached its current state of

deterioration was years of poorly performed maintenance and renovation work. The three PHAs we used for comparison had similar aged projects and funding levels as MHA, but were in much better condition.

We disagree with MHA's comments about dramatic progress already made in improving housing conditions. At the same time, we acknowledge recent planning efforts at addressing condition of housing, especially within the last 12 months. However, such plans have been referred to before by MHA, but never materialized or made little appreciable lasting improvement. For example, MHA promised to implement a preventive maintenance program in response to our 1983 audit.

The six plans MHA refers to as evidence of their plans and strategies are primarily grant or program specific, or responses to past HUD criticism, as opposed to a master plan which establishes a vision of what MHA should be and forms the basis for all other plans and activities. The draft strategic plan comes closest to a master plan, but lacked specific direction. MHA recognized its problems years ago, but did not develop and carry out long range planning. In a Memphis Press-Scimitar article in October 1977, the then ED stated that concentrated, high-density public housing projects are on the way out in Memphis, and that "Drab, unsightly, architecturally unimaginative and sometimes downright ugly appearance hamper good management". The statement is just as true now as it was in 1977.

Regarding MHA's comments about our draft recommendation, we disagree with MHA's assessment that it is already providing acceptable management. However, we narrowed the find recommendation to focus on new and improved management in the areas of operation discussed in the finding, maintenance and capital improvements, as opposed to MHA-wide.

Recommendations

We recommend that you:

- 1A. Declare MHA in substantial default.
- 1B. Implement one of the following alternatives for managing MHA's maintenance and modernization operational areas:
 - (1) Select a third party to manage the areas under contract, or
 - (2) Undertake joint management consisting of the existing MHA administration and HUD.
- 1C. As a basis for procuring or planning new management under recommendation 1B, obtain an independent assessment of needs in MHA's maintenance and modernization programs by a consultant or team of knowledgeable HUD individuals from other HUD Districts. The assessment should consider MHA's physical inventory, rehabilitation needs, financial requirements and resources, and such other factors as you consider necessary, and provide recommendations to be used as a basis for structuring new management.

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Ineffective Maintenance Is A Serious And Long- Standing Problem

As discussed in Finding 1, a significant contributing factor to the deplorable condition of MHA's housing stock is a seriously ineffective maintenance system. MHA has a long history of poor maintenance and we found little evidence of improvement. In addition to this review and an earlier OIG audit, reviews performed by two consultants and OPH document serious maintenance deficiencies going back at least 13 years. The reviews reflect common themes of inefficient and ineffective maintenance because of poor systems, staff, and management. Although age is probably the major factor in the indecent, unsafe and unsanitary condition of much of MHA's housing stock, inadequate maintenance has undoubtedly exacerbated the aging process and made tenant living conditions much worse than the age of the units alone would dictate. The failure of the Board and management to effectively deal with such a high profile and significant problem over such a long period of time indicates HUD needs to act decisively to force action.

Various Reviews Evidence Maintenance Deficiencies

In 1974, MHA commissioned a consultant (Albert Ramond and Associates (ARA)) to evaluate its maintenance operations and recommend improvements. MHA subsequently adopted ARA recommendations pertaining to scheduling work orders, preventive maintenance and evaluating performance. In 1983, a major finding of an OIG audit of MHA was that MHA did not manage its maintenance program and resources effectively and economically, and was not following the procedures it adopted following the consultant's review. Our audit included an in-depth review by a consultant we hired (Facility Management Consultants, Inc. (FMC)). In 1992, OPH did a Comprehensive Management Review and cited many deficiencies directly resulting from MHA's inadequate maintenance program. In 1995, MHA again hired a consulting firm (Engineering Associates, Inc. (EAI), an affiliate of FMC) to review maintenance, and EAI's report, as well as our current review, indicates many of the same deficiencies that existed in 1983 still exist.

Deficiencies include:

- Unqualified staff, including the maintenance director;
- Inadequate training;
- Low efficiency level of maintenance staff;
- Lack of supervisory review;
- No preventive maintenance program;
- Undue limitations imposed by a union agreement; and
- Failure to deal with tenant abuse of units.

OIG/Consultant Review In 1983

The results of our 1983 review are significant both as to the substance of what was reported and the fact that most of the problems existed 9 years earlier in 1974 when ARA evaluated maintenance, and are still evident to us and EAI some 13 years later in 1996. Excerpts from that report follow:

- Maintenance was well below what should be expected considering the financial resources being allocated. Staff evidenced both low productivity (work units produced compared to time available - less than 50 percent) and low efficiency (actual work times compared to standard job times - 57 percent). Correspondingly, MHA was overstaffed by at least 30 positions. By improving productivity and efficiency and reducing staff, MHA could save significant costs and dramatically improve maintenance.
- MHA's poor maintenance program is attributable to maintenance management and workers' lack of qualifications and training, MHA's lack of assertiveness in dealing with the union, and top management's ineffectiveness in dealing with the maintenance problems. Concerning lack of qualifications and training, FMC concluded that:
 - The absence of strong, capable leadership is perhaps the weakest link in the maintenance organization. There is not a high level of supervisory or technical expertise in the management and supervisory staff. Most of the top supervisory and management positions above Foreman level are filled with personnel who do not have the minimum qualifications specified in their job descriptions.
- Many of the Foremen also do not have the minimum qualifications specified in job descriptions and appear to have been unilaterally promoted based on seniority without considering capability, training, education, expertise, or background.
- There is no formal program for quantifying and evaluating the effectiveness of supervisory staff. Evaluations, when made, are subjective and are not frequent enough to provide feedback necessary for improvement.
- There are great variations in skills, training, and capability of workers in the same classification, especially in Mechanics and Aides. Many interviewed did not have the minimum qualifications required in their job description.

Our report included nine recommendations concerning maintenance, including:

- Employment of a Director of Maintenance with a strong technical background and extensive proven maintenance managerial experience (FMC suggested the person should have an engineering degree and at least 10 years experience managing maintenance operations);
- A program for quantifying and evaluating the effectiveness of maintenance supervisory staff (FMC recommended that most supervisory staff should either begin an intensive

training program, be reassigned to non-leadership roles in the organization, or be terminated); and

- Systems for preventive maintenance and for evaluating individual workers, reduction of maintenance staff by 30 positions, replacement of skilled workers with part-time tenants for unskilled tasks, and training in disciplinary actions.

HUD Review in 1992

OPH's Management Review cited many deficiencies directly resulting from MHA's inadequate maintenance program, and contributed to MHA being designated a troubled PHA. Under Maintenance Operations, OPH cited:

- Excessive unit turnaround time;
- HQS not used as minimum standard for unit inspections;
- Incomplete paint records;
- Failure to secure vacant units;
- Obsolete maintenance charge list;
- Inadequate tracking of work orders; and
- Inconsistency in prioritizing work orders.

OPH reviewed and rated six projects in categories of General Appearance, Structures, and Interior of Dwelling Units. All ratings were below average or unsatisfactory, with descriptive comments such as poor, extremely poor, terrible, extremely terrible. Additional details on the results of OPH's review are included in Finding 1.

Consultant Review In 1995

MHA executed a contract with EAI in September 1995 to evaluate the effectiveness of MHA's existing maintenance system, and to design, help implement, and evaluate a new maintenance operations system. The contract was estimated to cost approximately \$260,000 and to be completed by December 31, 1996. EAI's December 1995 report and interviews with its representative reflect essentially the same problems with MHA's maintenance system as its affiliate FMC reported in 1983.

For example, EAI reported that the control and direction of maintenance personnel is fragmented and directed by personnel with no maintenance or facilities management experience, background or knowledge, resulting in no uniformity or consistency in operating procedures and policies. In addition, EAI found the following conditions:

- Low worker productivity (about 50 percent);
- No system of assigning or prioritizing work orders;
- No preventive maintenance program;

Finding 2

- Inadequate evaluation of maintenance employees;
- Worker inefficiency, e.g., using two employees to do tasks one could do, and too many project maintenance employees;
- An absence of strong technical background and maintenance managerial experience in director, and inadequate supervisory and technical expertise in other management and supervisory staff;
- Unqualified maintenance Mechanics and Aides;
- Lack of quality control, i.e., no program for evaluating the effectiveness of supervisory staff, work not inspected and workers not held accountable for performance; and
- Inadequate training.

EAI recommendations included:

- Establishing a separate Facilities Management Division headed by a new, third Deputy Director;
- Staffing the positions of Deputy Director of Facilities Management and three Area Facilities Managers with individuals having related maintenance experience and backgrounds;
- Increasing training efforts throughout all levels of maintenance staff, including management and supervision; and
- Emphasizing increasing productivity, improving the appearance of properties, and realigning vacancy preparation work to increase work quality and reduce unit turnaround time.

Current OIG Review

Quantitative results of our review are primarily included in Finding 1, i.e., the results of our inspections, and comparison of MHA with other PHAs. Problems continue in essentially all areas of maintenance operations, i.e., organizational, personnel, management, supervision, and training, and have not received adequate attention from top MHA management. For example, we reported in 1983 FMC's conclusion that MHA's director of maintenance was unqualified to hold the position. In 1984 MHA removed the individual from the maintenance department, but in 1993, MHA returned overall maintenance responsibilities to the same individual. He retained the responsibilities until October 1995, when MHA gave them to its internal auditor, who had no maintenance experience. At EAI's recommendation and with its assistance, MHA was seeking a qualified head of maintenance during our review.

Insufficient attention to tenant repair requests

We agree with EAI that MHA maintenance staff from management to Aides are not doing the job they are paid to do, as demonstrated by our review of responses to tenant requests for service or repairs. In the first place, MHA frequently used two maintenance employees for work which required only one, an inefficient use of manpower. More importantly, in several instances project managers and maintenance staff closed out work orders when the work was not done or was incomplete. We inspected 40 recently completed work orders in four projects to determine whether the work had been acceptably completed. Twenty-one of the 40 work orders included items that were either not completed at all or were inadequately completed. Project managers and maintenance staff signed the work orders and entered them as complete in MHA's computer system. Five examples follow:

Unit 21, Foote Homes (Figure 8-see footnote 1) - Work order 442768, dated 1/30/96, indicated a ceiling leak over the kitchen cabinets and stove. The problem was noted in the July 1995 annual inspection. The maintenance response 3/9/96 (1) was late and (2) did not correct the problem. When we inspected the unit 5/15/96, the upstairs commode drain was still leaking, as evidenced by a container under the pipe to catch drippings, a highly unsanitary condition.

Figure 8

Unit 15, Foote Homes (Figure 9-see footnote 1) - Note the hole in a bedroom door where a door knob assembly is missing. Work order 442740, dated 1/30/96, requested repair of a hole in a door, with no knob assembly. The work was supposedly completed 3/9/96. When we inspected the unit 5/15/96, the door was as shown.

Figure 9

Unit 184, Lauderdale Courts (Figure 10-see footnote 1) - Work order 433052, dated 1/04/96, included a leaking pipe under the kitchen sink. MHA's 8/30/95 HQS inspection noted the problem. On 4/30/96, maintenance staff noted on the work order the sink had been fixed. When we inspected the unit 5/22/96, the tenant had taped the trap under the sink with electrical tape to fix the leak (Figure 10). The tenant stated maintenance did not fix the leak on 4/30/96.

Figure 10

Unit 808, LeMoyne Gardens - Work order 467781 completed 5/10/96 indicated two maintenance staff removed and replaced a faucet stem on the kitchen sink. Upon inspection 5/14/96, the faucet was leaking and the stem had not been replaced. The maintenance foreman with the OIG auditor removed and inspected the faucet handle, and agreed the stem had not been replaced.

Unit 75, Hurt Village - Work order 464081, dated 4/17/96, resulted from a tenant complaining the refrigerator was not cooling properly. The work order indicated maintenance replaced the

refrigerator with a used refrigerator 5/17/96, a month later. The refrigerator was still not freezing upon our inspection 5/22/96. The tenant stated maintenance staff never replaced the refrigerator. MHA's September 1995 annual inspection noted the refrigerator door would not close.

These and other unsatisfactorily completed work orders occurred because maintenance staff failed to adequately perform their duties, and project managers and supervisors failed to adequately perform and or follow up on quality control reinspections. EAI concluded some maintenance foremen were unqualified or needed training.

No preventive maintenance program

MHA also has no preventive maintenance program, as reported by FMC in 1983 and EAI in 1995. MHA's maintenance program is geared toward correcting routine problems instead of preventive maintenance. For example, MHA is not following a paint schedule that requires it to repair and paint unit ceilings and walls on a regular basis. The following examples demonstrate deterioration because of no preventive maintenance:

Unit 150, Hurt Village (Figure 11-see footnote 1) - Note chipping and peeling paint on the bedroom ceiling (inspection on 5/22/96). MHA's August 1995 inspection report indicated paint was peeling on all bedroom ceilings of this unit. Peeling paint is hazardous, especially to children.

Figure 11

Unit 318, Lauderdale Courts (Figure 12-see footnote 1) - Note peeling paint on bathroom wall (inspection on 4/30/96).

Figure 12

Unit 273, Lauderdale Courts (Figure 13-see footnote 1) - Note deteriorated window sill and frame, and poor caulking (inspection on 4/30/96). The window is severely rusted and there is significant peeling paint. Missing caulking around the window allows moisture to enter, causing paint to peel.

Figure 13

The absence of a preventive maintenance system over the years has contributed to project deterioration.

Union agreement limits ability to manage

FMC was critical of the agreement between MHA and American Federation of State, County and Municipal Employees (AFL-CIO Local 1733), stating that the agreement severely limited MHA's

ability to manage. FMC identified 14 specific problem areas in the agreement, including extremely vague language in a number of areas to MHA's disadvantage, providing employees an abnormally large amount of time off compared to other PHAs, high union steward/worker ratio, lenient discipline/discharge policies, and lenient promotion policies. Our 1983 report recommended that MHA develop a strategy for dealing more effectively with the union.

Of the 14 issues raised by FMC, MHA had addressed only one as recommended, concerning placing records of oral reprimand in employee personnel folders. The remaining 13 issues were either not addressed at all (10), or changes did not address FMC's concerns (3). Language in the current agreement is similar or identical to language in the 1983 agreement. EAI agreed that the current agreement also hinders MHA management. In summary, MHA had made no significant progress in removing hindrances in its union agreement to effectively managing the maintenance program.

Tenant abuse not appropriately dealt with

MHA is not aggressively enforcing its policies related to tenant abuse of units. In the event of HQS deficiencies caused by tenant poor housekeeping or abuse, MHA policies include a series of steps including tenant notification, counseling, training, and ultimately eviction if the unsatisfactory conditions continue. OPH pointed out in its 1992 review that resident abuse was evident and extensive at five of seven projects inspected. For example, at Getwell Gardens OPH reported resident care was unacceptable and resident abuse, such as holes in walls and doors, was evident; doors were off hinges, split and/or delaminated; window screens were torn or missing; and poor housekeeping was apparent. At Lamar Terrace OPH said resident abuse was evident in many units; poor housekeeping was indicated by extremely dirty stoves, walls, floors, etc.; and "numerous deficiencies ... within ... units and the development as a whole indicate that field maintenance staff are not reporting resident abuse on a consistent basis."

Our review, including unit inspections, review of MHA records, and interviews with staff, also indicates MHA is not handling abuse in accordance with its policy. Interviews with five project managers, the Manager of Community Services, the Assistant Manager of Housing Services, and MHA's attorney, indicate poor housekeeping is not uncommon, but MHA rarely, if ever, evicts tenants for that reason. One MHA report indicated that of 1,047 tenants vacating MHA housing in the 21 months ended April 1, 1996, for various reasons, e.g., move-outs, transfers, and evictions, not one was attributable to poor housekeeping or tenant abuse.

We did not inspect units looking for tenant abuse per se, but it obviously existed in some units, as demonstrated in Figures 14-17.

Unit 428, Lauderdale Courts
Figure 14 (Lauderdale)

Unit 268, Hurt Village

Figure 15 (Hurt) side by side

Unit 156, Cleaborn Homes

Figure 16 (Cleaborn)

Unit 368, Montgomery Plaza

Figure 17 (Montgomery) side by side

Although we took no photograph, one of the worst examples of tenant abuse was unit 668 in Lemoyne Gardens. The unit was roach infested. Dog feces was on the stairs and throughout the upstairs living area, food was on the floor and dirty dishes were evident throughout the unit. Several light fixtures had been detached from the wall. The resident had been sent to MHA's housekeeping training and had been told to get rid of the dog.

Extreme cases of poor housekeeping such as these can seriously damage housing units or equipment, or contribute to bug or rodent infestation, and must be appropriately dealt with by management. MHA has contributed to the deterioration of its units by not taking decisive actions against tenants for abuse, including eviction.

Summary

We concluded MHA has made no noticeable improvement in maintenance. It is too early to evaluate the impact of implementation of EAI's recommendations, which are still in the initial stages. However, MHA has been aware of serious deficiencies in its maintenance operation since 1974, and has done little to devise and implement an adequate maintenance program. The problems are well documented in reviews by OIG, OPH and consultants who are experts in the field, which this finding only briefly summarizes. We believe the principal problem is MHA's failure over the years to hire and/or train qualified maintenance management and technical staff, and to properly supervise the maintenance function. As a result, MHA's maintenance program has been and continues to be poorly managed, adversely affecting the condition of MHA's public housing stock, and resulting in tenants living in substandard housing.

MHA Comments

MHA said it recognized deferred and ineffective maintenance had contributed to the condition of its buildings, and had begun addressing maintenance concerns. It was reorganizing personnel, had hired a consultant to design and implement a planned maintenance program, and hired a new deputy executive director for facilities management, a licensed civil engineer with 18 years experience in maintenance and capital improvements. It said PHMAP had forced MHA to concentrate on its maintenance operation.

MHA disagreed with our comments that its union agreement hindered effective management. It maintained that its personnel policies are comparable to local public practice as required by the ACC

and HUD Handbook 7401.7, and elaborated at great length on its support for this position. It said the ACC and the above HUD handbook prohibit it from comparing with other PHAs as suggested in our report.

MHA acknowledged that no tenants had been evicted solely for unit abuse or poor housekeeping, but suggested those guilty of such actions had been evicted for other behavior that provided more expedient basis for eviction. It noted MHA had collected \$300,204 in 1995 and \$255,530 in 1996 from tenants for unit abuse related matters. MHA said it expected to improve in getting tougher on tenants as it improved its maintenance program.

OIG Evaluation Of MHA Comments

Some MHA actions, such as hiring the maintenance consultant and employing a new, and seemingly qualified, maintenance director (after our review) were encouraging. However, they had not yet impacted MHA's maintenance operation at the time of our review and it was too early for us to evaluate their potential for doing so. We should point out that MHA promised similar actions 13 years ago in response to our 1983 audit. We doubt that PHMAP has or will contribute significantly to improving MHA's maintenance operation.

MHA overreacted to our comments about its union agreement. We presented as one factor in an ineffective maintenance system, the opinions of two consultants that the agreement hinders effective maintenance, but it is clearly not the major factor. However, we disagree with MHA's assertion that comparability with local public practice is a HUD-required standard for both its personnel policies and collective bargaining agreements. The comparability requirement was dropped from the "new" PHA ACC, and the handbook MHA refers to was canceled by HUD two years ago. Generally, standards are limited to efficiency and economy of operations and compliance with state and Federal law.

MHA provided no support for its contention that tenants were evicted for unit abuse and poor housekeeping, and we saw no evidence of such actions during our review. We believe considerable improvement in this area is needed.

Recommendation

The recommendations for Finding 1 are based on the conditions described in both Findings 1 and 2. No additional recommendation is made for Finding 2.

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Inefficient Use of Section 8 Funds Deprives Low-Income Families of Assistance

MHA had not efficiently used funds HUD provided under the Section 8 Voucher Program. MHA for years under-utilized available funds, resulting in excessive build up of reserves and depriving many low-income families of housing assistance. Recent restrictions on reserve usage by HUD because of Congressional cost cutting measures now preclude MHA from using its reserve to assist additional families. However, MHA can still provide housing from its annual contract authority to 50 percent more families than the 650 its program was serving.

Good Management Needed To Maximize Housing Assistance

In the Voucher Program, HUD provides a set dollar amount for the term of the contract, and PHAs must manage the program to assist as many families as possible without exceeding available funding (24 CFR 982.157 and 887.353(e)). When reserves were available for PHA use, HUD required PHAs to analyze project reserve accounts at least twice each year to assure both the availability and efficient usage of annual contributions (HUD Handbook 7420.7, PHA Administrative Practices Handbook for the Section 8 Existing Housing Program, Paragraph 8-7a). HUD provides a computerized forecasting model titled Financial Management System (FMS) to assist in estimating the number of vouchers and related costs that can be funded over the five year contract term. HUD notified PHAs about the availability of FMS by Notice H 89-22 dated July 25, 1989.

Funds Regularly Under-Utilized

Historically, MHA significantly under-utilized annual funds available (contract authority). For example, budgeted and actual use of funds for the past three fiscal years was as follows:

Fiscal Year	Funds Available	Funds Budgeted (% of Maximum)	Funds Used (% of Maximum)
1994	\$3,655,459	\$2,378,235 (65%)	\$2,210,968 (60%)
1995	\$3,663,042	\$2,066,299 (56%)	\$2,130,224 (58%)
1996	\$3,663,042	\$2,153,548 (59%)	\$2,182,624 (60%)

MHA's Project Account is increased annually by unused funds. The Project Account balance at June 30, 1996, after ten years in the program, was approximately \$11,265,246, over 3 times annual funding.

MHA Staff Did Not Understand Process

MHA under-utilized Voucher funds because the Section 8 Manager and Comptroller erroneously believed they were limited to funding the number of units HUD estimated their allocations would fund, as opposed to the number their funds allowed, including, at that time, funds in the Project Account. They were unaware they should regularly forecast the number of additional vouchers they could provide within available funding, and adjust their leasing activity accordingly. MHA staff stated they received the FMS software in early 1996, but had not used it. They questioned why OPH had not informed them they were not fully using Voucher Program funds, when OPH reviewed and approved their annual budget.

In response to a similar finding at another large Tennessee PHA, OPH supposedly advised all PHAs in their jurisdiction in 1994, including MHA, that they could use project reserves in their on-going programs. We do not know why OPH did not advise MHA it should be using its annual contract authority.

Federal Deficit Reduction Efforts Restrict Additional Leasing

Recent actions by Congress to decrease the Federal budget deficit changed how MHA can use the reserve build-up. HUD recently restricted reserve usage to extending the funding of expiring contracts on existing units, as opposed to new units. A Continuing Resolution that became law January 26, 1996, imposed certain cost cutting measures, leading HUD to direct Field Offices not to approve budget revisions that increase budgeted units or amounts, without authorization from the Office of Rental Assistance (ORA) in Headquarters (Notice PIH 96-7 dated February 13, 1996). ORA staff advised us in June 1996 they would approve MHA increasing its budget, and leasing, to the level allowed by its annual contract authority, but would not authorize use of the reserve. This advice was later confirmed by Notice PIH 96-68 dated August 23, 1996. The reserve will still provide additional assistance to low-income families to obtain affordable housing, by extending the funding of existing units rather than funding new units.

MHA Can Significantly Increase Vouchers Funded

Using the FMS, we estimated MHA can fund 993 vouchers annually over the next five years without using their reserve, which is 51 percent more than the 657 vouchers under lease as of June 6, 1996. MHA should use FMS to forecast and more effectively use its annual contract authority to assist as many low-income families as prudently possible.

MHA Comments

The principal argument of MHA's ED was that HUD regulations did not require MHA to assist more families with the unused funding, therefore they had violated no HUD regulation and this issue should not be a finding. He stated that "...spending all the money available in the program is secondary as long as the agency adheres to HUD regulations". He also indicated MHA was not the only Section 8 landlord in Memphis, and did not have sole responsibility for meeting the housing needs of its low-

income people. He stated MHA had been warned against over-extending funds, that it had to maintain sufficient reserves, that the CFR reference of 982.151 seemed to be misquoted, and that an informal survey of other housing authorities in the state indicated they were operating their Section 8 Voucher Program in a similar manner.

OIG Evaluation of MHA Comments

MHA is correct that HUD does not require them to assist more families with the unused funds; HUD expects MHA to manage the funds effectively and efficiently. Top management's position on this finding was surprising and disappointing. Discussions of the issue with middle management during the audit indicated no opposition to spending the funds. Rather, as indicated in the finding, they expressed a misunderstanding of their role and concern about why OPH staff had not previously informed them they should use the funds. One would expect top management to encourage or require staff to use the funds as efficiently as possible, i.e., to house as many as possible, rather than offer excuses for not spending. The reason HUD contracted with MHA and provided it Section 8 funds was to house low-income families, not to retain 40 percent of the funds in reserve.

Considering MHA's ample reserve level, it need not be concerned about over-extending itself. MHA was correct about the erroneous CFR reference, we revised it to 982.157 in the final report. It would not surprise us if other PHAs in OPH's jurisdiction operated Voucher Programs similarly, since OPH indicated at the exit conference it disagreed with the finding. As indicated in the finding, we previously reported a similar problem at another large PHA to OPH, and requested them to take action to preclude reoccurrences at other PHAs. We will again recommend action to correct this potential problem.

If MHA persists in its position that it does not have to spend the funds HUD provides, we suggest HUD reduce MHA's contract authority in accordance with Section 1.4.D. of its ACC and provide the funds to a PHA that will use them. To avoid penalizing Memphis low-income families, we suggest giving the funds to another "Section 8 landlord in Memphis."

Recommendations

We recommend that you:

- 3A. Request MHA to increase funds budgeted for voucher assistance to the amount supportable by contract authority under its ACC;
- 3B. Request MHA to lease up as many additional units as possible within budgeted amounts, using FMS estimates as a guide;
- 3C. Reduce MHA's annual contract authority to a level commensurate with its budget, and provide the funds to another PHA, if MHA persists in arguing it does not have to spend the funds; and

- 3D. Require OPH to determine if other PHAs in its jurisdiction are significantly under-utilizing annual contract authority similar to MHA, and if so, take the actions in recommendations 3A and 3B above.

Internal Controls

In planning and performing our audit, we considered internal control systems of MHA management to determine our auditing procedures and not to provide assurance on internal control. Internal control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Internal control consists of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment information systems, control procedures, communication, managing change, and monitoring.

We assessed the following internal control categories that we determined were relevant to our audit objectives:

- Maintenance of LIH units
- Procurement and contracting
- LIH inspections
- Management of capital improvements
- Equipment inventories
- Management of Section 8 funds

A significant weakness exists if internal control does not give reasonable assurance that the entity's goals and objectives are met; that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, we believe significant weaknesses exist in operations related to housing maintenance and capital improvements, including inspections and contracting. The weaknesses are discussed in Findings 1 and 2. Weaknesses in managing Section 8 funds are discussed in Finding 3.

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Follow-Up On Prior Audits

OIG conducted an audit of MHA in 1983 and audited deficient MHA investment practices in 1984. All findings in these reports were closed, although most findings in the 1983 report were closed based on promised actions. In 1986, OIG reviewed MHA's progress in resolving the 1983 findings. At that time, we were optimistic MHA had begun to improve maintenance operations, based on new management staff and changes they planned to make, such as starting a preventative maintenance program, and centralizing maintenance operations. However, as we stated then, the effect of the planned changes remained to be seen. As indicated in this report, the improvements did not materialize.

Finding 2 of the 1983 report, "Better Management Could Improve Building and Equipment Maintenance with Significant Savings in Labor Costs", has not been adequately resolved. Many of the same issues included in that finding are repeated in Finding 2 of this report.

The last Independent Auditor (IA) audit report completed by Wright, Darnell and Rector, P.C., for the year ended June 30, 1995, included no findings, and indicated all prior IA findings had been resolved.

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Issue Needing Further Study and Consideration

PHMAP Performance Measurement May Be Misleading

MHA is currently considered a "standard" performing PHA, and is off the HUD list of "troubled" PHAs, within the context of the PHMAP. MHA's primary purpose is to provide decent, safe and sanitary housing. As we discuss in Findings 1 and 2, MHA is not providing such housing and has not for several years. We believe MHA's residents, residents of the City of Memphis, and the public at large may find it difficult to understand that a "standard" performing PHA, as that term would generally be defined, could have a vacancy rate of 22 percent, over 9,000 outstanding work orders, and a family unit HQS failure rate of 90 percent.

We expressed our concern about PHMAP misrepresenting MHA's condition in a draft finding arguing that PHMAP needed to devote more attention to condition of PHA housing stock. Headquarters Office of Public and Indian Housing (OPIH) advised it would change PHMAP to clarify that it only reflects management performance in specific program areas, and is not to be viewed as the answer regarding overall PHA operations. OPIH also advised of separate initiatives to address condition of PHA housing stock. We deleted the draft finding on the PHMAP system from this final report based on OPIH's plans to better define the role of PHMAP and to place additional emphasis outside of PHMAP on housing conditions. However, the impact of OPIH's planned changes and new initiatives may warrant further review at a later date.

PHMAP Is Intended To Improve Public Housing

PHMAP resulted from an effort by HUD to improve the management of public housing by providing uniform objective standards for PHAs across the country. The PHMAP legislation mandated seven indicators (numbers 1-7 in the following schedule), which emphasize maintaining high levels of occupancy, maintaining and modernizing the housing stock, collecting rents, and conserving energy. HUD added 5 more, and PHMAP currently consists of 12 indicators. (Indicator number 12, Development, is not on the following schedule as MHA has no active development.) Three of the 12 (number 2, 7 and 12) have several components, so that in all there are 22 separate variables that make up the score.

PHAs are graded on a scale of "A" to "F" on each of the variables, based on actual performance data provided by the PHAs. The letter grade is converted to a numeric score ranging from 10 for an "A" to zero for an "F". Some components and indicators are weighted. The maximum possible score is 220 points (210 for MHA because indicator 12 is not a factor). Each PHA's overall score is expressed as a percentage of the total possible points. PHAs that score 90 percent or higher are considered high performers; those that score between 60 and 90 percent are considered standard; and those that score below 60 percent are considered troubled.

PHMAP Scored MHA As Troubled From 1991 Until 1995

MHA went on the troubled list with a score of 48 the first year PHMAP was used (in 1992 based on 1991 data), and remained troubled until October 1995. HUD removed MHA from the troubled list in 1995 and classified it as a standard performing PHA with a PHMAP score of 68.6. The schedule below summarizes MHA's 1995 PHMAP grades and scoring. We segregated the indicators into those related or unrelated to the condition of MHA's housing. As can be seen, MHA's "standard" score was achieved by doing well in indicators unrelated to condition of housing, even though it generally scored poorly in those related to condition of housing.

MHA'S 1995 PHMAP SCORE					
		MAXIMUM		ACTUAL	
INDICATOR	DESCRIPTION	SCORE	GRADE	SCORE	%
INDICATORS RELATED TO CONDITION OF HOUSING					
1	Vacancy Number and %	30	E	9	6
2	Modernization	20	B	17	12
5	Unit Turnaround	20	E	6	4
6	Outstanding Work Order	10	E	3	2
7	Annual Inspections	30	D	19	13
	Subtotals	110		54	38
INDICATORS UNRELATED TO CONDITION OF HOUSING					
3	Rents Uncollected	30	A	30	21
4	Energy Consumption	10	A	10	7
8	Tenant Accounts Recvb	10	F	0	0
9	Operating Reserves	10	A	10	7
10	Routine Operating Exp	10	A	10	7
11	Resident Initiatives	30	A	30	21
	Subtotals	100		90	62
	Totals	210		144	100
	Score - 68.6 (144/210)				

Note - Percentage subtotals do not foot because of rounding.

HUD Is Revising PHMAP To Clarify Its Role

Our concern about MHA's PHMAP score misrepresenting its condition was expressed in a draft finding provided to OPIH in October 1996. We argued that PHMAP needed to devote more attention to the condition of PHA housing stock, given their primary purpose, and was too flexible in allowing adjustments to raw data, alternative scoring methods, exemptions and waivers. Headquarters OIG had objected to proposed changes to PHMAP for the same and other reasons in separate discussions with OPIH as part of the Departmental rulemaking process.

On November 5, 1996, Headquarters OPIH advised it agreed with OIG's concern that PHMAP is viewed as the "be-all/end-all" of PHA performance, and would add language to the proposed PHMAP rule stating that PHMAP only reflects management performance in specific program areas, and is not to be viewed as the answer regarding overall PHA operations. In response to OIG's concern that PHMAP does not sufficiently address condition of housing, OPIH advised it would (1) place more emphasis on the condition of housing as part of the on-site, independent assessment of troubled PHAs required by Section 113(a) of the Housing and Community Development Act of 1992, and (2) develop a new data base and reporting mechanism that addresses the quality of a PHA's housing stock. It contended the revised PHMAP rule was an improvement over the current rule because changes had been made to reflect more accurate assessments of management performance. It also noted nine new initiatives in the process of being implemented to offset reduced resources for monitoring field offices and PHAs regarding PHMAP, including more emphasis on independent auditors. OIG accepted OPIH's comments and concurred in the proposed revisions to the PHMAP rule.

Changes May Require Later Review

We deleted the draft finding on the PHMAP system from this final report based on OPIH's plans to better define the role of PHMAP and to place additional emphasis outside of PHMAP on housing conditions. Our concern with the condition of MHA's housing was addressed in Findings 1 and 2. However, the impact of OPIH's planned changes and new initiatives may warrant further review at a later date, especially as they relate to addressing the condition of PHA housing stock, both for "troubled" PHAs under PHMAP, and those not considered troubled.

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OIG Response To Auditee Comments On Finding 1

MHA's comments on Finding 1, shown verbatim in Appendix E, are summarized below, followed by OIG's response:

1. MHA said 100 percent of their 1986 through 1991 CIAP monies was obligated and 99 percent was spent.

* * *

MHA's statement is true, but is irrelevant. Finding 1 primarily concerned CGP funding because MHA has flexibility in how these funds are spent. Most CGP funds were unspent.

2. Many of our photos and references to deficiencies were related to conditions at Dixie Homes that were yet to be addressed.

* * *

MHA's comment implies we criticized deficiencies in the process of being corrected. The conditions criticized at Dixie had already been addressed to the extent MHA planned to address them. There were no plans for further action, with the exception of the rusty stairs which the city required MHA to correct.

3. MHA said it did not receive enough funds at any one time to complete Dixie's modernization in a reasonable time frame.

* * *

We criticized delays caused by actions of MHA's staff, not delays caused by staged funding. For example, in 1990 MHA committed \$9 million for a stage of renovation of Dixie. The design work was not completed until the close of 1992 and construction did not start until September 1993. We observed similar delays on subsequent funding stages.

4. Limited funding and HUD regulations slowed Dixie's construction because certain tasks required lengthy time periods to complete. These tasks were outlined in implementation schedules which HUD approved.

* * *

Under the CIAP and CGP, PHAs have up to three years to spend the funds unless HUD approves time extensions due to unforeseen circumstances. Unforeseen circumstances did not contribute to the three years it took MHA to design and start construction on Dixie Homes. MHA should design projects prior to funding the construction.

5. MHA had little choice in spending much of the \$11 million of CIAP funds for Cleaborn Homes on lead abatement. Even with the abatement requirements, they were still able to complete some comprehensive modernization.

* * *

MHA's efforts at Cleaborn Homes were an example of their piecemeal approach to modernization. They did not commit enough funds to adequately renovate Cleaborn, and the quality of work completed was poor, as discussed in the report.

6. We pointed out problems at developments without acknowledging planned corrective actions. They cited as examples the nine developments we inspected.

* * *

We acknowledged planning for Foote Homes and Lemoyne Gardens. Plans and/or funding for the other seven developments were not finalized at the time of our review.

7. The one photo depicting broken glass at Foote Homes exaggerates the condition at MHA's 18 low-rise developments. Excessive broken glass on any development is isolated in nature and is given immediate attention.

* * *

Finding 1 accurately portrays the broken glass problem at MHA's low-rise developments. The problem is not isolated and is significant, as any visitor can readily see.

8. MHA had repaired the canopy in Figure 3 and problems like the ones noted in Figures 4 and 5 would be corrected by scheduled renovation and/or demolition.

* * *

MHA should have repaired the canopy in Figure 3 long ago. It cannot wait until modernization monies are available to fix everything. Neglecting maintenance causes building deterioration. For example, missing siding at Cypresswood was left unchecked, and the exposed insulation and studs will eventually require MHA to replace whole sections of exterior walls damaged by wind and rain.

9. MHA believes our comparison with other PHAs is inconclusive because there is no supporting narrative or statistical data to suggest the rate of occurrence of each observation and document the general conclusions drawn. They believe it is unreasonable to compare MHA's housing stock with that of other PHAs due to differences in characteristics, turnover in management, physical conditions, and neighborhood environment. MHA also noted we did not identify which developments had been renovated.

* * *

We believe the comparison is fair, and reasonably demonstrates the comparative poor exterior condition of MHA's developments. The close proximity, similar size, age and funding of the three PHAs make them reasonable comparables to MHA. The developments of the three PHAs are also located in similar types of inner city neighborhoods. We agree with MHA that the other PHAs have had more stable management. The significant contrast between the condition of MHA's exteriors and that of the other PHAs is more apparent in

person than in the photos. Rather than narrative or statistical data, we suggest anyone seeking additional support for our conclusion should visit the PHAs.

Two of the comparison developments, Metropolitan Gardens and LaSalle Place, have undergone renovation, and two others, Beecher Terrace and Smithville, were being renovated.

10. MHA concluded that if the other PHAs received similar amounts of modernization funding and were already in much better condition, then MHA was seriously underfunded.

* * *

We have no way to determine whether the three comparative PHAs were in better condition prior to the 10-year period we compared modernization funding. If they were, it was likely because they better maintained their units and spent previous modernization funds more effectively and efficiently.

11. MHA noted their HOPE VI strategies would impact half of the 5,012 units we said were obsolete, which they believe demonstrates current management's commitment to effectuating a remedy to MHA's longstanding problems.

* * *

MHA's statement is somewhat misleading as implementation funding had been approved for only 1,264 of the 5,012 units. MHA received \$47 million for Lemoyne Gardens to demolish or renovate 842 units, and \$4.5 million to demolish 422 units at Foote Homes. We believe the report adequately describes these activities.

12. MHA said it recognized improvements were needed in the areas of maintenance and modernization, and had hired consultants to work with their staff to effect improvements.

* * *

MHA's hiring of the maintenance and modernization consultants was a positive first step, but neither consultant had significantly impacted the condition of MHA's housing. It was too soon to evaluate results in both instances. MHA did not begin to implement maintenance recommendations until early 1996. Modernization results included increasing the modernization PHMAP score and selecting design architects for various renovation projects.

13. MHA said no HOPE VI funds had been awarded when it allocated \$2.3 million of CGP money to LeMoyne Gardens in 1993. MHA said it renovated the 100 vacant units while seeking HOPE VI monies because it needed the 100 units and had no assurance they would receive HOPE VI funding. They believe the renovation was justified because part of the development will be occupied beyond the year 2000 due to the time it will take to get the HOPE VI plan approved, relocate the residents, demolish the units, and build new ones.

* * *

We continue to believe the \$2.3 million renovation at Lemoyne Gardens exemplifies poor planning. MHA was awarded the HOPE VI planning grant in 1993. The CGP-funded construction started in September 1994, and MHA received the HOPE VI implementation grant only a few months later, in January 1995. The renovated units will not even serve as a relocation resource because they are scattered throughout the development and will have to be razed as part of the now-planned demolition of most of the projects' 842 units. Also, MHA over-designed the CGP-funded renovation by specifying expensive steel doors and humidity controlled kitchen fans for units soon to be torn down.

14. MHA agreed there was some resemblance between Dixie's before and after photos because both were built in 1938, but disagreed with our conclusion there was little visual improvement to renovated building exteriors.

* * *

The only visual differences were exterior lights and plywood removed from the windows. MHA did no landscaping and made no noticeable change to the exterior design that would give residents something they could take pride in.

15. In response to our comment that MHA should have known demand for efficiencies and one-bedroom units was limited at Dixie, MHA said it "...approached HUD ... seeking to reduce the number of efficiencies and one bedroom units on that development", and when that effort failed, stepped up their marketing plan to make the best of the situation. Then MHA said "We have never approached HUD concerning the conversion of one bedrooms because to this point renting one bedrooms at Dixie Homes has never been a problem."

* * *

MHA's response is confusing, first saying they requested HUD approval to reduce the number of one-bedroom units and then stating they had never done so. MHA provided no evidence of the request or denial of HUD approval. During our May site visit, both efficiencies and one-bedroom units were a problem as MHA had 27 vacancies in these size units.

16. MHA said modernization plans for Foote Homes and Lauderdale Courts changed due to HUD's reinvention. MHA then hired an architect for Foote Homes, submitted a demolition plan and revised their implementation schedule. Foote Homes modernization is on schedule per the revised implementation schedule.

* * *

We are not questioning MHA's revised plans to demolish part of Foote Homes. We question the time lag that occurred from their commitment of CGP funds in 1992 and 1993 until May 1995 when the decision was made to demolish part of the development. MHA had the funds far too long before they made any effort to design the modernization.

17. MHA said our comment on the tankless hot water units may be the most important point mentioned related to troubles at Cleaborn Homes. The units were supposed to be state-of-the-art, but were of poor design forcing the resident to choose either hot water or heat, but not both simultaneously. Since the problems could not be solved through maintenance, replacing the units with individual hot water heaters is a logical solution to the problem.

* * *

The tankless hot water heaters were another example of poor planning and design by MHA which will cost approximately \$1 million to correct.

18. MHA said our statement that MHA is not providing decent, safe and sanitary housing is in effect saying MHA has no decent, safe, and sanitary housing in its inventory. They acknowledged much of their inventory does not meet standards, but believe we should have recognized their progress to date and the plans and strategies developed.

* * *

MHA acknowledged in their response that 72 percent of their units failed HQS in 1996 and in "An Overview of MHA", that approximately 85 percent of their units failed. We believe these percentages and our inspections support our conclusion that MHA is not providing decent, safe and sanitary housing for the majority of its residents. Regarding MHA's plans and strategies to correct the problem, they have taken a number of actions, including hiring consultants and a director for maintenance, purchasing a maintenance warehouse and identifying developments for razing. While some or all of these actions may eventually reduce the number of substandard units, this had not occurred as of the end of our review. As we noted in Findings 1 and 2, MHA has a history of hiring consultants and planning to solve major problems, but subsequent reviews demonstrate their plans were not very effective.

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