audit report
OFFICE OF INSPECTOR GENERAL

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TO: Elinor R. Bacon
Deputy Assistant Secretary
Office of Public Housing Investments, PT

FROM: D. Michael Beard, District Inspector General for Audit, 6AGA

SUBJECT: Housing Authority of New Orleans
HOPE VI Grants

As part of a nationwide audit of the HOPE VI Program, we performed an audit of the Housing Authority of New Orleans' (Authority) Desire and Fischer HOPE VI grants to determine if the Authority: (1) properly procured contracts under its HOPE VI grants; (2) only expended amounts for eligible activities; (3) met the objectives of its Revitalization Plan; and (4) implemented its community and supportive services components effectively, efficiently, and in a manner that will allow the activities to be sustained beyond the grant term. The audit found that the Authority has not satisfactorily administered and monitored its HOPE VI grant activities.

In our opinion the risks and uncertainties involved in the Desire implementation do not justify such a large investment of federal funds. These risks and uncertainties include: (1) inadequate planning for funding, costs, and marketability of units; (2) inadequate progress made on the Desire and Fischer grant activities; (3) a poor location for the implementation site; (4) a lack of City commitment; and (5) the poor procurement of a program manager. A troubled housing authority and inadequate HUD oversight add to the project risks. Due to the significance of these problems, we are reporting the results of our review now rather than waiting until the completion of the nationwide audit.

Within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Please write or call me at (817) 978-9309 if you or your staff have any questions.

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Executive Summary

As part of a nationwide review, we audited the Housing Authority of New Orleans' (Authority) Desire and Fischer HOPE VI grants to determine if the Authority: (1) properly procured contracts under its HOPE VI grants; (2) only expended amounts for eligible activities; (3) met the objectives of its Revitalization Plan; and (4) implemented its community and supportive services components effectively, efficiently, and in a manner that will allow the activities to be sustained beyond the grant term. Overall, the audit found the Authority has not satisfactorily administered its HOPE VI grants. The Authority did not properly procure services, expend funds, plan its revitalization activities, or make adequate progress in implementing its revitalization and community and supportive services activities.

In our opinion the risks and uncertainties involved in trying to carry out the revitalization of the Desire development do not justify the planned investment of $70 million in federal funds. These risks and uncertainties include: (1) revitalization activities based on conceptual plans, with uncertain funding and costs; (2) little progress made on the grant since its award in February 1995; (3) an isolated site, surrounded by industry and an environmentally controversial residential area; (4) no evidence of a significant City commitment; and (5) major problems in the procurement of a program manager. Because of these concerns, HUD has little assurance that the large federal investment will transform Desire into a viable neighborhood. A troubled housing authority, and inadequate HUD oversight add to risk of the planned revitalization. In addition, almost 3 years after receiving the planning grant for the Fischer development, the Authority has only just recently obtained a contractor to prepare a Revitalization Plan.

Authority plans do not show where funding for the implementation will come from nor how much it will cost.

The proposed Desire revitalization will cost $125 million, about half of this from federal funds. However, the Authority has no commitments or assurances that it can obtain non-federal funding. The Authority plans to use federal funds mostly for infrastructure and community and supportive services, and is counting on these expenditures to attract outside investment. In addition, the estimated costs are based on conceptual plans, that include many uncertainties. Further, although the Revitalization Plan indicates housing costs would fall within HUD guidelines (Total Development Costs), our analyses show housing costs would exceed TDC limits by at least 21 percent.

The Authority has made little progress on its HOPE VI grants.

The Authority's lack of progress since being awarded the Desire and Fischer HOPE VI grants in February and June 1995, respectively, further raise doubts about its ability to successfully carry out the grants. Part of the lack of progress can be attributed to political and other circumstances beyond the Authority's control. Nevertheless, the Authority could have made significant progress over the last 3 years on the Desire grant in the areas of demolition and relocation, self-sufficiency and community building, management plan, and homeownership. Further, it took the Authority from June 1995 until March 1998 to select a contractor for the Fischer planning grant.

Desire location has serious drawbacks.

Desire is an isolated peninsula, surrounded by industrial areas, railroad tracks, heavily traveled truck routes, a shipping canal, and a controversial EPA Superfund site. The residential area is deteriorated, and there is little commercial base to provide services and jobs. A draft viability report found Desire to be the least viable of the Authority's developments. These issues regarding the Desire site contribute to the risks in implementing the Authority's HOPE VI plans.

The City has not demonstrated a commitment to Desire.

The City and Authority have provided little evidence to substantiate claims of a substantial investment by the City in the Desire area. The City will not be providing $5 million in infrastructure improvements that it told HUD it would. Also, the City does not appear to have made significant efforts to improve the Desire area, does not provide garbage collection services to the Authority's developments, and has not responded to the Authority's request for its HOPE VI match.

The Authority did not properly procure the Desire program manager.

The Authority did not follow procurement requirements in selecting the Desire program manager, sole-sourced significant work items, and duplicated items already contracted for. Further, the Authority proposes to spend 18 percent of its grant funds for a program manager who bears little risk and will profit whether or not the implementation succeeds.

A troubled authority and inadequate HUD oversight add to risk.

A troubled housing authority and inadequate HUD oversight underlie some of the troubling conditions discussed above and further diminish hopes for success of the Desire and Fischer HOPE VI grants. The Authority has a long history of poor performance and has had little success improving housing conditions for public housing residents. And although some of the problems and difficulties, such as Desire being in an isolated location, are largely beyond its control, the Authority has done little to avoid difficulties or mitigate adverse circumstances. HUD must also share some responsibility for the high risk venture, in that it has not provided adequate oversight over the Desire grant.

HUD should seek ways to reduce Desire risks.

In our opinion the planned Desire implementation entails unacceptably high risks. We are recommending you take steps to reduce these risks to an acceptable level (i.e., a level at which you believe the implementation has a reasonable chance of succeeding). At a minimum these steps should include ensuring concrete plans are in place before proceeding, and closely monitoring the implementation. If you cannot reduce the risks to an acceptable level, we recommend you terminate the grant. We also recommend you ensure the Authority adheres to procurement regulations and require the Authority to re-procure parts of the program manager contract.

The Authority generally disagreed with the draft report.

On February 5, 1998, we issued an advance draft finding regarding the Authority's procurement of a program manager (included in this report as Finding 2). The Authority responded to the advance draft finding in a February 25, 1998 letter (Appendix B). On April 10, 1998 we issued the overall draft report, to which the Authority responded on April 24, 1998 (Appendix A). Also, Authority officials and OIG staff discussed issues in the draft report at an exit conference on May 5, 1998. For the most part the Authority disagreed with the findings and main recommendations, although it concurred with some of the draft report. Based on the Authority's written and verbal comments, we made some changes to the findings and recommendations, although the report's substance did not change significantly.

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Abbreviations

ACC	Annual Contributions Contract
CDC	Community Development Corporations
CGP	Comprehensive Grant Program
CIAP	Comprehensive Improvement Assistance Program
EPA	Environmental Protection Agency
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
RFP	Request for Proposals
TDC	Total Development Cost

Introduction

Background

The HOPE VI Program. HUD established the HOPE VI Urban Revitalization Program for the purpose of revitalizing severely distressed or obsolete public housing developments. Congress provided funding for HOPE VI in the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies 1993 Appropriations Act. Over 5 fiscal years, 1993 to 1997, Congress has appropriated $2.6 billion to fund planning and implementation grants under HOPE VI. Congress intended HOPE VI to remedy the distress of family developments that are too large to be addressed by HUD's conventional public housing modernization program. This program provides local communities with up to $50 million per City[1] to accomplish the comprehensive revitalization of severely distressed developments. Permitted activities include funding of the capital costs of major reconstruction, rehabilitation and other physical improvements, the provision of replacement housing, management improvements, planning and technical assistance, implementation of community service programs and supportive services, and the planning for any such activities.

The Housing Authority of New Orleans. The Housing Authority of New Orleans (Authority) was established under Louisiana statute in 1937. Currently, the Authority administers 12,715 units of public housing in 10 conventional public housing developments and a number of scattered sites throughout the City. The Authority also administers over 4,000 Section 8 certificates and vouchers. The Authority has been designated by HUD as "troubled" since 1979. Because of the Authority's poor performance, the Secretary of HUD found the Authority in default of its Annual Contributions Contract (ACC). As a result of the breach, the City, the Authority, and HUD entered into a Cooperative Endeavor Agreement on February 8, 1996. This Agreement forged a management partnership that replaced the Board of Commissioners with an Executive Monitor, and assigned HUD personnel to work at the Authority. The Authority continues to operate under this arrangement. Mr. Ronald Mason, as HUD's designated Executive Monitor, acts as the Authority Board. Mr.

1 For Fiscal Year 1997, the amount of funding for which an Authority could apply was reduced to $35 million.

Michael Kelly is the Executive Director, responsible for day-to-day Authority operations. Authority administration and records are located at 918 Carondelet Street in New Orleans, Louisiana.

The Authority's HOPE VI Program. HUD awarded the Authority three grants: two implementation and one planning. Implementation grants were awarded for the Desire (1994) and St. Thomas (1996) sites. The grant funds awarded amounted to $44.2 million and $25 million for Desire and St. Thomas, respectively. In addition, the Authority received a $400,000 planning grant for the Fischer development (1995). The Authority also applied for additional grants for the St. Thomas and C.J. Peete developments under the 1997 appropriation; however, neither site was funded.

On February 10, 1995, HUD and the Authority executed an implementation grant agreement for $44,255,908 for the revitalization of Desire. On June 18, 1995, a planning grant agreement was executed for $400,000 for Fischer. As of September 30, 1997[2], the Authority had expended $702,854[3] of Desire's and none of Fischer's grant funds. Under Desire's grant, only one contract had been let[4]. Our review of this one procurement resulted in the issuance of an advance draft finding (included in this report as Finding 2).

Audit Objectives, Scope, and Methodology

The audit covered the Desire and Fischer HOPE VI grants. We are presently performing a separate audit of the St. Thomas grant. Our audit objectives in reviewing the Authority's Desire and Fischer HOPE VI grants were to determine if the Authority: (1) properly procured contracts under its HOPE VI grants; (2) only expended amounts for eligible activities;[5] (3) met the objectives of its Revitalization Plan; and (4) implemented its community and supportive services components effectively, efficiently, and

2 As late as 2/13/98, efforts were made to obtain up-to-date information. However according to Authority officials, information had not been posted to its general ledger since 9/30/97.

3 Mostly for Program Management Services ($678,818), relocation, and advertising expenses.

4 A contract was let to Gilbane Building Company on 4/15/96, in the amount of $495,675.00

5 Except for administrative costs, the audit scope generally did not include a detailed review of support for HOPE VI disbursements.

in a manner that will allow the activities to be sustained beyond the grant term.

To achieve the audit objectives we: (1) reviewed HOPE VI regulations and guidelines, Authority procurement policy, contract files, and any related documentation; (2) interviewed Authority, HUD, and contractor officials; and (3) made site visits to the HOPE VI developments. Our audit procedures included reviewing:

- The selection and award process for the procurement of a program manager to implement the Desire HOPE VI Revitalization Plan.

- The Authority's Revitalization Plan for Desire to determine if: (1) it met HOPE VI requirements; (2) the Authority will be able to complete the program successfully and timely; and (3) the Authority has adequate procedures to monitor the progress and performance of the grant.

- Community and supportive services (self-sufficiency and community building) programs for the Desire grant. The review included determining what progress the Authority has made, whether it has plans to sustain the programs after HOPE VI funding ends, and whether the City has provided required matching contributions.

- Progress the Authority has made under the Fischer planning grant.

We performed field work at the Authority offices and HOPE VI sites from October 1997 to January 1998. The audit generally covered the period February 1995 to January 1998, although the period was extended as appropriate. We performed the audit in accordance with generally accepted government auditing standards.

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Planned Desire Implementation Poses Unacceptably High Risks

The Authority's planned implementation of the revitalization of the Desire public housing development has many risks and uncertainties. Specifically, the planned implementation: (1) is largely based on conceptual plans, with uncertain funding and costs; (2) has made little progress since its award in February 1995; (3) is located in an isolated site, surrounded by industry and an environmentally controversial residential area; (4) has not been backed by significant City commitment; and (5) already has experienced major problems in the procurement of a program manager. In addition, almost 3 years after receiving the planning grant for the Fischer development, the Authority has only just recently obtained a contractor to prepare a Revitalization Plan. A troubled housing authority, and inadequate HUD oversight underlie some of these conditions, and further diminish hopes for success of the Desire and Fischer HOPE VI grants. As a result, HUD has little assurance that the Authority's planned use of up to $70 million in federal funds will result in viable communities for residents of the Desire and Fischer developments.

Overview of Desire Revitalization Plan

The master site plan demolishes all of the existing units at the Desire Housing Development, and reduces the number of units to 800 (down from 1,832 units). The physical implementation of the revitalization plan is subdivided into seven areas, including single family, multifamily, and congregate care units. In addition, the master site plan provides for the construction or rehabilitation of 100-200 single family homes in adjoining neighborhoods, the renovation of the existing community center, and construction of on-site commercial facilities.

- 425 units of multifamily townhouses on-site
- 200 units of single family detached homes on-site
- 100-200 units of new or renovated single family homes in the adjoining neighborhood
- 175 units of congregate care housing on-site
- Renovated community center
- Commercial core on-site
- New Infrastructure
- Resident designed Community and Supportive Service programs.

The Revitalization Plan spans a 5-year period. The Authority estimates the revitalization will cost about $125 million, with approximately $70 million funded by HUD

HOPE VI and Comprehensive Grant Program funds. The master plan expects outside investment and tax credits to generate the remaining $55 million.

Planned implementation based on uncertain funding and indeterminable costs

The Authority's implementation of a conceptual revitalization plan based largely on uncertain funding and indeterminable costs contribute to Desire being a high risk venture.

Uncertain funding. The Authority is embarking on an estimated $125 million revitalization plan with only half of the funding in place. Presently, actual funding for Desire totals $62.2 million[6]. The Authority has used, or plans to use approximately $16 million of the $62.2 million for self sufficiency and community building, a program manager, and settlement of litigation with a former contractor,[7] leaving about $47 million for administration, relocation, demolition, construction, and other expenses. Funding for the remaining $62.8 million can only be considered speculative.

According to the Revitalization Plan, the Authority's ability to deliver the vision largely hinges on leveraging federal funds with other sources of public and private funds. HOPE VI funds will cover most non-building costs of the program (fees, community and supportive services, management improvements, etc.), as well as development of the site, including utilities and roads. The hope is that this will draw leveraged funding for the buildings, and attract private investment. However, the Authority has no commitments for leveraged funding and private investment, only letters of support and interest. Further, although the Authority had initially looked to the program manager to bring in outside funding, the proposed program management services contract does not hold anyone responsible for this leveraging.

6 The $62,190,142 includes $17,934,234 in Comprehensive Grant Program (CGP) funds ($16,146,000 from the Authority's 5-year CGP plan for 1997-2001 plus $1,788,234 in converted Major Reconstruction of Obsolete Projects (MROP) funds) plus $44,255,908 in HOPE VI funds.

7 Rex K. Johnson

In addition to not having funding commitments, the Authority does not have details showing how it will attract private developers and find eligible residents to successfully carry out its single family homeownership plans. The Revitalization Plan provides for building 200 single family homes on the Desire site, and building or substantially rehabilitating 100-200 homes in the adjoining neighborhoods. These homes, at an average price of $65,000, would be offered to eligible families for homeownership (some on-site units will be rental housing). In order to purchase a $65,000 home, including a soft second mortgage of up to $28,000, the purchaser must have an annual income of $17,376. However, Andersen's March 1997 viability report states that only about 200 Authority residents (the entire Authority, not just Desire) would be income-eligible to purchase a $55,000 home with a $10,000 soft second mortgage.

The Revitalization Plan also anticipates $6 million in tax credits. Louisiana annually allocates about $220 million in 4 percent, and $5.3 million in 9 percent Low Income Housing Credits. According to the Louisiana Housing Finance Agency, 4 percent tax credits are for activities relating to building acquisition, minor rehabilitation, and federal subsidy. However, all awards are based upon a stringent application and review process of the following required elements: Total Development Costs, sources of funding, commitment letters, and the feasibility and viability of the project. Total Development Costs is given the most weight and must fall within strict limitations. Given the Desire shortcomings in the required element areas (as discussed in this report), it is questionable whether the Authority will be able to obtain 4 percent tax credits.

The State grants 9 percent tax credits for new construction and rehabilitation activities. It is unlikely the Authority will get all or most of the State’s $5.3 million tax allocation in any 1 or 2 years. According to Andersen's viability assessment: "The State reports that the program is oversubscribed and highly competitive. The 1996 credit allocation and forward commitments of some of the anticipated 1997 allocation have been awarded already. Therefore, it is unrealistic for HANO to expect to obtain credit allocations for more than two HANO projects over the next 5 years, and will require the full support of the City."

Indeterminable costs. Because of the uncertainty of future federal funding, it is important the Authority have full knowledge of the costs involved, including unforeseen costs. As it is, the costs are strictly estimates based on a revitalization plan that Authority officials admit is conceptual. For example:

- During implementation the units will be redesigned to accommodate contemporary housing standards by first understanding furniture placement and behavior patterns, and assigning square footage afterwards.

- Authority officials do not have a clear idea of what the congregate care housing units will be.

- Regarding infrastructure, the Revitalization Plan states: "Assuming the main lines are in good condition, new sewer work will be primarily in the interior of the neighborhoods." If this assumption is wrong, then initial costs will increase.

In addition, to reduce the risk of losing a large investment of federal funds, the Authority plans to implement the revitalization on a staged basis. According to an October 11, 1996 letter by a HUD official: "…we and Gilbane have reworked the plan so that implementation occurs in phases, each of which would end at a logical place. If performance milestones are not met and further expenditures cease, viable housing will be left, no unnecessary physical work will be left, no unnecessary physical work will have been done, and unused land can be disposed of. While I do not suggest that any withdrawal from the plan would not result in the loss of sunk costs, primarily planning and organizational costs, these risks are minimized in this plan."

This staged approach, intended to minimize losses should the project not be completed, may not work as smoothly as intended. Although the HUD official indicates each phase would end at a logical place and the implementation could cease with no unnecessary work having been done, this does not appear to be the case. Phase I, for example, provides for preparing the infrastructure (roads and utilities) for multifamily units to be built on-site in Phase III. Therefore, if work ceased after Phase I or II, the Authority would have incurred unnecessary infrastructure costs. Also, while a premature termination of the plan may leave some viable housing, what assurances are there that this would leave a viable neighborhood and community? According to the Grant Agreement: "HOPE VI is intended to address the condition of people in public housing developments, and not merely of the bricks and mortar themselves." Given the high risks and large dollar amounts involved, the Authority's staged approach should have more detailed contingency plans to deal with worst case scenarios.

In addition, the Revitalization Plan indicates that housing unit projected costs are in line with HUD's Total Development Cost limits. However, calculations by OIG staff show that, based on budgeted costs, the average unit cost will exceed the TDC limit by 21 percent:

Average TDC per unit per Revitalization Plan	$ 88,777[8]
Average TDC per unit allowable	$ 88,898
Average TDC per unit per Authority's budget	$107,341
Excess budget over allowable	$ 18,443

The reason why the Revitalization Plan's figure differs significantly from the OIG's amount is because Gilbane did not perform the calculations in accordance with HOPE VI guidelines. HOPE VI guidelines require such costs as administration, relocation, demolition, and site improvements be included in determining Total Development Cost amounts. The Revitalization Plan's calculations are based only on hard construction costs.

The Authority has made little progress on its HOPE VI grants

The Authority's lack of progress since being awarded the

clude the 825 single family and multifamily dwellings. The calculations do not include the 175 congregate care units because the Authority could not provide specific information as to what these units will be.

Desire and Fischer HOPE VI grants in February and June 1995, respectively, further raise doubts about its ability to carry out the grants successfully. Part of the lack of progress can be attributed to political and other circumstances beyond the Authority's control. However, the Authority could have made significant progress over the last 3 years on the Desire grant in the areas of demolition and relocation, self-sufficiency and community building, management plan, and homeownership. Further, it took the Authority from June 1995 until March 1998 to select a contractor for the Fischer planning grant.

Demolition and relocation. From August 1995 to March 1998 the Authority did not demolish any units at Desire, and only relocated a few families. As a result, the HOPE VI project is stalled. Authority officials said they wanted to do relocation and demolition as close to the signing of a Developer (Program Manager) contract as possible so as to not lose operating subsidy (as discussed in Finding 2, the Program Manager amendment for implementing the Desire revitalization has not been approved). Nevertheless, the Authority could have pursued plans and options to get its demolition and relocation activities, necessary preliminary implementation steps, further advanced.

In January 1994, prior to the Desire HOPE VI grant, HUD approved the Authority's request to demolish 660 of Desire's 1,832 units. HUD also provided the Authority with nearly $10 million to fund 660 Section 8 certificates to be used as replacement housing. In August 1995 the Authority demolished 252 of the 660 units. From August 1995 until March 1998 the Authority did not demolish any more units, and only relocated a few families. The Authority provided us records showing that 16 families were relocated in March 1998, and it appears that some demolition activity is underway again.

The Authority cannot satisfactorily explain this lack of progress. In February 1996, a HUD official toured the Desire site. He concluded that: "What is evident, though, is the fact that further demolition is possible, and should proceed as quickly as possible." Further, Authority relocation and Section 8 staff assured the HUD official that, with the 660 Section 8 certificates, relocation should progress well. However, the Authority did not progress with demolition, relocation, or use of its Section 8 certificates. Instead, the Authority requested additional HUD funds to rehabilitate units at Desire to use as temporary relocation . . . units which themselves would be subsequently demolished.

The Revitalization Plan gives first priority to relocating families whose apartments are in buildings that are in the path of proposed new streets. The Authority gave these Desire residents the following options for relocation: be relocated within Desire; be permanently or temporarily transferred to another conventional development; or move permanently or temporarily to Section 8 housing. Most Desire residents opted to relocate within Desire. To accommodate these residents, the Authority will rehabilitate Desire units that are scheduled for later demolition, and temporarily relocate the residents to the rehabilitated units.

HUD allowed the Authority up to $1,000 per unit to repair units for temporary occupancy. However, the Authority estimated it would cost $5,500 to rehabilitate the units at Desire for temporary relocation. Therefore, the Authority obtained HUD's approval to rehabilitate up to 70 units at Desire. An analysis the Authority submitted with the request for approval showed the rehabilitation would cost slightly more than using Section 8. When questioned about the Section 8 certificates that HUD had provided, Authority officials said there was a shortage of Section 8 housing. However, as discussed above, Authority staff had previously assured a HUD official that the Section 8 Program would do well.

The Authority therefore plans to spend up to $385,000 (70 units X $5,500) to rehabilitate units that are scheduled for demolition. The Authority's attempt to accommodate residents' first preferences is laudable. However, given that the Authority has other funding (Section 8) and housing (other housing developments), rehabilitating Desire units does not appear to be the best alternative.

Self-sufficiency and community building. The Authority's self-sufficiency and community building program has no detailed plans for implementing or sustaining services for Desire residents.

The Desire Revitalization Plan included a Community and Support Service Plan designed to address resident needs. The Community and Support Service Plan had a 5-year budget of about $8.5 million. The Authority included the original Community and Support Service Plan with the grant application in 1993. Subsequently, HUD changed its focus from supportive services to self-sufficiency. In October 1997 HUD conducted a workshop in New Orleans. HUD instructed the Authority to prepare another plan under the re-titled Self Sufficiency and Community Building program. As a result, in November 1997 the Authority submitted to HUD a Self Sufficiency/Support Service Workplan. However, the Self Sufficiency/Support Service Workplan is a conceptual document. The Workplan does not include a description of programs or contracts, eligible participants, or any basis for estimated costs. In addition, neither the original plan nor the revised plan include any concrete provisions for sustaining these services after the grant period ends. Also, as discussed below, the Authority has not received any contributions from the City towards its 15 percent match of supportive service costs.

Management and Homeownership Plans. Similar to the Authority's Self Sufficiency and Community Building, both of these plans are incomplete, and in need of more work. The Revitalization Plan indicates the final management program for the new Desire will be a "work in progress" until all of the elements of the master site plan are in place and the final configuration of the management entity or entities is known. The plan envisions management of Desire being turned over to a separate entity which will include residents. According to the Interim Management Plan, the exact management model has not been determined yet. Although HUD conditionally approved the Management Plan, it noted that the plans for post-revitalization management were incomplete and needed considerably more work.

Fischer planning grant. It has taken the Authority almost 3 years to hire a contractor to prepare a Revitalization Plan for the Fischer development. The $400,000 planning grant agreement, executed on June 18, 1995, states that "The Grantee will carry out the Revitalization Planning strategy in accordance with its provisions and in compliance with this Grant Agreement, the HOPE VI application, the HOPE VI requirements, and any other applicable state and local laws, regulations, and requirements, in order to complete a Revitalization Concept for the Development within 18 months from the effective date of this Grant Agreement." The Authority was granted two extensions to complete its Revitalization Plan, the first to September 30, 1997, and the second to March 31, 1998.

The Authority put out its first Request For Proposals (RFP) on November 18, 1997, but received no responses. On January 21, 1998, the Authority reissued the RFP and received three responses. On March 18, 1998 an Authority employee informed us that a contractor had been selected and the award would soon be made. Therefore, after two extensions and almost 3 years, the Authority has just begun the planning process for the revitalization of the Fischer development.

Desire location has serious drawbacks

Desire's isolation and proximity to an Environmental Protection Agency (EPA) Superfund Site are significant barriers to the creation of the type of viable community envisioned by HOPE VI. These barriers increase the risk of the Authority's planned revitalization efforts.

Desire is an isolated peninsula. Desire is isolated from New Orleans. According to a March 1992 case study of Desire by the National Commission on Severely Distressed Public Housing:

> "Desire suffers from its location on the edge of an industrial area. It is adjacent to the Industrial Canal and the Almonaster-Michoud Industrial District. Heavy truck traffic on Alvar Street and Florida Avenue, serving the industrial area, creates noise and dangerous conditions. Two railroad tracks on the eastern and southern edge of the site are within 500 feet of Desire's property line. One of the lines runs as many as 20 diesel trains a day; the trains average 15-20 mph and disrupt vehicular traffic at selected intersections. A major elevated expressway, Interstate 10, is several blocks to

> the north and west of the development. To the south, the Florida public housing development is visible across the railroad tracks. Only to the west does Desire border, across a relatively wide street, a conventional residential neighborhood, although it too is somewhat deteriorated. Accordingly, the development has a sense of isolation and separateness from the abutting residential community of New Orleans which may induce a sense of alienation on the part of residents and engender a neglect by municipal officials."

In addition, the isolated, distressed area may offer its residents few job opportunities. The current Revitalization Plan provides an optimistic picture: "Numerous businesses occupy the nearby commercial corridor to the north of the study area, Chef Menteur Highway, while the nearby residential core of postwar development occupies the southern and western edges of the site. A small portion of the Port of New Orleans property occupies the eastern edge of the site. With these surrounding uses, the area is a prime location for future residential growth. Adjacent businesses provide job opportunities while adjacent residential neighborhoods reflect a stable community atmosphere.…Within this planning district there are five major industrial zones.…These industrial areas provide job opportunities for residents of the St. Claude/Desire Planning District." However, this contrasts with the 1992 Master Plan, which concluded: "When compared to the adjacent neighborhood, Desire appears as an isolated enclave. Unemployment in Desire was three times the City average, and three times as many persons lived below the poverty level. The level of education among Desire residents was also low, with a high school graduation rate of less than half the city rate.…In general, there are limited opportunities for employment. Many of the businesses are small with very few employees. The industrial type establishments most likely will draw their employees from a wide area."

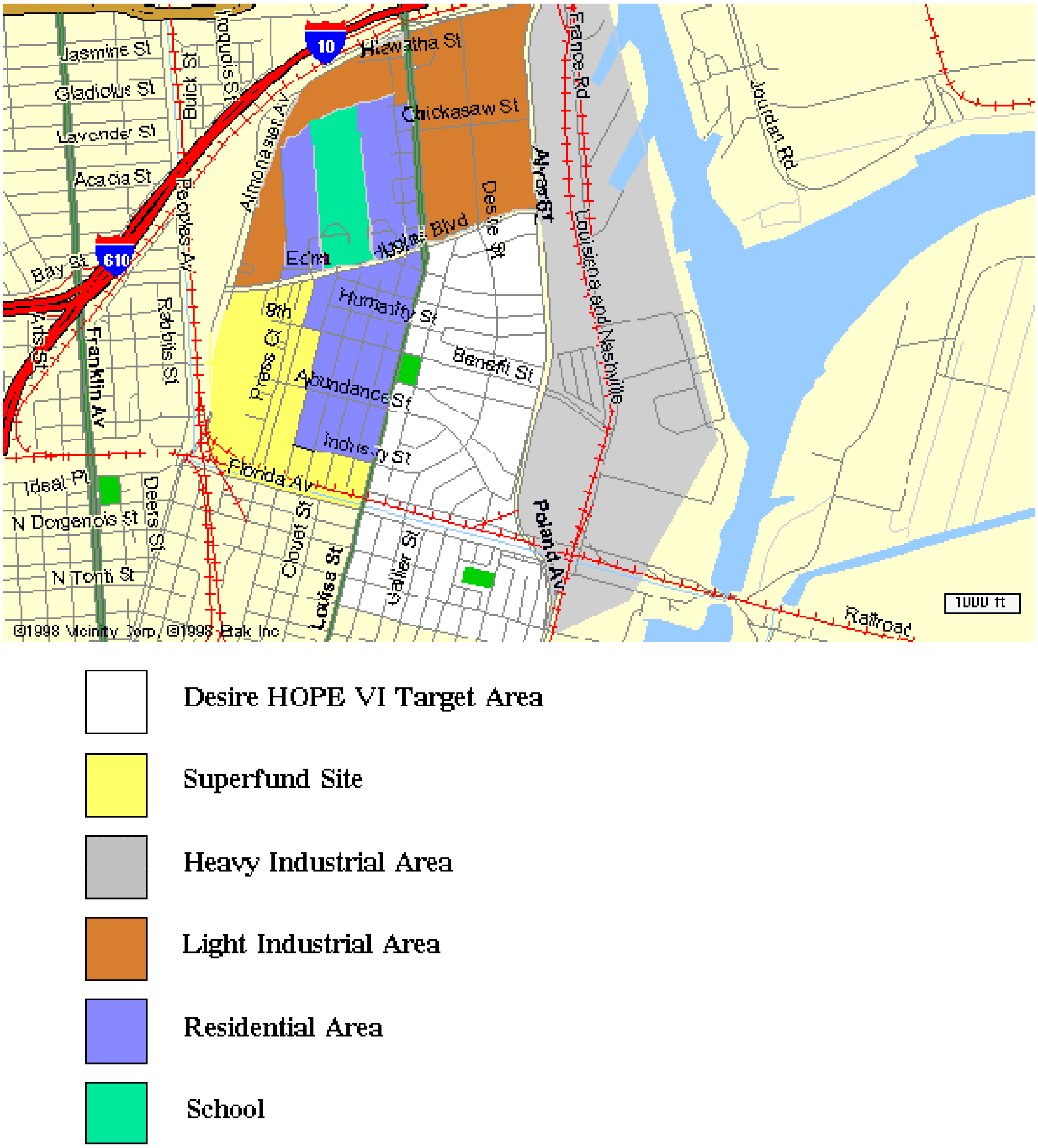
Environmental concerns in the Desire vicinity persist. Desire is located on a former swamp and dump. Further, the nearby Gordon Plaza and Press Park residential areas, also located on a former dump (the Agriculture Street

Landfill), experienced problems with surfacing trash which contain hazardous toxins. On August 23, 1994, the Environmental Protection Agency (EPA) proposed including the Agriculture Street Landfill on the National Priorities List (Superfund Site). As a result, the New Orleans School Board closed the Moton Elementary School on August 24, 1994. EPA formally added the site to its Superfund list on December 16, 1994. After further studies and meetings with local residents, EPA issued its Record of Decision on September 2, 1997. The Record of Decision calls for removing 2 feet of contaminated topsoil in the residential areas and replacing it with clean fill. In addition, an adjoining 48-acre undeveloped property will be capped with 1 foot of soil, graded, and compacted.

EPA's decision has not gone unopposed. Concerned about health risks and property values, many local residents and political leaders have fought to give residents the option of being relocated. Also, Congress attached a rider to EPA's 1998 budget, strongly urging the Agency to "…stay the remediation of the site…" based on health risk concerns. In January 1998, the Concerned Citizens of Agriculture Street Landfill, Inc. filed suit to halt the project. However, in March 1998 a judge dismissed the residents' lawsuit, apparently clearing the way for EPA to proceed with the cleanup. Even assuming there are no more legal and other delays, an EPA official estimated it would take a year to complete the cleanup.

Even though the Desire development is not included in the EPA's Superfund designation, the very close proximity of the cleanup site cannot help but impact Desire and the Authority's plan to revitalize the neighborhood. A Baseline Assessment of Desire as of May 1995, performed by Abt Associates, stated that "The fact that there is a Superfund site nearby and industrial land uses all around reduces the area's residential value." However, the Revitalization Plan only comments that the Desire site is not contaminated, but does not address the environmental issues surrounding Desire.

Congressional concerns about the Desire site. A June 18, 1996 Report by the Congressional Appropriation Committee expressed concern regarding Desire, "The Committee is extremely troubled by ongoing attempts to rebuild on the site of Desire Homes in New Orleans, Louisiana, without an unbiased recommendation that the site is safe and viable, and the surrounding neighborhood provides adequate services for families who remain on the Desire site. Therefore, the Committee is withholding the HOPE VI grant made to HANO for the Desire Homes project until the Committee has reviewed an independent recommendation that the units can be rebuilt cost-effectively, that the site is suitable for low-income housing and the quality of life for residents will be improved." This resulted in Congressional language added to the 1997 Appropriations Act, which provided that "...the funds made available to the Housing Authority of New Orleans under HOPE VI for purposes of Desire Homes, shall not be obligated or expended for on-site construction until an independent third party has determined whether the site is appropriate."



Note: The HOPE VI Target Area encompasses more than the Desire public housing development. The Desire development includes most of the white area that lies above the railroad tracks that parallel Florida Avenue. The railroad tracks and Florida Avenue effectively isolate Desire from the bottom portion of the white area.

To satisfy the Congressional requirement for a third-party assessment, HUD hired Andersen Consulting to perform a Viability Assessment of the Authority's portfolio. In an October 7, 1996 letter to HUD, Andersen Consulting stated that "… the existing buildings and improvements at Desire were non-viable and should be demolished but as to its location, the site is viable and appropriate for residential redevelopment." Although the letter may not have been technically incorrect, Andersen's studies actually found Desire *marginally* viable and *more appropriate* for commercial and industrial use. In a draft report, Andersen Consulting had said the following about Desire after a viability assessment conducted in April 1996:[9]

> "Desire is the least viable of HANO's developments and HANO has planned to used (sic) the greatest amount of resources on its revitalization.
>
> Issues effecting Desire's Viability
>
> Desire was ranked the lowest by HANO staff, city housing officials and the assessment team.
> Buildings are obsolete and should be demolished.
> Site is more appropriate for industrial and commercial use.
> Neighborhood is isolated by highways, railroads, canals, and the port.
> Neighborhood is a marginally viable residential location.
> Site is on the flight path of the Lake Front Airport.
> Area surrounding the neighborhood is primarily industrial.
> Neighborhood is in serious need of revitalization.
> There are numerous deteriorated, vacant homes and vacant lots in the neighborhood.
> There are few commercial and service establishments in the neighborhood.
> A portion of the neighborhood is designated a Super Fund site."

The evidence does not show a significant City commitment to Desire.

The audit showed little evidence to substantiate claims by the City and Authority of a substantial investment by the City in the Desire area. The City: (1) will not be providing $5 million in infrastructure improvements that it told HUD it would; (2) does not appear to have made any significant efforts to improve the Desire area; (3) does not provide garbage collection services to the Authority's developments;

9 Andersen Consulting issued the draft viability report in July 1996. The final report, issued in March 1997, stated that Desire "…is a marginally viable residential location. It is not HANO's most viable location."

and (4) had not responded to the Authority's request for its HOPE VI match.

Promised infrastructure improvements will not be forthcoming. In April 1995 the Mayor sent a letter to HUD's Acting Assistant Secretary for Public and Indian Housing committing the City to provide $5 million in matching funds in the form of infrastructure improvements for the HOPE VI housing development. When OIG staff recently asked about the letter, Authority officials said they were not aware of the letter's existence. Accordingly, the Director of Development spoke with the Mayor's Office about the letter and was told the $5 million would be in the form of in-kind services and not infrastructure improvements.

No evidence of significant City efforts in Desire area. According to the Revitalization Plan "…the City has already made a substantial investment in the school systems, streets and sidewalks, and utilities; and currently CDBG funds are being invested in numerous redevelopment projects."

During a recent meeting with City officials, the Mayor through his Executive Assistant informed OIG staff of the City's continued commitment to the Desire Development even though it is at a standstill. During that meeting, the following were cited as evidence of that commitment: $100,000 annually for a Health Clinic; $60,000 annually for Sampson & Desire playgrounds including a pool at Sampson Playground[10]; Community Policing, now funded out of the City's General Fund; Multi-service Center at Louisa and Florida; Economic Summer Youth Opportunity program; Community Public Safety funds including street lighting, better locks on housing; a substantial renovation of the economic zone behind the Multi-service Center; $1,000,000 in infrastructure improvements (i.e., curbs, gutters, signal lights, and signs in the area); $1,000,000 in street improvements in the immediate area around Desire; and $2,500,000 in occupied rehabilitation around Desire.

Several visits to the area disclosed some recent street work had been performed: Sampson Playground was well maintained; perhaps some new street lighting had been

10 Renovations to the pool at Sampson Playground were done in 1992.

installed; a handful of homes have been renovated. However, the site visits and a review of City records[11] did not disclose any extraordinary City efforts at Desire, nor substantiate claims of substantial investment in the area.

The City does not provide garbage collection at Authority developments. The City does not collect garbage at the Authority's developments, including Desire. A Cooperative Agreement between the City and the Authority contractually obligates the City to provide public services such as garbage pickup to its residents. According to the Executive Director, the Authority still operates an in-house garbage collection service. Presently two of the Authority's three trucks are not in service. As a result, the Authority contracts out for garbage collection.

In July 1996 the OIG issued an audit-related memorandum regarding garbage collection at the Authority. The memorandum recommended the Authority negotiate with the City regarding garbage collection services. After 1 ½ years and 2 written responses from the Authority regarding the recommendation, the Authority has yet to provide satisfactory evidence that they have made efforts to negotiate with the City. The recommendation remains unresolved.

No response from the City regarding its HOPE VI match. In February 1997 the Authority requested the City's contribution of 15 percent of the HOPE VI supportive services budget in accordance with the Grant Agreement[12]. Authority staff said the City never responded to the Authority's request.

The Authority has already experienced major problems in the procurement of a program manager.

The Housing Authority of New Orleans' (Authority) inadequate procurement of a program manager for the implementation phase of the Desire development could adversely affect the already high risk project's chances of success. Finding 2 discusses this issue in more detail.

11 City records reviewed included the 1994-96 Grantee Performance Reports and the 1996-97 Consolidated Annual Plans.

12 The Authority requested $499,453 in funding initiatives such as housing counseling and job training.

Troubled housing authority, poor HUD oversight lay behind much of the risk.

A troubled housing authority and inadequate HUD oversight underlie some of the troubling conditions discussed above, and further diminish hopes for success of the Desire and Fischer HOPE VI grants. The Authority has a long history of poor performance, and has had little success improving housing conditions for public housing residents. And although some of the problems and difficulties, such as Desire being in an isolated location, are largely beyond its control, the Authority has done little to avoid difficulties or mitigate adverse circumstances. However, HUD must also share some responsibility for the high risk venture, in that it has not provided adequate oversight over the Desire grant.

The Authority's troubled history. HUD has designated the Authority as “troubled” since 1979.[13] Over the last decade, HUD has taken many actions to stimulate management improvements at the Authority, including: withholding funding from the Authority; twice requiring the Authority to be managed by a commercial property management firm; sanctioning the Board of commissioners; and negotiating directly with the Mayor in 1994 to establish a partnership between HUD and the City of New Orleans to avoid declaring the Authority in breach of its contract. These actions had little impact on housing conditions and operational performance. It became incumbent upon the Secretary of HUD to find the Authority in default of its Annual Contributions Contract (ACC). As a result of the breach, the City, the Authority and HUD entered into a Cooperative Endeavor Agreement on February 8, 1996. This Agreement forged a management partnership that replaced the Board of commissioners with an Executive Monitor, and assigned HUD personnel to work at the Authority.

The Authority has made progress in a few areas. The Authority reported a 1997 PHMAP score of 59.25, a 22 percent improvement over the previous year’s score.[14] A recent OIG report found improvement in the evictions process. The Authority has hired some top level managers who appear competent and hard working. However, overall

13 Under the Public Housing Management Assessment Program (PHMAP), a housing authority is considered "troubled" if it scores less than 60 on a 100-point scale.

14 HUD has not yet confirmed the score.

the Authority does not operate effectively. The Desire revitalization would be a high risk endeavor even for a well managed housing authority.

Poor housing conditions persist. In June 1994 the OIG issued an audit report relating to Authority management and operations. The report disclosed that none of 150 units inspected met HUD's Housing Quality Standards, and concluded the Authority did not provide its tenants with decent, safe, and sanitary housing. Also, the report stated that conditions at the Authority had not improved since the previous audit report, issued in 1983.

In a May 1996 report to Congress, the General Accounting Office (GAO) found two operational problems that have stood out as significant and continuing obstacles to improving the Authority's performance. The two problems were the Authority's inability to perform: (1) routine maintenance and repairs and (2) major modernization and rehabilitation work.

Over the past 2 decades the Authority has prepared numerous written plans and reports, and has spent millions of dollars on consultants, architects, planners, and management teams. However, despite all this time and money spent the tenants continue to live in squalor.

Authority has done little to avoid difficulties or mitigate adverse circumstances. Some of the conditions described in this finding are to a large extent beyond the Authority's control. However, the Authority could have either avoided or mitigated these adverse conditions. For example:

- Desire's bad location cannot be attributed to anything the Authority has done. However, the Authority could have used its resources to construct or rehabilitate housing at other locations, rather than choosing to implement a large revitalization effort at its least viable development.

- The Authority cannot be blamed for delays imposed on it by Congress or HUD. Nevertheless, as stated above the Authority could have made progress in such areas as demolition and relocation to help lessen the effects of the delays.

- The Authority points out that HUD approved Authority actions and documents that the OIG is now criticizing. While HUD does share responsibility for some of the reported conditions, the Authority's poor performance has resulted in HUD, including the OIG, having to spend an inordinate amount of time and resources in trying to oversee the Authority's actions. For example, although HUD approved the Authority's improper procurement of a program manager (see Finding 2), the Authority should have done the procurement properly in the first place.

- The Authority has needlessly wasted HUD funds on Desire in the past. In January 1994, after paying almost $1 million to consultants for planning, the Authority entered into a $12.3 million contract with Rex K. Johnson (Contractor) to perform Phase I of a nearly $100 million rehabilitation of Desire. In February 1995, after paying the Contractor $885,718, the Authority terminated the contract for convenience. Rex K. Johnson sued. The Authority recently settled the suit. The Authority will pay the Contractor $620,000 out of Comprehensive Improvement Assistance Program (CIAP) and Comprehensive Grant Program (CGP) funds. The end result was that the Authority spent about $2.5 million without rehabilitating a single unit.

Inadequate HUD oversight. As previously stated, HUD must share part of the responsibility for the Desire dilemma. The HUD HOPE VI staff appear to be understaffed and lack the expertise to manage its large HOPE VI portfolio. This has resulted in HUD not always adequately reviewing documents the Authority submits. Also, HUD's contacts with contractor personnel appear to have somewhat undermined the Authority's bargaining position. The issue of HUD oversight is discussed in more detail in Finding 2.

The Desire endeavor risks huge amounts of money with little assurance its goals will

The Desire implementation risks up to $70 million in federal monies with little guarantee of providing viable communities for residents of the Desire and Fischer developments.

According to the Revitalization Plan, the Desire implementation has four goals:

1. Provide safe, decent, and diversified housing opportunities, including homeownership, within a viable neighborhood setting;

2. Dissolve existing neighborhood barriers, and eliminate a sense of isolation from the New Orleans community;

3. Provide for resident training, employment, and economic development opportunities; and

4. Maximize the use of HOPE VI funds through leveraging of other public and private funding needed to complete the project.

The Authority's goals are noble and desirable. However, to achieve these goals the Authority is counting on using federal funds to attract a large influx of non-federal investment and financing into an isolated, deteriorated area that has little commercial base and very low income residents. Further, the Authority has no commitments for this outside funding, does not have concrete plans on how it will perform the implementation, and has not shown any indication it has the capability to successfully carry out a large modernization project. In our opinion the risks for the proposed Desire implementation are too high to justify using such a huge amount of precious federal resources. The Authority and HUD should seek ways to reduce these risks; otherwise, the funds should be used for other, more viable developments.

Auditee Comments and OIG Evaluation

Authority officials responded in writing to the draft finding in an April 24, 1998 letter[15] (Appendix A), and verbally at an exit conference held on May 5, 1998. The Authority generally disagreed with the finding and main recommendations regarding the future of the Desire and Fischer grants.

At the exit conference, Authority officials and outside counsel reiterated objections included in their written response. Their principal objections concerned: (1) inclusion of the Desire site in the finding and (2) the report not placing more of the responsibility for conditions

15 The Authority also responded to issues regarding the procurement of a program manager (Finding 2) in a February 25, 1998 letter.

reported on HUD. This section more fully addresses concerns regarding the Desire site. Regarding the issue of HUD responsibility, the report reflects conclusions reached from interviews and a review of available documentation.

Authority response: general comments

OIG staff lacks necessary experience in community/public revitalization to make the subjective decisions contained in the Draft Report.

The continued refusal by OIG to accept the Revitalization Plan and viability of the Desire site, even after Congressional review and HUD approval, raises doubts regarding their independence and objectivity.

The audit finding exceeds its defined scope. The auditors <u>did not</u> look at the Authority's compliance with its Revitalization Plan, since it was approved only recently.

OIG evaluation: general comments

The OIG staff that performed the audit were fully competent to provide the opinions, conclusions, and recommendations included in the draft report. In areas where expertise was required, such as the site feasibility, OIG staff relied on studies and correspondence of knowledgeable individuals and organizations.

The OIG expresses its own opinions, separate from HUD and Congress, which is why it is independent and objective. OIG's continued concerns and doubts regarding Desire over the last 2 decades reflect consistency, not obstinacy, justified by facts. Congress approved the Desire site; however, this report covers much more than the site, and the OIG has an obligation to keep Congress informed. HUD approved the Revitalization Plan; however, the audit work was in part performed because of HUD's concerns regarding the Desire grant.

The audit was performed within the scope of the stated audit objectives. The OIG's review of HOPE VI grants is a performance audit, which goes beyond a compliance review. Performance audits, as discussed in paragraphs 2.6 through 2.9 of the Government Auditing Standards, may include reviews of economy, efficiency, and program results and effectiveness, in addition to compliance. Objective 2 states the audit would determine if the Authority met the objectives of its Revitalization Plan. The Audit Objectives, Scope, and Methodology section of the report expands on this objective, stating that audit procedures included reviewing "The Authority's Revitalization Plan to determine if: (1) it met HOPE VI requirements; (2) the Authority will be able to complete the program successfully and timely; and (3) the Authority has adequate procedures to monitor the progress and performance of the grant."

Authority response: Recommendation 1A.

The recommendation is moot because Congress, HUD and the City of New Orleans have considered the risks and feasibility of the Desire HOPE VI Project, and approved a Revitalization Plan.

The Authority and its City partners, along with HUD when it made the grant award, made a commitment to both the site and its residents . . . HUD cannot come back years later and revoke its commitment to Desire and the residents of that community.

Despite Andersen Consulting's conclusion that the site is viable, the OIG is apparently impervious to any notion that the Desire neighborhood is worthy of investment.

Desire is exactly the type of housing development that Congress designed the HOPE VI Program to address.

OIG Evaluation: Recommendation 1A

In light of the Authority's comments, we re-worded Recommendation 1A to emphasize seeking alternatives to reduce the project's risk, but also recommended HUD consider terminating the grant if the risks cannot be reduced to an acceptable level.

As previously mentioned, the audit report discusses more than the physical site itself. Also, Andersen Consulting's studies regarding Desire raised doubts about the site and did not speak to the viability of the Authority's revitalization plan.

The OIG believes the Authority's current plans are insufficient to give the revitalization efforts a reasonable chance for success. An unsuccessful implementation would erode the residents' trust in the Authority and HUD.

The OIG agrees that Desire is the type of development HOPE VI is to address. There is general consensus that the Desire units should be demolished; however, there are alternatives to redeveloping the Desire site. The OIG wants the Authority to be successful in its modernization efforts. However, these efforts should be well planned and have a reasonable chance to succeed and not be implemented irrespective of cost or risk.

Authority response: Recommendation 1B.

The Desire project has been repeatedly studied by HANO consultants, HUD staff, HUD consultants, and Congress. HANO does not believe another review of the entire project would be helpful but is receptive to assistance from HUD and others on ways to improve the plan.

OIG evaluation: Recommendation 1B.

To our knowledge Congress has not studied the Authority's current Revitalization Plan. Also, HUD has not adequately monitored the Desire grant and remains skeptical of the Authority's ability to implement the project. The Authority's receptiveness to assistance is a positive sign.

Authority response: Recommendation 1C.

The Authority submits that termination of the Fischer planning grant is not warranted because considerable delays resulted from conditions imposed by the HUD Target Team subsequent to execution of the Cooperative Endeavor Agreement. The Authority has no objection to the remaining recommendations.

OIG evaluation: Recommendation 1C.

The Target Team restrictions on revitalization activities should not have applied to a planning grant. However, even if the restrictions had applied to the planning grant the Authority did not show any progress before the Cooperative Endeavor Agreement (June 1995 to February 1996), and was slow in issuing the Request for Proposal after March 1997. The report does not recommend HUD terminate the grant because of prior delays, but that HUD terminate the grant if the Authority does not make progress from this time forward.

Authority response: Desire is a poor choice for a massive infusion of federal funds.

The Authority protested the finding regarding the Desire location at the exit conference more vigorously than any other issue. Their principal bases for protesting the finding were that: (1) OIG staff were not qualified to make conclusions regarding the viability of the site and (2) Congress had approved the site based on a third-party assessment.

Highlights of written comments:

The finding is redundant and ignores and minimizes Congressional deliberation on this issue.

The conclusion that the proposed Agriculture Street site "cannot help but impact Desire," is unsupported by any scientific evidence or studies. On the contrary, the Desire site was environmentally assessed by Environmental Auditors of America, Inc. and they determined that the Desire site contained no environmental concerns."

With regard to the viability of this location, this issue has been satisfied with the Authority's and Andersen's responses to HUD (Revitalization Plan) and Congress (Andersen Third Party Assessment) as to Desire's viability.

OIG evaluation: Desire is a poor choice for a massive infusion of federal funds.

Based on the Authority's verbal and written comments, we made some modifications to the report. These modifications included: (1) reporting that the Desire site was one (of several) factors that made the project a high risk endeavor, as opposed to saying the site was not viable and (2) moving a discussion of the site to the middle of the finding, rather than at the beginning where it was more prominent.

As previously discussed, OIG staff have the qualifications and support for the findings and opinions presented in this report.

Although Congress approved the site, it is nevertheless appropriate for the OIG to report the questionable location as one of several factors that make the Desire implementation a high risk endeavor. In addition, as indicated in this report, Andersen's letter to HUD (which HUD relayed to Congress) did not provide a complete picture of the results of Andersen's studies. The OIG is obligated to make sure Congress and HUD remain fully informed of this important issue.

We revised the report to add support from an "expert" to lend credence to the statement that an EPA Superfund site cannot help but impact the Desire project, even though we believe common sense should make this clear. Also, the OIG did not make an issue of environmental concerns on the Desire site. Our concerns related to the proximity of the Superfund site to Desire, how this proximity might impact the Desire project, and the fact that the Revitalization Plan did not address the issue.

Authority response: Planned implementation based on uncertain funding and indeterminable costs.

The Authority will look to developers, with the Authority's input and oversight, to leverage funds and attract private investors. It is premature to require commitments for funding, especially considering that tax credits are awarded on a competitive basis in Louisiana.[16]

16 In its response, the Authority states the OIG incorrectly refers to 9% tax credits, while the Revitalization Plan refers to 4% tax credits. However, the Revitalization Plan does not indicate which tax credits it is referring to. The OIG had referred to the 9% tax credits in the draft report because these

By design, the HOPE VI program involves a certain amount of risk, which is common in large scale developments and public works projects, until all of the elements required to complete the program are finalized and in place.

Regarding the "phasing" of the project, the OIG assumes that phases will be done in numerical order, but the approved approach allows HANO to start phases simultaneously. HANO however is revisiting the phasing approach and may propose alternatives to HUD.

The OIG's comments on TDC limitations are inaccurate, irrelevant, and premature.

OIG evaluation: Planned implementation based on uncertain funding and indeterminable costs.

The Authority cannot be expected to have commitments for all its leveraged funding, but it should at least have a more clear idea of how it will attract outside financing. The Revitalization Plan is so conceptual that it does not answer basic questions, such as: What kind of deals will the Authority offer to developers so they will invest in the project? What fallback plan does the Authority have in case it does not get the funding? What is the design of the units the Authority plans to build? Is there a market for what it plans to build? These uncertainties carry over to the cost side of the equation. For example, how can the Authority accurately estimate costs when it does not know what design or square footage the units will be?

Regarding the phased approach, correspondence from the Secretary and HUD officials clearly indicate it was their understanding the phased approach was a sequential process that would be a safeguard in the event the project was not successful. The OIG's purpose in reporting the matter was to point out that the simultaneous implementation of different phases does not provide this safeguard.

The OIG's comments regarding Total Development Costs accurately portray the issue being reported: that the

were the tax credits discussed in the March 1997 Viability Assessment report prepared by Andersen Consulting. This report discusses both 9% and 4% tax credits.

Authority's projected costs significantly exceed HUD's TDC limits, even though the Revitalization Plan indicates otherwise. The average cost figures were only used to illustrate the excess costs. The same excess results when total costs are used:

Projected costs per budgeted revitalization	$88,556,000
HUD TDC limits	73,341,050
Excess budget over allowable (21%)	$15,214,950

The Authority's comments regarding confusion, ambiguity, mixed finance developments, and HUD waivers cloud, rather than address the issue being reported.

Authority response: The Authority has made little progress on its HOPE VI grants.

Demolition and relocation. The Chronology demonstrates that timely review and approval of key planning documents was the exception, rather than the rule, and has also contributed to the Authority's inability to proceed with this HOPE VI Project.

The relocation of residents could not occur until the actual demolition plan was approved, which occurred on April 17, 1998.

HANO received a letter from HUD instructing HANO not to proceed with any development activity or expend any funds, on any project until HUD's Target Team completed its overall assessment of HANO's modernization needs. Demolition activity was temporarily halted pursuant to the letter.

It was more cost effective to temporarily repair existing units than to pay Section 8 costs for 2 years.

Self-sufficiency and community building. It appears the OIG's findings are applicable to HANO's entire community and supportive services program, when in fact their review only covered Phase I of the plan. Any findings within the scope of the review should be limited to only Phase I of the plan, as Phases II through IV have not yet been developed.

Homeownership program. The current program anticipates completion of the project over 4 years. The pace of delivery of new homes on the market will be related to the ability of the market to absorb the units.

Fischer planning grant. The Fischer Chronology references the restrictions imposed by the HUD Target Team. Current HANO staff have performed competently and reasonably and criticism is not justified.

OIG evaluation: The Authority has made little progress on its HOPE VI grants.

Demolition and relocation. The Authority's contention that progress was delayed because HUD did not approve demolition activity until April 1998, and because HUD's May 16, 1996 letter brought its progress to a temporary halt does not portray an accurate picture. The April 1998 approval relates to demolition of the 1,164 units in Phase II, not the initial 660 Phase I units. After demolishing 252 of the 660 units in August 1995, the Authority did not address demolition of the other 408 units until March 1998. As stated in the report, a HUD official visited the Authority in February 1996 and found that the Authority was not making progress.

The Authority had already been funded with 660 Section 8 certificates to use for relocation of the displaced residents. Therefore, there was no need to rehabilitate Desire units scheduled for demolition.

Self-sufficiency and community building.
Management and homeownership plans.

The Authority's comments regarding these activities do not address the issue reported: that plans for these activities are incomplete, and in need of more work.

Fischer planning grant. See OIG evaluation of authority response to Recommendation 1C.

Authority response: The evidence does not show a significant City commitment to Desire.

The Authority states the City has committed substantial resources to the effort.

Subsequent to the exit conference, the Mayor sent a letter to the Secretary dated May 26, 1998. In the letter, the Mayor listed committed projects totaling almost $104 million.

OIG evaluation: The evidence does not show a significant City commitment to Desire.

The Authority did not provide the OIG with the Mayor's letter in time for the OIG to confirm the additional information prior to this report's issuance. However, the letter is not consistent with information the City provided and records obtained from HUD.

Authority response: The Authority has already experienced major problems in the procurement of a program manager.

The Authority references the February 25, 1998 response from the Executive Monitor to the OIG (Appendix B). The Authority's major problem with the procurement is that HUD severely impacted its ability to negotiate with Gilbane.

OIG evaluation: The Authority has already experienced major problems in the procurement of a program manager.

The OIG maintains the validity of the conclusions reported in Finding 2. Although HUD shares some responsibility for the problems encountered in procuring a program manager, the Authority must be held principally accountable for not adhering to procurement requirements.

Authority response: Weak housing authority, poor HUD oversight lay behind much of the risk.

It is inappropriate to criticize HANO for its troubled status, when that initially made it eligible for HOPE VI funds. This observation is unfounded, as the facts demonstrate that HANO has made significant management improvements, physical improvements, and system improvements since February 1996.

OIG evaluation: Weak housing authority, poor HUD oversight lay behind much of the risk.

The report cites several factors that add to the project's risk, and it is appropriate to include the Authority's performance as one of these risk factors. The Authority may have made some improvements, but OIG audit work continues to disclose serious problems with Authority operations.

Recommendations

We recommend you:

1A. Take steps to reduce the risks of the Desire implementation to an acceptable level (i.e., a level at which you believe the implementation has a reasonable chance of succeeding). At a minimum, these steps should include the items listed in Recommendation 1B. If you cannot reduce the risks to an acceptable level, we recommend you use applicable provisions of the Grant Agreement to terminate the grant, recapture unused funds, and determine if the funds can be used for a more viable revitalization.

1B. Should you proceed with the Desire implementation, we recommend you:

a. Determine whether the Authority's plans are realistic in terms of funding, costs, and marketability. If not, ensure realistic plans are in place before proceeding with the implementation, including strategies for reducing the risk to the government if the project cannot be completed as planned.

b. Ensure all phases of the implementation are closely monitored, and effective corrective action is promptly taken for any problems or delays encountered.

c. Implement Recommendations 2C, 2D, 2E, and 2F regarding the program manager.

1C. Ensure the Authority makes timely and satisfactory progress on the Fischer planning grant; if not, terminate the grant and recapture the funds.

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Poor Administration of Program Manager Contract Could Jeopardize Desire's Hopes for Success

The Housing Authority of New Orleans' (Authority) inadequate procurement of a program manager for the implementation phase of the Desire development could adversely affect the already high risk project's chances of success. The Authority:

- **Did not adhere to procurement requirements or provisions in the Request for Proposal when selecting the Gilbane Building Company (Gilbane) as program manager;**

- **Issued two contract extensions to Gilbane after the planning phase for items that were already included in the original contract;**

- **Issued a $100,000 contract amendment to Gilbane to address deficiencies found with main deliverables under the contract;**

- **Under a proposed $7.5 million amendment to the contract, sole-sourced significant work items, and duplicated other items previously contracted for ; and**

- **Did not perform an adequate cost analysis of the $7.5 million amendment.**

Further, with the proposed $7.5 million amendment, the Authority proposes to spend 18 percent of its grant funds for a program manager who bears little risk and will profit whether or not the project succeeds. Finally, HUD shares some responsibility for the procurement problems. HUD's contacts with Gilbane may be weakening the Authority's ability to negotiate a reasonable contract. Also, HUD approved a deficient Request for Proposal and did not adequately review the $7.5 million amendment to the contract or the Authority's cost estimates of the amendment. This occurred because neither the Authority nor HUD exercised proper oversight over the Desire HOPE VI grant.

Chronology of the Desire HOPE VI project.

- February 10, 1995: $44 million HOPE VI grant agreement was executed.
- September 5, 1995: The Authority issues a Request for Proposal for program management services.
- December 1995: The Authority reviews applicant proposals and selects Gilbane.
- April 15, 1996: The Authority awards a contract to Gilbane for program management services under the planning phase ($495,675).

- July-September 1996: The Authority grants Gilbane two 30-day extensions to the contract not to exceed $95,000 each.
- August 12, 1996: The Authority submits the Revised Revitalization Plan (main deliverable under the planning phase) to HUD for review and approval.
- September 1996: Congress prohibits the Authority from building at Desire pending a third-party viability assessment of the site.
- October 7, 1996: Andersen Consulting letter to HUD to meet Congressional requirement for a viability assessment.
- November 27, 1996: HUD Secretary informs Congress that the viability assessment has been performed and implementation would proceed.
- July 14, 1997: HUD gives the Authority approval to proceed with implementation conditioned on correcting items in the Revised Revitalization Plan.
- August 14, 1997: Amendment 1 to Gilbane contract (not to exceed $100,000), primarily to address items in HUD's July 14, 1997 letter.
- September 25, 1997: Gilbane submits proposal to the Authority for program management and other services for the implementation phase (initial proposal was for $12.3 million).
- November 10, 1997: Authority Board approves Amendment 2 making Gilbane the program manager for the implementation phase at a 4-year cost of $7,571,000.

Procurement of the program manager did not provide for fair and open competition.

The Authority did not adhere to procurement requirements or provisions in the Request for Proposal when selecting the Gilbane Building Company (Gilbane) as program manager for the implementation phase. More specifically, the Authority did not adequately describe the scope of work for the implementation phase in the Request for Proposal, or follow the selection process set forth in the Request for Proposal. As a result, the Authority deprived other contractors of a fair opportunity to receive the program manager contract. Also, the Authority may have been able to procure the program manager for a lower cost. Federal procurement regulations state that "All procurement transactions will be conducted in a manner providing full and open competition . . . ." (24 CFR 85.36(c)(1)).

The Request for Proposal did not have an adequate scope of work for the implementation phase.

Federal procurement regulations require grantees to have written selection procedures for procurement transactions. These procedures will ensure that all solicitations "Incorporate a clear and accurate description of the technical requirements of the material, product, or service to be procured . . . . " (24 CFR 85.36(c)(3)(i)).

The Authority's Request for Proposal did not meet procurement requirements in its scope of work for the implementation phase. Although the Statement of Work section of the Request for Proposal included a detailed four page long statement of work for the planning phase, the scope of work for the implementation phase consisted of 18 "bullets" which took up less than one page. Even the wording in the Request for Proposal clearly shows that the Authority would not know the scope of work for the implementation phase until the planning phase was completed:

> "After completion of Phase I, the Program Manager will submit a proposal including price for Phase II Implementation. HANO and DARC *(Desire Area Resident Council)* will review the proposal based on work completed during the Planning Phase existing and contemplated funding levels, and other needs and priorities of HANO and DARC. If HANO, DARC and the Program Manager agree on two *(sic)* The Statement of Work for the Implementation Phase, HANO and DARC will review the Program Manager proposal price for reasonableness. After HANO, DARC and the Program Manager agree on prices, they will execute a firm fixed price contract for the Implementation Phase, and Phase II."

The range of the bids for the implementation phase of the contract is further evidence that the scope of work was not well understood by the bidders. The bids ranged from $1.1 million to $25 million. In its response, one of the contractors stated "We present these numbers with the caveat it is very difficult to estimate architectural and construction management expenses at this point . . . The actual numbers will be negotiated at the appropriate time."

Given that the Authority did not know the implementation scope of work prior to completion of the planning phase, it should have procured the planning and implementation phases separately in order to comply with procurement regulations and provide other contractors with a fair opportunity to bid on the implementation phase.

The Authority did not follow the selection process set forth in the Request for Proposal.

Although the Authority had written selection procedures in its Request for Proposal, it did not adhere to these procedures.

According to the selection process as stated in the Request for Proposal, the proposals received would be reviewed by a selection panel. The selection panel was to be appointed by the Authority's executive director and include Desire residents. Based on the selection criteria, the Authority would prepare a short list of those program management firms who had a reasonable chance of being selected. Separate negotiations to discuss technical, organizational, and cost issues would then be conducted with each firm on the short list. At the conclusion of these negotiations, the Authority would establish a deadline for final and best offers. The Authority, in partnership with the Desire Area Resident Council, would then select the program manager based on their final and best proposal and the established selection criteria.

Six firms responded to the Request for Proposal. A three-member panel consisting of the Mayor's Executive Assistant, a Baltimore Housing Authority official, and the Authority's Director of Development reviewed the six proposals using the selection factors set forth in the Request for Proposal. Based on the panel's review, the two highest rated firms made the short list. These two highest rated proposals were then evaluated a second time by a two-person panel consisting of the Director of Development and the Deputy Executive Director of Administration. Based on this second evaluation, the Authority selected Gilbane Building Company as the program manager.

The Authority did not follow the selection process as stated in the Request for Proposal in that it did not:

- Include Desire residents or the Desire Area Resident Council in the selection process;
- Negotiate with the firms that made the short list; or
- Give the short list firms an opportunity to submit best and final offers.

By not negotiating with the short list firms or providing the firms with the opportunity to submit best and final offers, the Authority further created the appearance that the contract was not fairly procured using full and open competition. Moreover, the two firms that made the short list were very closely rated by the panels, and the Authority may have been able to obtain a lower price and higher quality service had it negotiated with the two firms. In the first evaluation of proposals, Gilbane and the second firm received 385 and 371 points, respectively, out of a possible total of 390 points.

In the second panel's evaluation, Gilbane and the other short list firm received 236 and 226 points, respectively, a difference of 10 points. The Director of Development's evaluation accounted for 9 of the 10 point difference (121 Gilbane v. 112 for the second firm). Both evaluations contained the same rating criteria. However, in the first evaluation, the Director of Development had given both Gilbane and the other firm 130 points. Since the second evaluation took place after the first without any negotiation or best and final offers, there should have been no reason for any change in the Director's ratings. Further, the Director should not have even been on both panels given the Authority did not negotiate with the firms. Regardless, the ratings were so close that the Authority should have negotiated with the two firms.

Contract extensions appear duplicative, unnecessary.

The Authority paid Gilbane $182,209 for two contract extensions that largely duplicated items Gilbane was already required to perform under the original, fixed price contract. Further, it appears the Authority granted the extensions not because it needed the services, but rather because it wanted to keep Gilbane on board while awaiting HUD's approval to move forward on the implementation phase.

Contract extensions include items that should already have been paid for in the original contract.

The two extensions covered six areas: relocation, demolition, identification of blighted neighborhoods, developer interest, documentation, and meetings. The original contract addressed four of these six areas: relocation, demolition, identification of blighted neighborhoods, and meetings. To use the relocation area as an example, the contract in part states "The Program Manager shall incorporate in the Plan a resident relocation plan which addresses both the temporary and permanent relocation requirements and plans." The first extension states in part: "Identify the relocation requirements and availability of units for on site relocation." A matrix citing specific areas of duplication between the contract and extensions is included at the end of this finding.

The extensions appear to be more a retainer for Gilbane than for needed services.

The duplicative work indicates the Authority did not need the services that the extensions required. In addition, correspondence and the manner in which the Authority granted the extensions to Gilbane indicate the Authority simply wanted to keep Gilbane on board while awaiting Congressional and HUD approval to proceed with the implementation phase.

In an August 9, 1996 letter to the Authority, Gilbane states ". . . . I am submitting the following proposal to continue the services of the Gilbane Building Company for the next 60 days or until such time as a definitive direction is established for the HOPE VI Grant Funds. . . Since we are unable to proceed with the Implementation Phase as anticipated at this time, we are prepared to provide you with a reduced staff so as to be responsive to the changes which will be considered (or Congress may require) and other services which we can provide at this time such as relocation planning." An August 30, 1996 letter from Gilbane to HUD stated "Thank you for speaking with . . . . this morning and for your assistance in expediting the

The Authority issued a $100,000 amendment to correct items included in the original contract and extensions.

extension of our contract with Housing Authority of New Orleans while we await the outcome of Congressman Baker's involvement . . . The proposal which you are reviewing allows Gilbane to continue to work on these types of activities on a month to month basis until HANO is authorized to proceed with the total implementation phase."

The loose procurement and open ended scope of work of the extensions also show that the extensions were primarily meant to keep Gilbane on board while waiting for approval to start the implementation phase. To begin with, the extensions were granted after the first extension period was half over. The first 30 day extension began on July 25, 1996, two weeks *before* Gilbane's August 9, 1996 letter to the Authority in which Gilbane submitted its proposal. Also, the Authority did not prepare procurement documents showing a specific scope of work, including deliverables and timelines. Gilbane described the six extension activities in its August 30, 1996 letter to HUD. The letter describes mostly open ended activities, with no concrete deliverables or time frames for completion; for example:

> "Our staff will be working . . . to identify the relocation requirements . . ."
> "We will begin assembling the data necessary for the completing the individual
> demolition plans . . ."
> "We will be surveying the adjoining neighborhood . . ."
> "We will be attending meetings . . . to advance the approval of the Desire Revitalization Plan."

Section 8.1 of the original contract states: "Program Manager shall, without additional compensation, correct or revise any errors or deficiencies Program designs, drawings, specifications, and other services."

As a result of work that HUD requested in its July 14, 1997 letter, the Authority issued an amendment (Amendment 1) to the Gilbane contract. The work HUD requested was to correct areas the Revised Revitalization Plan did not adequately address. Seven of the eight items included in Amendment 1 were part of the contract scope of work for the planning phase or extensions. The remaining item, a general "miscellaneous" category, only said Gilbane shall provide continuing services relating to the implementation phase. For example, the contract, extensions, and Amendment 1 stated the following regarding demolition (see Appendix A for more detailed information):

Contract (planning phase):
"Revised Revitalization Plan shall include the intended plans for renovating the site and physical structures at the Development and/or demolition and replacement housing plans . . . ."

"The Final Master site Plan shall specifically include the following: . . . b. Buildings to be demolished . . . ."

First Extension:
"A specific building demolition sequence has been developed and is integrated with the relocation data base outlined under item 1 above. During the next thirty days, we will begin to develop the data necessary to complete the forms for HUD approval of the building demolition."

Second Extension:
"The Demolition Plan for Desire has been written and submitted to HANO for review prior to forwarding the document to HUD. All supporting data has been compiled."

Amendment 1:
"Gilbane shall submit an application for the demolition of housing units as described in the RRP. Relocation from units in excess of the 660 units already approved by HUD cannot begin until HANO has received approval of its Demolition Application for those units."

The scope of work and cost of the $7.5 million contract amendment for the implementation phase need further examining.

In Amendment 2 of the original contract submitted for HUD's approval, the Authority proposed paying Gilbane $7,571,000 over 4 years to be the program manager for the Implementation Phase.

Activity	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Totals*
Program Mgmt	$ 958,750	**$ 758,750**	$ 758,750	**$ 758,750**	$3,235,000
Site Planning/Design	1,483,000	**-**	-	**-**	1,483,000
Construction Mgmt	299,000	**552,000**	552,000	**552,000**	1,955,000
Single Family Homes	274,500	**174,500**	224,500	**224,500**	898,000
Totals	$3,015,250	**$1,485,250**	$1,535,250	**$1,535,250**	$7,571,000

A review of the above table indicates that the amendment activities encompass much more than program management. The amendment includes two significant activities, site planning/design and single family homes, that go beyond the scope of the Request for Proposal. Further, the Authority cannot provide adequate support for its cost analysis of the amendment. Amendment 2 also duplicates work previously contracted for in the planning phase, extensions, and Amendment 1. Given that the amendment represents a significant portion of the HOPE VI grant, the Authority needs to more closely examine the scope of work and costs included in the amendment.

The amendment includes significant activities that were not in the Request for Proposal.

As previously stated, Federal procurement regulations require grantees to conduct all procurement transactions in a manner providing full and open competition, and have written selection procedures that ". . . Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. . ." (24 CFR 85.36(c).

The Authority did not include Site Planning/Design and Development of Single Family Homes, two of the four major activities to be carried out in the implementation phase per Amendment 2, in the Request for Proposal. By awarding these activities to Gilbane under the amendment, the Authority is essentially sole sourcing the procurement. Therefore, regarding these two significant activities, with a combined cost of $2,381,000, the Authority violates the aforementioned regulations by procuring without competition items that were not included in the Request for Proposal. By not negotiating or obtaining competitive proposals for these items, the Authority may not receive the best services at the lowest price.

Money spent for duplicate work could have been used for other revitalization efforts.

As was the case with the two extensions and Amendment 1, the scope of work for Amendment 2 duplicates items covered in previous contract stages. Determining the cost of the duplicate work went beyond the scope of the audit, and probably would be difficult to ascertain. However, given the number of occurrences (as shown in Appendix B), the money spent would be significant . . . money that could have been used for other revitalization efforts.

Without an adequate cost analysis, the Authority has no assurance it is paying a reasonable price.

Procurement regulations require grantees to perform a cost or price analysis in connection with every procurement action including contract modifications (24 CFR 85.36(f)(1)). Although the Authority prepared an internal cost estimate for the implementation phase, the estimate was not adequately supported. The cost estimate consisted of projected hours and hourly rates, and applied overhead, profit, and “other” rates. The Authority could not support the projected hours upon which the rest of the estimate was based. The Authority contacted other housing authorities with HOPE VI sites to find out what program manager fees were, but this information cannot be relied upon considering the differences in the scope of work at the various sites.

The Authority included in the original contract reimbursable expenses incurred in the interest of the project (Article 11.3). The reimbursable expenses include long distance telephone and fax, courier and overnight delivery, reproduction and postage, and other expenses. However, Amendment 2 gives Gilbane a 5 percent allowance for “other” costs. The Authority could not provide support for what the 5 percent “other” rate includes. It appears the Authority may be incurring excessive and duplicate costs, given the negotiated 98.5 percent overhead rate, the reimbursable expenses, and the 5 percent “other” rate.

A significant amount of grant funds may go to a program manager who bears little risk.

Despite a contract, two extensions, and two amendments totaling over $8.3 million, Gilbane appears to bear little risk in the success or failure of the revitalization. Rather, HUD stands to lose the most should the project not succeed.

Both Authority and HUD officials acknowledge that the Gilbane contract may be a little high but feel this "premium" is justified due to the inherent risk of dealing with Desire. However, it is difficult to see where Gilbane bears any significant risk. Gilbane's role is that of a "master developer" who oversees the work of other developers but does not itself do the actual construction or subcontract with firms performing construction work. As such, Gilbane appears to have little risk, and stands to profit from the contract regardless of the revitalization's success or failure.

Further, Gilbane stands to earn more money in the first 2 years of the implementation phase, which lessens its financial risk should the project be terminated prior to completion. Although the amended contract states that the Authority may choose not to extend the contract after 2 years (Article X), Gilbane will have been paid $4.5 million by then (59.4 percent), including over $3 million in the first year.

It is HUD who bears the lion's share of the risk. As a HUD official stated in a July 1997 letter: " . . . HUD has expressed concern that the plan risked a large upfront federal investment in demolition, infrastructure and initial construction that might be completely wasted if private and local investment did not follow, leaving a half-constructed site."

HUD shares responsibility for program manager

HUD's contacts with Gilbane appear to have "muddied the waters" regarding HUD's and the Authority's roles and responsibilities relating to the Desire project, and weakened the Authority's negotiating power with Gilbane. Further, HUD approved a deficient Request for Proposal. In addition HUD did not review, or adequately review, the $7.5 million amendment to the contract for the implementation phase and the Authority's cost analysis of the amendment. This weakened controls that would ensure the Authority obtained needed services at a reasonable price.

HUD's contacts with Gilbane may be complicating the Authority's ability to negotiate.

HUD has dealt directly with Gilbane on several occasions. This has made HUD's role unclear with respect to the Authority and Gilbane, and may have hindered the Authority's ability to negotiate effectively with Gilbane. A review of correspondence evidences HUD's dealings with Gilbane:

- April 14, 1996 memo between HUD officials: "Our purpose in going down last week was to 'empower' Gilbane to do its job, in the face of presumed resistance . . . Through the course of the meeting it became increasingly clear that the City/HANO had not accepted the basic premise of our visit or of the Gilbane contract . . . My staff . . . and the Gilbane team are unanimous that this is the right course . . . We have charged Gilbane with marshalling an effort to examine these questions . . ."

- August 30, 1996 Gilbane letter to HUD: "Thank you for speaking with *(Gilbane official)* this morning and for your assistance in expediting the extension of our contract . . ."

- July 14, 1997 HUD letter to Authority: "HUD and Gilbane have been engaged in discussions about how these competing concerns can be reconciled . . ."

- November 27, 1996 HUD Secretary letter to Congress: "Gilbane is a nationally recognized firm retained by HANO at HUD's insistence to manage activities under the Desire HOPE VI grant. While Gilbane's contractual relationship is with HANO and not HUD, the Department nevertheless believes that Gilbane's sponsorship of this proposal is entitled to considerable respect. When Gilbane was retained, HUD officials traveled to New Orleans to charge Gilbane in HANO's presence with developing a plan which would meet the long-term viability standards of HOPE VI . . ."

Although HUD has the authority and duty to take firm action if it believes the Authority is not making satisfactory progress on the HOPE VI grant, it should nonetheless recognize the pitfalls of creating a HUD-Authority-Gilbane "triangle" that confuses roles and responsibilities and hampers the Authority's ability to negotiate effectively with Gilbane.

HUD needs to improve its oversight of the Authority's HOPE VI procurements.

Previous sections discussed concerns relating to the Request for Proposal, and the scope of work and cost analysis of the $7.5 million amendment to the original contract (Amendment 2). HUD approved the Request for Proposal even though there were clear indications that the scope of work for the implementation phase was not known at that time. Also, despite the Authority's history of problems, HUD staff did not review, or adequately review, the $7.5 million amendment or the costs. Therefore, questions and deficiencies which should have come to light by proper HUD oversight remained unanswered and unresolved. HUD officials indicated they did not have the staff and/or expertise to conduct the reviews. However, HUD cannot afford to approve significant procurement documents and transactions without adequate review, and needs to resolve its staff shortages or seek alternative resolutions.

Difficulties and pressures surround procurement of a Desire program

The Authority and HUD face huge difficulties and pressures in trying to carry out what they admit is a high risk endeavor. A troubled housing authority and an understaffed HUD office are attempting to revitalize a large, severely distressed development, and are counting on uncertain private and local investment to make the endeavor a success. Congress and the OIG are justified in being skeptical and closely scrutinizing the project, given the huge amount of the grant.

It appears that HUD officials, realizing that neither the Authority nor HUD has the capability or resources to administer the Desire HOPE VI grant, have looked to Gilbane to successfully carry out the project. It is not the intent of this report to cast a negative light on Gilbane, or to suggest that Gilbane is indifferent to the success of the Desire project. The point is that Gilbane is a profit making business, and it is unrealistic for HUD to act as if Gilbane shares the same goals and priorities as the Authority and HUD. HUD should treat Gilbane as it would any other government contractor.

Based on our review of the program manager procurement, the OIG continues to have serious concerns about the Authority's capability to administer the Desire HOPE VI grant. Further, the HUD HOPE VI staff does not appear to have the resources or expertise to closely monitor the project's implementation. However, turning the revitalization over to a private developer, without effective oversight from either the Authority or HUD, cannot be an acceptable resolution of the dilemma. HUD needs to ensure close monitoring of the Desire implementation.

Auditee Comments

The Authority generally agreed with the draft report recommendations (Appendix A, page 55), although it disagreed with the findings (Appendix B). In disagreeing with the findings, the Authority contended: (1) HUD directed the Authority to hire a Program Manager or lose its HOPE VI grant funds; (2) the Request for Proposal adequately covered implementation services and contract amendments; (3) HUD reviewed and approved all contracting decisions regarding the Program Manager; and (4) the selection process the Authority employed was within its discretion.

OIG Evaluation of Auditee Comments

The OIG maintains the accuracy of the report findings and the validity of the conclusions drawn. Although HUD required the Authority to obtain a program manager, the procurement process and amendments were primarily under the Authority's control. Further, while HUD may have reviewed and approved Authority actions, this did not absolve the Authority from its responsibility to adhere to procurement requirements.

Recommendations

We recommend you:

2A. Require the Authority to ensure that it adheres to Federal procurement regulations, especially regarding: (1) including an adequate scope of work in requests for bids and proposals; (2) following the selection process stated in requests for proposals; (3) making sure contracts and contract extensions, amendments, and change orders are necessary, do not duplicate or correct deficiencies covered by other contract work, and are within the scope of the request for bids or proposals; and (4) performs adequate cost analyses that are supported.

2B. Clarify HUD's appropriate role and responsibilities relating to the Authority and HOPE VI contractors.

Should you proceed with the Desire HOPE VI implementation (see Recommendation 1A in Finding 1), we further recommend you:

2C. Require the Authority to separately procure the parts of the implementation phase related to site planning/design and development of single family homes.

2D. Require the Authority to prepare an adequate cost analysis of the implementation phase procurement for program manager and construction management services.

2E. Prior to approving any contract, obtain the resources and expertise needed to exercise adequate oversight and monitoring of the Desire implementation.

2F. Prior to approving any contract, perform a thorough review of the scope of work and costs.

GILBANE CONTRACT - DUPLICATE ACTIVITIES

Note: Numbers in boxes represent contract sections or numbered extension items.

CONTRACT ACTIVITY	PLANNING PHASE	EXTENSIONS	AMENDMENT #1	AMENDMENT #2
Relocation	2.3.3.5	1	1.1.2.d.	2.4.1.i
Demolition	**2.3.3.2 2.3.4.2.b**	**2**	**1.1.2.c.**	
Identification of Blighted Properties	2.3.4.h 2.3.4.i 2.3.4.j	3		
Documentation for Zoning	**2.3.4.f**			**2.4.2.d, e**
Meetings	2.3.4.3	6		
Management Plan	**2.3.2.1.i 2.3.3.6**		**1.1.2.a.**	
Plan for Implementation	2.3.2.1.k, p 2.3.3.3		1.1.2.b.	2.4.1.q
Procurement Contract Documentation		**5**	**1.1.2.e.**	**2.4.1.r, s**
Generate Developer Interest		4		2.4.1.r
Development Budget	**2.3.2.1.1 2.3.3.7**		**1.1.2.f.**	
Master Site Plan/Design	2.3.4.b, e, g			2.4.2.a, b, c, f

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Significant Controls

We determined that the following internal controls were relevant to our audit objectives:

Administrative Controls

Selection and award of contracts
Eligibility of grant activities
Monitoring of programs
Progress made on grant activities
Sustainability of community and supportive services

We assessed all of the relevant controls identified above.

Significant Weaknesses

It is a significant weakness if internal controls do not give reasonable assurance 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 the following items are significant weaknesses:

- The Authority lacks administrative controls to ensure its HOPE VI activities are adequately planned and timely and efficiently implemented (Finding 1).

- The Authority lacks internal administrative controls to ensure major procurements are properly awarded and adequately reviewed for price reasonableness (Finding 2).

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Authority Written Response to Draft Audit Report

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Authority Written Response to Draft Audit Related to its Procurement of Program Manager

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