HUD OFFICE OF INSPECTOR GENERAL
REPORT: HUD'S OVERSIGHT OF THE
ALEXANDER COUNTY (IL) HOUSING AUTHORITY

HEARING
BEFORE THE
SUBCOMMITTEE ON
HOUSING AND INSURANCE
OF THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED FIFTEENTH CONGRESS
SECOND SESSION
SEPTEMBER 25, 2018

Printed for the use of the Committee on Financial Services
Serial No. 115–117
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The subcommittee met, pursuant to notice, at 4:05 p.m., in room 2128, Rayburn House Office Building, Hon. Sean P. Duffy [chairman of the subcommittee] presiding.

Present: Representatives Duffy, Ross, Rothfus, Zeldin, Cleaver, and Beatty.

Also present: Representative Green.

Chairman DUFFY. The Subcommittee on Housing and Insurance will come to order.


Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Without objection, all Members will have 5 legislative days within which to submit extraneous materials to the Chair for inclusion in the record. Without objection, Members of the full committee who are not Members of this subcommittee may participate in today’s hearing for the purpose of making an opening statement and questioning our witnesses.

The Chair now recognizes himself for 5 minutes for an opening statement.

Now, I first want to thank our first panel of witnesses who are here today that are going to be introduced in just a moment, but Congressman Bost and Senator Duckworth, welcome back to the House side. It is good to have you. We appreciate your testimony and appreciate the testimony of our IG.

Today we will be examining issues related to the Alexander County Housing Authority, ACHA, and their role in allowing living conditions in both the Elmwood and McBride housing developments deteriorate to such that HUD (U.S. Department of Housing and Urban Development) had to demolish both of them and has taken over possession of the ACHA.

Due to the actions of the ACHA, nearly 200 families will have to uproot their lives and move from Cairo, Illinois, to another city,
hopefully in Illinois, but somewhere else. In addition to Elmwood and McBride, now we have come to find out that two additional ACHA housing developments will be closed due to the cost of rehabilitation. And so more families might have to leave Cairo for another community.

Having served as Chairman of this subcommittee for the 115th Congress, the conclusion of the HUD IG’s report on the ACHA is disgusting, at a minimum, and possibly criminal with those who were involved in the ACHA. What is even more frightening is this could just be the tip of the iceberg around the country.

Fifty other PHAs, public housing authorities, have been designated as troubled, according to the HUD IG report. The ACHA’s activities are a prime example of abuse of government funds by a PHA.

Now, it is my understanding that the IG will be limited in his questions, that he will be answering to some of the specifics in regard to individuals involved in fraud and potential abuse at the ACHA. We are going to do our best to respect that as there is an ongoing investigation.

I will try to be respectful, again, if the IG feels like he can’t answer specific questions from me or the panel. We do support the rule of law and the presumption of innocence.

To be candid, though, I think the recommendations made by the IG are what should be done, at a minimum. This is a floor of recommendation, and we very well may need to do more.

I don’t want to get into much of Mr. Kirkland’s testimony for him. We want to hear from him himself, so I don’t want to say too much about that. But the disarray of the ACHA, and these units in particular, were first discovered in 2010. Incredibly problematic, incredibly disturbing. And to think that these are the families that we are here to help who are living in these kinds of conditions, again, I think every American would be outraged that this is how we house people or help house people and how we spend the Federal taxpayers’ money.

Based on the IG’s report and my assessment of it, maybe PHAs should be under more scrutiny, and provisions of funds should be conditional once a PHA has been identified as having negative findings. I believe HUD is working to address some of the issues identified by the IG report, but we might need to look further at HUD’s recovery and sustainability protocols when it comes to PHA. We have to scratch and dig, I think, deeper.

The fact that these families, again, lived in deplorable conditions for 6 years before HUD finally took over the ACHA is just fundamentally inexcusable. To add on top of that, the ACHA clearly misused Federal funds and violated the Civil Rights Act via racial segregation and employment discrimination. What? This is unbelievable that in 2018 this is actually happening.

Right now, about 1.2 million reside in public housing developments that are operated by around 3,300 PHAs. HUD provides about $4 billion in operating subsidies and awards about another $2 billion to PHAs to maintain those public housing properties. I believe we have good PHAs out there, but come to find out that there is abuse in at least one and possibly more. We have an opportunity to make sure all 3,300 PHAs comply with HUD’s policies
and address health and safety hazards before another situation like Cairo pops up.

I just want to note that if you watch this committee, and I say this often, and it is a testament to Mr. Cleaver, we always don’t agree. We always don’t get along. But in this space you find bipartisan support. You don’t see light between either side of the aisle and either party on these issues. This is about families. This is about dignity. And this is about America standing together to make sure people have a safe, livable home in which to reside.

My time has expired. And now I will recognize the Ranking Member, the gentleman from Missouri, Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

My opening comments will be brief primarily because you have stated very clearly and eloquently what I wish to express. I think that originally there was interest by Senator Durbin and Senator Duckworth, the Senators from Illinois. And the troublesome thing for me, and I will move on and wait until the questioning, I actually grew up in the projects, and we had the Black public housing developments, there were two, and then we had the White. There was no pretense of trying to say that they were the same, that it was everybody in town knew it, and there was nothing ever done about it.

I thought that those days had ended a long time ago. And to imagine that, after all these years, we are still experiencing that same kind of stupid conduct on the part of people who are really being paid by the United States Federal Government, by the taxpayers. And that makes it even worse.

And so, Mr. Chairman, I appreciate the hearing. I don’t want anybody to come to the conclusion that other people are not interested. This is a fly-in day, as the Congressman knows, and so a lot of people are still trying to get to Washington for 6:30 votes. And then we have some other weather-related problems.

But this is, nonetheless, an extremely important issue. And I worked on myself before I came in here so that I would not become emotional or loud, because this is very, very personal to me. And when I get off—when we get through with the committee, I am calling my dad to talk to him about this. At age 96, he will be stunned. He probably thought that 30 years ago this was over. So I want to talk with him about today’s hearing. And then I know he will also calm me down.

Right now, the calmtivity—there is no such word, but I feel like I can make up some words for this. The calmtivity is not as strong as I need. But I will restrain myself just to make sure. I am extremely angry, and it is personal.

Thank you very kindly.

Chairman DUFFY. The gentleman yields back.

I now want to welcome our witnesses. Our first witness, Congressman Mike Bost, from the 12th District of Illinois, approached me on the floor a year ago, wanted a hearing. I told him we can’t. We wanted to wait for the IG report to come out. Pushed us to have a hearing, and we wanted to make sure we got it in as quickly as possible.

Congressman Bost, welcome. And thank you for your advocacy on this issue.
I want to thank Senator Duckworth for being here. We sprung this at her, and she has a busy schedule and was able to move her schedule around to be here as the Senator from Illinois. I know that Senator Durbin wanted to be here as well, and he was not able to move his schedule. But I thank the both of you as representatives of Illinois and of this location for being here and willing to testify.

In a moment, both witnesses will be recognized for 5 minutes for an oral presentation of their written testimony. Without objection, their written statements will be made part of the record following their oral remarks.

Representative Bost, you are now recognized for 5 minutes.

STATEMENT OF THE HON. MIKE BOST

Mr. BOST. Thank you, Chairman Duffy, and thank you, Ranking Member Cleaver. I appreciate the opportunity to appear before you and the subcommittee.

Today's hearing is about government's failure to protect its most vulnerable of us. Most of you have never heard of Cairo, Illinois. Matter of fact, if you saw it, you would say Cairo. And unless you are from this district, you would actually—that is when you pronounce it as Cairo. But it is time that you have heard about it, time you should hear about it.

Cairo is a small town in my district that was once a roaring city on the banks of the Mississippi and Ohio Rivers. It shares a story that is similar to many across the country, perhaps similar to those in your districts.

As the 20th century rolled on, Cairo's population dwindled due to changes in transportation, community strife, a lack of service, and downright neglect. But many families stayed, proud of their city, honoring their heritage. Most of these families live in public housing units under the control of Alexander County Housing Authority.

Many of us first learned the extent of the problems in Cairo through reports in The Southern Illinoisan newspaper. The paper exposed unsafe living conditions that included units infested with mold, insects, and other vermin. Many had no appliances, heating, or air conditioning. One mother was forced to spray insect killer around her young son's bed each night due to infestation in her unit.

After my Illinois colleagues and I requested a Federal investigation, HUD placed the housing authority in receivership. The buildings were beyond repair. 185 families were forced to leave a city they called home for generations.

The cause of this tragedy comes down to two words: Greed and neglect. Over many years, the local housing authority used Federal funds as their personal piggybank. Funding intended for maintenance was used for personal travel and other perks. The executive director at the time admitted to fraud. He said: We lived it up too good, and we didn't even see this coming, and we thought it would last forever.

Then there is the issue of neglect, which I believe should be the main focus of this hearing. Issues with Cairo Housing Authority were known to HUD for years, but little was done. It is my belief
that had HUD taken these issues more seriously, we may not be here today. The Federal Government must do a better job of conducting oversight, especially when it involves the health and safety of people in need.

Where was the ball dropped on Cairo? How did things fall through the cracks? And where is it happening in other public housing around America? And how do we prevent this from happening again?

While I may not be a Member of this committee, I want to work with you, Republicans and Democrats, to ensure that reform is implemented. I also want those who created this crisis to be held accountable. It is frustrating to me and the people of my district that these officials have not been charged for their alleged crimes.

The people of Cairo and surrounding areas deserve justice. I hope today is a big step in making that happen. And, once again, I thank you for holding this hearing.

With that, I yield back.

[The prepared statement of Mr. Bost can be found on page 18 of the Appendix.]

Chairman Duffy. The gentleman yields back.

The Chair now recognizes the gentlelady, the Senator from Illinois, Senator Duckworth, for 5 minutes.

And, again, welcome back, Senator. Nice of you to come over to our side of the Capitol.

STATEMENT OF THE HON. TAMMY DUCKWORTH

Senator Duckworth. Yes. Yes. And I used to be just down the hall in OIG, so not too far away.

It is good to be back. And I do miss my colleague Representative Cleaver's daily affirmations and thoughts that he would give us every day as we proceeded to do the people's business here in the House of Representatives.

Chairman Duffy, Ranking Member Cleaver, thank you for holding this important meeting.

In February 2016, as the continued instances of mismanagement, willful neglect of resident safety, and both improper and illegal policies at the local level, HUD took into receivership the Alexander County Housing Authority, ACHA.

By this report's own conclusion, HUD was aware of these problems as early as 2010, but hesitated to exercise its authority to bring ACHA into compliance. In fact, the ACHA has failed HUD's physical assessment tool used to determine if a unit is habitable since 2012.

Senator Durbin and I solely requested this HUD OIG report to get to the bottom of how HUD failed these residents. And following the reports released in July, we wrote to Secretary Carson urging quick implementation of the IG's recommendations. Yesterday, we finally received the response to our letter in which HUD agreed to implement these recommendations and provide timelines for that implementation.

With the permission of the Chairman and Ranking Member, I would like to submit for the record the letter Senator Durbin and I sent, as well as the response we received from HUD. I am also
submitting written testimony from both Senator Durbin and myself regarding today’s hearing.

Chairman Duffy. Without objection.

Senator Duckworth. Thank you.

I have seen firsthand the conditions these residents live in. I visited the facilities. I talked to the residents. And, in fact, I continue to speak with the residents, telephoning key community leaders from time to time.

They face mismanagement, and they continue to have to recover from this mismanagement. Many families are now split apart, living in separate counties, without support of their loved ones. And so we must continue to listen to these residents and hold accountable the officials who failed them and created this crisis in Cairo.

In addition, I hope we can all work together to provide these residents and similar communities with the resources they need to restore their public housing stock and guarantee safe, healthy, and affordable housing.

I appreciate the opportunity to join this committee and raise awareness for the people of Cairo. I am here on behalf of both Senator Durbin and myself. He is on the Judiciary Committee on the Senate side, so he is a little bit busy this week.

Thank you again, Chairman Duffy and Ranking Member Cleaver, for having this. And from both Senator Durbin and I, thank you for bringing this to your attention.

Thank you. I yield back.

[The prepared statement of Senator Duckworth can be found on page 20 of the Appendix.]

Chairman Duffy. Thank you, Senator.

And I just want to thank the both of you for your testimony and for your bipartisan effort to improve the conditions.

And it is common practice, for Members of Congress and Senators, that the panel does not ask you questions. So at this point, you are excused. And I want to thank you for your testimony.

If you all would just wait one moment as we do a transition to our second panel, we will switch out over the next minute or two.

Chairman Duffy. And now for our second panel, a witness of one, I want to welcome Mr. Jeremy Kirkland, the Acting Deputy Inspector General for HUD. We appreciate you being here.

Without objection, the witness’ written statement will be made part of the record following his oral remarks. Once the witness has finished presenting his testimony, each Member of the subcommittee will have 5 minutes within which to ask him questions on the report and his statement.

I would just note that on your table you have three lights. Green means go, yellow means you have 1 minute left, and red means that your time is up. It is pretty obvious. The microphone is sensitive, so please make sure you turn it on and speak directly into it.

Mr. Kirkland, you are now recognized for 5 minutes.

STATEMENT OF JEREMY KIRKLAND

Mr. Kirkland. Chairman Duffy, Ranking Member Cleaver, and Members of the subcommittee, I am Jeremy Kirkland, and I am the Acting Deputy Inspector General for HUD's Office of the In-
spector General. Thank you for the opportunity to share with you today the results of our evaluation and HUD's oversight of the Alexander County Housing Authority, or ACHA.

HUD OIG examined the allegations of misuse of Federal funds following a referral from HUD. My testimony will focus on the evaluation of HUD's oversight of ACHA following multiple congressional requests. The evaluation identified what could be systemic issues which plague many similarly situated public housing agencies. The Office of Public and Indian Housing (PIH) operates HUD's public housing program and is responsible for monitoring PHAs and ensuring effective controls are in place to prevent problems.

HUD provides approximately $4 billion in operating subsidies to assist PHAs annually and approximately $2 billion to PHAs annually to develop, modernize, and maintain public housing properties. PHAs are entities authorized by the State to be caretakers of public housing funds and must ensure that the funds are properly managed.

In the past, HUD OIG identified that a significant cause of the deficiencies included that executive directors and boards of commissioners at PHAs either ignored requirements or lacked sufficient knowledge to properly administer the program. ACHA is a moderate-sized PHA with nearly 500 units in its inventory.

As part of our evaluation, we conducted 24 interviews with current and former HUD officials and collected documentation addressing HUD's actions to oversee ACHA. A combination of poor local management and ineffective oversight resulted in approximately 200 children, along with their families, living in units with pest infestations, including roaches, rodents, and bedbugs; inoperative appliances and electrical breakers; obstructed accessibility routes, among other health and safety issues.

We found that HUD knew about the negative conditions at ACHA since at least 2010. We found that HUD identified weaknesses in ACHA's financial condition as early as Fiscal Year 2013. And we found that HUD identified issues with ACHA's governance, including misuse of funds, conflicts of interest, and failure to comply with HUD policies and Federal civil rights laws.

While HUD has the authority to determine that financial, physical, management, and ethical problems cannot be remedied through the PHA recovery and sustainability, or the PHARS protocol and, therefore, HUD could rule the PHA and substantial default without requiring a 2-year cure period, our report identified that HUD officials did not understand that flexibility existed.

On February 19, 2016, HUD finally did declare ACHA in substantial default of its contract with HUD, removed its board, and took possession of the housing authority in a process called receivership. We also found that HUD initially hesitated to exercise its authority to place ACHA into receivership.

A key takeaway for me is HUD officials used policy infrequently and incorrect understanding or interpretation of policy to justify inaction. As such, it appears that PIH may have failed to use some tools available.

Our recommendations to HUD were to look to identify early when cross-programmatic reviews and enforcement actions against PHAs are required; that HUD train PIH officials on the authorities
and processes for identifying, declaring, and managing PHAs in substantial default; that PIH update and strengthen the training program for HUD receivers of PHAs; and that PIH update procedures for receiverships.

HUD OIG remains concerned that without additional oversight, engagement, and outreach by PIH, there remains increased risk of fraud, waste, abuse, and gross mismanagement within these PHAs.

At this time, I am open to any questions you might have about the report and the work on ACHA.

[The prepared statement of Mr. Kirkland can be found on page 22 of the Appendix.]

Chairman Duffy. The gentleman yields back.

The Chair now recognizes himself for 5 minutes for questioning.

I think anybody who hears about the conditions are outraged. And I want to thank you, Mr. Kirkland, for your report and your investigation in helping bring this to light in the Congress.

It is fair to say that HUD knew there were problems in the ACHA. Fair enough?

Mr. Kirkland. That is correct.

Chairman Duffy. And they knew back in 2010, but that is—we only use 2010 because that is as far as we asked you to look back, but they probably knew before 2010. Is that a fair assessment?

Mr. Kirkland. We did not look past 2010, but the conditions seem obvious that they didn’t start overnight.

Chairman Duffy. Right. So it is fair to say that 2010 was not a magic year that things started to deteriorate. It has probably been happening for some time.

Mr. Kirkland. That is likely the case.

Chairman Duffy. And where does the buck stop? How high do these things go? Who is responsible? Who do we look to say, you know what, there is mismanagement underneath you, but the buck stops with you? Who do we look to say whoa, whoa, whoa? It is—

Mr. Kirkland. Ultimately, as has been pointed out, I think this has been an absolute failure at every level. But every level failed the residents in Alexander County miserably.

Chairman Duffy. Does it go to the HUD Secretary?

Mr. Kirkland. Ultimately—

Chairman Duffy. Does it go that high?

Mr. Kirkland. Ultimately, we all have a responsibility to ensure these residents have safe—

Chairman Duffy. I am going to be—and I am not asking—I don’t care about politics. I am not trying to—I am not trying to point fingers at anybody. This is a really bipartisan effort. I just want to know—and by the way, I would just note that there are a lot of problems in HUD, and there are hearings that we can throw barbs at both sides of the political aisle. I am not asking you for that reason. I want to know how high does it go? Should the HUD Secretary know about this and give demands or recommendations to fix it? Is that fair? Or is it someone below the Secretary?

Mr. Kirkland. Ultimately, this should have gone to the HUD Secretary’s attention, and ultimately the HUD Secretary should have acted.

Chairman Duffy. Should have acted.
And in 2010, HUD’s PIH identified issues at the ACHA. You mentioned that during a review. But nothing was done, right?

Mr. KIRKLAND. That is correct.

Chairman DUFFY. So what do we do? What does this committee do? Because, again, these are not partisan issues. We have bipartisan failures within HUD that affect people’s lives. What does this committee do? What does this Congress do to makes things actually work and improve people’s lives and make sure our taxpayers’ money is spent well to improve people’s lives and living conditions?

Mr. KIRKLAND. I think the circumstances of beginning to address this problem start with the recommendations in our evaluation. I do believe those fundamental flaws that reared their head in Alexander County are not going to go away unless we begin to collectively figure out a path forward on these types of issues. And it is not going to take one individual stepping in. It is not going to take one group stepping in. It is ultimately going to take a fundamental change in the approach that we take to public housing.

Chairman DUFFY. Should we review the structure of the PIH in terms—should it be reorganized?

Mr. KIRKLAND. While we have not looked at that issue, obviously, that is a question that I think HUD should answer and can answer.

Chairman DUFFY. OK. So quickly, this was not an issue of money, though. Did we not send enough money to make sure people don’t live in these conditions? And if we did, what was—

Mr. KIRKLAND. There was obviously a lot of money sent to Alexander County to—

Chairman DUFFY. And money didn’t solve the problem, did it?

Mr. KIRKLAND. And money didn’t solve the problem.

Chairman DUFFY. It is mismanagement.

And I don’t want to ask you about specifics of liability. But if we look at this as a whole, and if this is not the only scenario that is out there in our PHAs, should there be other kind of liability for boards that run these PHAs?

Mr. KIRKLAND. I absolutely believe—

Chairman DUFFY. Criminal?

Mr. KIRKLAND. Boards should be held accountable. Executive directors should be held accountable.

Chairman DUFFY. Civilly and criminally?

Mr. KIRKLAND. Civilly and criminally.

Chairman DUFFY. And if we held people criminally liable for their work on these boards, one, you would get good people who know what they are doing, and they would make sure they do their job, because they don’t want to go to jail or prison because of mismanagement. And, frankly—and I am not—I look at—people should be held accountable for the money that was spent and the conditions that people are living in. Unacceptable.

I look forward to continuing to work with you on what this committee should do on how we should evaluate, do further hearings, potentially legislate changes to make sure this doesn’t happen again.

With that, my time is expired.

I yield to the Ranking Member, Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.
Let me first of all say I have been on the committee for 14 years, so I have been through a lot and heard a lot and participated in a lot. The only time I have been more upset is in the aftermath of the 2008 economic crisis. Greed brought the world to the very brink of an economic cataclysm. And as of today—I will check when I go back to the office, as of today, nobody has been indicted. And it was as clear as day. I think most of the people up here are attorneys except for me and Mrs. Beatty, but for even a layperson, it was as clear as day that some people broke laws and did just about everything conceivably possible, and nobody, as of today, went to jail.

My son saw that movie they did, with my wife and me. We walked out of the movie theater. He wouldn’t even speak to me. He is a young kid. He is just angry. He said, nobody’s been charged with anything?

And that is how I feel about this issue. If some of the kids who lived in public housing had broken into the PHA office and stolen a computer, they would be in jail. A $500 computer, they would be in jail. These greedy people—is your report going to be sent to the Justice Department?

Mr. Kirkland. I can confirm that we have referred this matter to the U.S. Attorney in the southern district of Illinois. And that matter has been accepted for criminal and civil prosecution.

Mr. Cleaver. OK. I feel better. Not a lot, because people are still hurting.

But that brings me to the other point. I think you requested the emails in November and you received them in June, something like—I may have that turned around a little.

In your report, you said that depending on what you find, you would have—might have additional information. I am wondering if you have any idea when the analysis of those 50 gigabytes of emails you have received will be available?

Mr. Kirkland. We have received almost 16,000 emails. So far, we have reviewed about 6,000 of those emails. We do have—the team that completed this report is a fairly small but nimble team. They are working very, very hard to work through those emails, and we do intend to produce them as quickly as possible. We do recognize the importance of those issues.

I will say, to date, the emails have confirmed and actually enhanced or bolstered our assessment of that.

My bad. We got 600,000 emails, and only 16,000—

Mr. Cleaver. Oh, jeez.

Mr. Kirkland. —have been reviewed.

And I will say that one of the concerns—and obviously there was a lot of time from our request for these emails and the actual production of those emails. And recognizing that we have raised concerns on the process in which HUD produces those emails, there is a fundamental concern that we at the OIG have with the fact that we don’t have immediate access to this type of information.

Mr. Cleaver. Yes, 7 months.

Mr. Kirkland. IG should have immediate access to that type of information.
Mr. Cleaver. Yes, I agree. Seven months. When I saw that, I thought, what in the world. What could they have possibly done in a 7-month period?

My other question is whether or not there is some kind of interest being given to those individuals who were moved out of those housing units? Is there any follow up—do you know if there has been any follow up to make sure that all of the individuals who have been moved are, in fact, in a decent housing unit somewhere in Cairo?

Mr. Kirkland. I do not know the answer to that. That would be a question that I would think HUD should and could answer and should be able to answer.

Mr. Cleaver. In 7 months.

Mr. Kirkland. Yes.

Mr. Cleaver. They should be able to answer in 7 months. OK. I will ask the question.

Thank you, Mr. Chairman.

Chairman Duffy. The gentleman yields back.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus, for 5 minutes.

Mr. Rothfus. Thank you, Mr. Chairman.

Mr. Kirkland, what should be the process to prevent the type of deplorable conditions that were witnessed by HUD officials out at the ACHA?

Mr. Kirkland. I think it is a cascading effect. But I do think, when HUD finally engaged in a cross-programmatic review of what was going on at ACHA, you finally saw action by HUD. I think it took a collective effort on HUD's part to ensure that action could be taken. I think the recommendations within our report, specifically the one for HUD to view that more cross-programmatically, allows it more tools in the toolbox.

Mr. Rothfus. Can you tell me what ultimately caused HUD to place the ACHA in administrative receivership? What was the final straw?

Mr. Kirkland. I think there were no alternatives. I do think, as the report revealed, when the FHEO forced the hand of PIH, that that ultimately caused the steps to be taken.

Mr. Rothfus. Going back to 2010, when HUD's Public and Indian Housing identified issues at ACHA during a review but closed the findings, why did PIH close out its findings after identifying possible issues within the housing authority in its governance?

Mr. Kirkland. They said that the responses were acceptable and—but we did not find any documentation or really any one that could support that they determined ACHA's responses in 2013 were acceptable.

Mr. Rothfus. Could several of the violations outlined in your July 2018 report have been avoided if HUD had followed through on its findings in 2010?

Mr. Kirkland. We really didn't look specifically at the timeframe of that. But I will say, obviously, the earlier HUD would have engaged in a process, I do think these families would have been able to find a better situation sooner if HUD had engaged earlier.
Mr. ROTHFUS. Let’s see. The HUD OIG mentioned in its report that, although it may be too late to save the ACHA as of June 2018, 50 other PHAs were designated as troubled.

What procedures does PIH have in place to prevent housing authorities from becoming troubled?

Mr. KIRKLAND. So PIH has identified that they go through this PHARS (Public Housing Authority Recovery and Sustainability) protocol, which is the protocol that we highlighted. We do think PIH has more flexibility than always sending a troubled housing authority through this PHARS protocol. I will say we have also, at HUD OIG, noted that we are willing to engage in a process where we are going to put boots on the ground at some of these troubled housing authorities. We are going to send resources to address some of these troubled housing authorities.

Mr. ROTHFUS. Can you cite examples where HUD has been successful in pulling back an agency that has been troubled?

Mr. KIRKLAND. I do not know any off the top of my head.

Mr. ROTHFUS. But we currently have 50 that are out there right now.

Mr. KIRKLAND. And there are currently four PHAs in administrative receivership. Obviously, three others on top of Alexander County.

With the 50, I can say that there is one that has been troubled since 2003. As was indicated, many of these troubled housing authorities are supposed to only be allowed, even in the PHARS protocol, a 2-year cure period. And that is not even required under PIH requirements, but—

Mr. ROTHFUS. With any of these troubled housing agencies, how confident are you that there are not facilities there that would be in the same condition as Elmwood and McBride?

Mr. KIRKLAND. I am absolutely sure there are other facilities out there like Elmwood and McBride.

Mr. ROTHFUS. And what is the Department doing about that?

Mr. KIRKLAND. I do believe the recommendations that we made are a start. But, once again, it is only a start. It is going to take a more collective effort on the part of all of us. And as I indicated, HUD OIG is prepared to be an independent voice and I think a necessary independent voice in that process.

Mr. ROTHFUS. I yield back.

Chairman DUFFY. The gentleman yields back.

The Chair now recognizes the gentlelady from Ohio, Mrs. Beatty, for 5 minutes.

Mrs. BEATTY. Thank you to Chairman Duffy and to Ranking Member Cleaver and to you, Mr. Kirkland.

I echo all the comments of my colleagues. And certainly the Chairman is correct; there is enough blame to go around. As I sat here and thought about going back beyond 2010 and 2000, we probably had an equal number of Democrat and Republican HUD directors, because we know this doesn’t happen overnight.

This is very troublesome for me. I spent 20 years of my life as a relocation consultant with PHAs. And I have been in facilities that look like that. So I am sure you are correct that there are more than the surface four or five that you mentioned, because as great as my State and my district is, I can remember walking in
a facility and thinking, someone's mother and grandmother lives in this facility, and no one would want to have someone here with mold and rodents. And the story ends well. We moved all of those individuals out, tore down that public housing and rebuilt it, and moved many of them back into Jenkins Terrace, or 1100, in Columbus, Ohio.

This is very disturbing to me as I sit here, and I—I think about, not the bricks and mortar, but the people. What was the process? Can you explain to the committee the level or mode of communication with the tenants through this process? Was HUD keeping them—updating or informing them what was occurring with their housing authority?

Mr. Kirkland. I do think as far as looking back on the effort to address the tenants and the tenants' concerns, I do think that was a huge overlooked process in all of this. And I don't know what all contributed to it. Obviously, there was engagement with the tenants. There was an opportunity to hear the tenants. But, obviously, something didn't register, because the concerns that were being raised, the concerns that were brought forward by the tenants—to have tenants who are having to spray bug spray on their children so they can sleep at night, that is something that should register a problem.

Mrs. Beatty. Sure. Let me ask you what you think about this. I have been on both sides. I started early in my professional career being a housing inspector in public housing, and that is what led me later to make it part of my company when I became a consultant.

Earlier this year, Congress passed legislation that would reduce the frequency of public housing inspections at small rural agencies to every 3 years. I oppose that legislation. So I guess my question to you is, if these buildings are inspected less frequently, would that increase the risk that HUD would fail to identify some of these deteriorating conditions until it is too late?

If I start having a leak in my kitchen, or any of our kitchens or in our basement and you catch it in the first year. But if we have now changed it—and that did not sit well with me because of the many years that I have spent working and involved in public housing authorities.

So can you address that when we talk about that? That is something we did right here. And I just couldn't support it, because I think we needed to be in there more often doing this.

Mr. Kirkland. I believe—

Mrs. Beatty. Do you believe that we should go 3 years, or should we go back to inspecting it every year?

Mr. Kirkland. I believe our report highlighted the importance of the inspection process. The inspection process is important to this overall process to ensure—

Mrs. Beatty. But inspection 3 years or 1 year? Now seeing what you have seen and what you have written, we have heard Democrats and Republicans both talking about this just didn't start in 1 year, but would you think, if you are seeing something in the first year or you wait until the third year and you have these conditions—
Mr. Kirkland. I will say our overall body of work has identified a concern overall with the inspection process. It is not consistently applied, to begin with. And that was indicated, even in Alexander County, just to have a score go from, I think, 42 to 82 and then back down to an even lower number than the 2012 number, I think the inspection process is a valuable process. We haven't looked at specifically what is the right amount of time. But it has got to be a necessary process to include.

Mrs. Beatty. Thank you, Mr. Chairman. I yield back.

Chairman Duffy. The gentlelady yields back.

The Chair now recognizes the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. Green. Thank you, Mr. Chairman. I thank the witness for appearing as well.

Please allow me to ask a few questions about some of the circumstances that caused this condition to manifest itself.

Is it true that between 2010 and 2016 the Budget Control Act caused cuts of about $1.6 billion in funding to housing?

Mr. Kirkland. I would have to check those numbers, but I know there were substantial cuts.

Mr. Green. Does substantial mean more than a billion dollars?

Mr. Kirkland. Yes.

Mr. Green. OK. Thank you.

And is it true that, as a result of this, we are losing about 10,000 public housing units per year due to disrepair?

Mr. Kirkland. I am not exactly sure of the number, but we are losing a good number of public housing units.

Mr. Green. Is it fair to say that we are losing a good number because of disrepair?

Mr. Kirkland. That would—we have not looked at what has been the cause of that, but I think that is a big cause.

Mr. Green. That is a big cause?

Mr. Kirkland. Yes.

Mr. Green. I will accept that terminology.

And is it true that, notwithstanding the lack of maintenance at these projects, that this level of disrepair, some of it associated with the big cuts, is something that we are seeing in many other housing projects across the country?

Mr. Kirkland. I am not sure that we—we have looked at the connection there, but—

Mr. Green. Is that a fair inference?

Mr. Kirkland. That could certainly be a fair inference.

Mr. Green. The reason I brought this up is because I agree with what was said earlier and I would even add more to it. And I am going to circle around and come back to where I am now.

But I agree that based on what was said about the employment discrimination, civil rights violations, management was uncooperative, mismanagement, $400,000 in misuse of funds, misadministration of contracts, properties beyond rehabilitation, $720,000 in civil penalties, $188,000 in assessments based on false claims, and nepotism, all that is bad. So we have that now to put aside.

But circling back to where I was, I mention this because my dear friend made the comment that money wasn't the problem. And
money is a problem. Let’s move this—all these issues aside. Money is still a problem, is it not?
Mr. KIRKLAND. I would say there are many contributing factors. Obviously—
Mr. GREEN. Wouldn't you say that money is one of the contributing factors?
Mr. KIRKLAND. There are resource issues and—
Mr. GREEN. Can we define resource as money?
Mr. KIRKLAND. Money would be one of the resource issues, but there are many contributing problems to the problem.
Mr. GREEN. There are many. But what we don’t want to do is minimize the impact of over a billion dollars in cuts. We don’t want to minimize the impact that that billion dollars can have as resources on these projects. Is that a fair statement?
Mr. KIRKLAND. Money can definitely have an impact on the resources—on these projects.
Mr. GREEN. OK. All right. Well, listen, I do appreciate your appearing today. And I just want us to think about, not only this laundry list that I have called to your attention, but also about what are we going to do to preserve housing for people who really need it in this country.
And I see that you want to respond. I will yield to you to respond, and then I will take about 15 seconds to wrap up.
Go ahead, sir.
Mr. KIRKLAND. I will note as well that, in the process of all of this time that ACHA has been on this downward spiral, a substantial amount of money has been spent and wastefully spent, unfortunately, because the oversight was not there to do—
Mr. GREEN. All right. I accept that, but before I lose my time, is it also true that there are other circumstances where properties are in disrepair due to a lack of funds?
Mr. KIRKLAND. Absolutely.
Mr. GREEN. OK. So we want to take care of this. And, by the way, I think somebody should go to jail as well. But I also think that we have to look at these problems in a sober fashion when we are talking about the remedy.
And I thank you for your testimony.
I yield back.
Chairman DUFFY. The gentleman yields back.
I want to thank Mr. Kirkland for his testimony. And you may get some follow up questions. I would ask you to answer those in a prompt fashion, whether, in this situation, it is a money problem versus a waste of money problem, to be clear.
I don’t want to do a second round. We do have votes tonight; otherwise I would go into that. But, again, I want to thank you for your testimony.
The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.
Thank you for your testimony. And this hearing is adjourned.
[Whereupon, at 4:57 p.m., the subcommittee was adjourned.]
A P P E N D I X

September 25, 2018
Thank you Chairman Duffy and Ranking Member Cleaver. I appreciate the opportunity to appear before the Subcommittee.

Today's hearing is about government's failure to protect the vulnerable among us. Most of you have never heard of Cairo, Illinois – but it’s time you had. Cairo is a small town in my district that was once a roaring city on the banks where the Mississippi and Ohio rivers meet. It shares a story that is similar to many across the country -- perhaps in your own districts.

As the 20th Century rolled on, Cairo's population dwindled due to changes in transportation, community strife, a lack of services, and downright neglect. But many families stayed. Proud of their city. Honoring their heritage. This includes families living in public housing units under the control of the Alexander County Housing Authority.

Many of us first learned the extent of the problems at the public housing authority in Cairo through reports in the Southern Illinoisan newspaper. The paper exposed unsafe living conditions that included units infested with mold, insects and other vermin. Many had no appliances, heating, or air conditioning. One mother was forced to spray insect killer around her young son's bed each night due to an infestation in her unit.

After my Illinois colleagues and I requested a federal investigation, HUD placed the housing authority into receivership. The buildings were beyond repair. 185 families were forced to leave a city that they called home for generations.

The cause of this tragedy comes down to two words: greed and neglect. Over many years, the local housing authority used federal funds as their personal piggy bank. Funding intended for maintenance was used for personal travel and other perks. The Executive Director at the time
admitted to the fraud. He said, “We lived it up too good. And we didn’t see this coming and we thought it would last forever...”

Then there is the issue of neglect, which I believe should be the main focus of this hearing. Issues with Cairo’s housing authority were known to HUD for years, but little was done. It is my belief that had HUD taken these issues more seriously, we may not be here today. The federal government must do a better job of conducting oversight, especially when it involves the health and safety of people in need. Where was the ball dropped on Cairo? How did things fall through the cracks? Where is it happening in other public housing around America? And how do we prevent this from happening again?

While I may not be a member of this committee, I want to work with you, Republicans and Democrats, to ensure that reforms are implemented. I also want those who created this crisis to be held accountable. It is frustrating to me and the people of my district that these officials have not yet been charged for their alleged crimes. The people of Cairo and the surrounding areas deserve justice. I hope today is a big step in making that happen. Once again, thank you for holding this hearing.
Representative Sean P. Duffy
Chairman
Subcommittee on Housing and Insurance
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Representative Emanuel Cleaver
Ranking Member
Subcommittee on Housing and Insurance
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Duffy and Ranking Member Cleaver:

Thank you for holding today’s hearing on the findings of the U.S. Department of Housing and Urban Development (HUD) Inspector General (IG) July 2018 report detailing the results of its evaluation into HUD’s oversight of Alexander County Housing Authority (ACHA). The IG commenced this evaluation at our request made in a letter sent in May 2017. We appreciate the opportunity to share our views on this report with the Committee.

Public housing authorities (PHA) across the country have a responsibility to provide safe, healthy, and affordable housing to their residents. However, it is HUD that has the responsibility to oversee PHAs to ensure they are meeting their obligations to our nation’s most vulnerable residents. As the IG report that is the subject of today’s hearing reveals, despite having early knowledge of serious issues related to the physical, financial, and managerial health of ACHA, HUD failed to effectively oversee the agency. Hundreds of families were left to languish in uninhabitable living conditions as a result. That any community should have its access to safe and healthy housing threatened as a result of HUD’s inaction is unacceptable, and HUD must work to implement the IG report’s recommendations and improve its oversight of PHAs.

By the time HUD took ACHA in administrative receivership in February 2016, 185 families—including around 200 children—were living in two 1940s-era housing complexes in Cairo, Illinois, overrun with rodents, bed bugs, roaches, crime, mold, asbestos, and lead. The deterioration of these housing complexes was so severe that in April 2017, HUD announced that 185 families would be forced to relocate from their homes and find alternative housing. In February 2018, HUD announced that more than 30 families from two additional aging housing complexes in nearby Thebes, Illinois, also would be forced to relocate due to deteriorating conditions.

While relocation for these families has meant being able to move to safe and healthy housing, for too many of these families, the limited local housing stock also meant having to leave their beloved tight-knit community and the only place they have ever called home. The effects of this relocation have been felt by the families and community alike as the Cairo school district enrollment is down nearly 30 percent this year.

While there were many factors that contributed to the housing crisis in Cairo, Illinois, including the severe mismanagement and alleged misappropriation of federal funds by former
ACHA officials that is still under investigation by the HUD IG, the IG report concludes that HUD “could and should have done more to oversee” ACHA.

As the IG report details, HUD was aware of negative conditions at ACHA since at least 2010, yet chose not to exercise its full authority to intervene earlier. The report notes that despite having early knowledge of ACHA’s deteriorated physical condition, significant governance and financial management issues, violations of HUD polices and civil rights laws, and noncooperation with federal officials, it was hesitant to take ACHA into receivership.

In examining HUD’s hesitancy to take ACHA into receivership, the IG report highlighted a prevailing misunderstanding by HUD staff of HUD’s own emergency authority to intervene in a PHA if conditions warrant—as the IG report found ACHA conditions warranted. Additionally, the report cited HUD officials’ fear of “political repercussions” from taking a PHA into receivership as a factor contributing to HUD’s hesitancy to act. Further, the report warned that HUD “may avoid taking PHAs into receivership when it is necessary and may oversee PHAs in receivership improperly or inadequately” due to the “small pool of experienced receivers, inadequate guidance, and outdated training” on HUD administrative receivership. The report contained four recommendations to improve and clarify its procedures governing administrative receivership, as well as strengthen staff training.

Following the release of the IG report in July 2018, we wrote to HUD Secretary Carson urging HUD to quickly implement the report’s recommendations to improve HUD’s oversight of public housing authorities and requested an update on the Department’s plan to implement those recommendations. On September 24, 2018, HUD responded to our letter indicating the Department agreed to implement the IG report’s recommendations and outlined implementation timelines for each of the report’s recommendations. We look forward to continuing to work with HUD throughout the implementation process to ensure HUD is capable of executing its oversight responsibility.

We cannot allow the severe mismanagement—both federally and locally—that enabled the housing crisis in Alexander County, Illinois, to be repeated in any other community. Ensuring HUD is capable and effective in its role overseeing public housing authorities in meeting their obligations to provide safe, healthy, and affordable housing is essential to this goal and restoring public housing residents’ faith and confidence in our government.

I commend the Committee for holding this hearing and bringing awareness to the housing crisis that continues to impact Alexander County residents and the local community in Cairo, Illinois. HUD must hold public housing authorities accountable and ensure they are meeting their responsibilities to provide our most vulnerable residents safe and affordable housing.

Sincerely,

Richard J. Durbin
U.S. Senator

Tammy Duckworth
U.S. Senator
MEMORANDUM
July 24, 2018

To: Dominique Blom
General Deputy Assistant Secretary, Office of Public and Indian Housing, P

From: Brian T. Pulliam
Assistant Inspector General for Evaluation, G

Subject: Final Evaluation Report – HUD’s Oversight of the Alexander County Housing Authority, 2017-OE-0014

Please see the attached final report on our evaluation of the U.S. Department of Housing and Urban Development’s (HUD) oversight of the Alexander County Housing Authority in Cairo, IL. It contains three findings and four recommendations. The report will be posted to our website within 3 days.

In your response to our draft report, you agreed with our findings and recommendations. Your response, along with our comments to it, are included in our report. Based on your response, we consider recommendations 1, 2, 3, and 4 “unresolved-open.” We will contact your office within 90 days to begin discussing your proposed management decisions.

I appreciate the assistance you, your staff, and staff throughout HUD provided throughout the evaluation. If you have any questions, please contact Director Paul Bergstrand at (202) 402-2728.

Attachment

cc: Unabyrd Wadhams, Former Deputy Assistant Secretary for Field Operations, PQ
    Donald Lavoy, Deputy Assistant Secretary for the Real Estate Assessment Center, PX
    Kelley Lyons, Regional Public Housing Director for Chicago Hub, Office of Public and Indian Housing, SAPH
    Daniel Sherrod, Director, Chicago Hub, Office of Public and Indian Housing, SAPH
    Peter Schniedel, Financial Management Specialist, Office of Public and Indian Housing, PCE
    Rochelle Katz, Assessment Manager, Office of Public and Indian Housing, PG
    James Cunningham, Deputy Regional Administrator, Office of Field Policy and Management, SAMA
    Bryan Greene, General Deputy Assistant Secretary, Office of Fair Housing and Equal Opportunity, E1
    Terri L. Wanzer, Management Analyst, Office of Fair Housing and Equal Opportunity, EGP
    Charles M. Montgomery III, Director, Office of Fair Housing and Equal Opportunity, EGP
    Craig T. Clemens, Director, Departmental Enforcement Center, CACB
HUD's Oversight of the Alexander County Housing Authority
July 24, 2018

Frieda Edwards, Director, Office of General Counsel, CAGB
Patrice Mitchell, Management Analyst, Office of General Counsel, CAGB
U.S. Department of Housing and Urban Development

Office of Inspector General
Office of Evaluation

HUD's Oversight of the Alexander County Housing Authority
Executive Summary
HUD’s Oversight of the Alexander County Housing Authority

Results of Evaluation
HUD had been aware of negative conditions at ACHA since at least 2010. HUD identified issues with ACHA’s governance, including the misuse of funds, conflicts of interest, and a failure to comply with HUD policies and Federal civil rights laws. Further, about 200 children and their families lived in units with peeling paint; graffiti; pest infestations; and other health and safety hazards, such as inoperable appliances and obstructed accessibility routes.

Despite HUD’s attempts to bring ACHA into compliance, its efforts did not resolve the negative conditions at ACHA. Residents continued to live in deplorable conditions as ACHA languished, and ACHA officials were generally uncooperative in addressing the negative conditions HUD identified. Since 2010, PIH had used several oversight tools to identify issues at the ACHA, but major enforcement action against ACHA occurred only after HUD assembled a cross-programmatic team. HUD hesitated to take ACHA into possession in part because PIH officials believed that they had to allow ACHA an opportunity to improve instead of declaring it in substantial default. Additionally, HUD guidance and expertise on receiverships were limited.

On February 19, 2016, HUD declared ACHA in substantial default of its contract with HUD, removed its board, and took possession of it. At that time, HUD assumed the role of administrative receiver of ACHA.

Recommendations
Conditions at ACHA had deteriorated over a decade or more, and two housing developments there, Elmwood and McBride, are scheduled for demolition. Since we concluded our fieldwork, HUD decided that two additional ACHA housing developments (Sunset Terrace and Mary Alice Meadows in Thebes, IL) will also be closed as necessary repairs there are too expensive, further reducing available affordable housing stock for low-income residents. While local officials are responsible for the daily administration of ACHA, HUD could and should have done more to oversee it. Although it may be too late to save ACHA, as of June 2018, 50 other PHAs were designated as troubled. Therefore, we offer four recommendations to improve PIH’s administration and oversight of troubled PHAs. PIH agreed with each of our recommendations. The status of each recommendation will remain “unresolved-open” until we receive further documentation outlining PIH’s proposed management decision to address each recommendation.
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Introduction

Objective
To assess the U.S. Department of Housing and Urban Development's (HUD) oversight of the Alexander County Housing Authority (ACHA).

Background

Overview of the Public Housing Program and Public Housing Agencies
The Office of Public and Indian Housing (PHI) operates HUD’s public housing programs. Public housing’s mission is to provide safe, decent, and affordable rental housing for eligible low-income families, the elderly, and persons with disabilities. Nationwide, approximately 1.2 million families reside in public housing developments that are owned and operated by about 3,300 local public housing agencies (PHA). HUD provides Federal aid to PHAs, which in turn manage public housing for eligible residents at rents they can afford. Additionally, HUD furnishes technical and professional assistance to PHAs for planning, development, and management. Each year, HUD provides approximately $4 billion in operating subsidies to assist PHAs in running their public housing programs. HUD also awards approximately $2 billion to PHAs annually to develop, modernize, and maintain public housing properties.

A PHA is a legal entity authorized by a State to develop or administer low-rent public housing. PHAs are the “caretakers” of public housing funds and must ensure that the funds are properly managed. The PHA’s executive director, board, or commission operates and manages the PHA. PHAs are responsible for operating their housing developments to ensure that the PHA complies with its annual contributions contract. This contract is an agreement between the PHA and HUD, which outlines the applicable regulations and procedural requirements that PHAs must abide by to receive Federal funding. The contract also outlines HUD funds available for a PHA’s use for that year. ACHA is a moderate-size PHA in Cairo, IL, with nearly 500 units in its inventory.

HUD’s Oversight of PHAs
The Housing Act of 1937 requires that HUD establish rules and provide funding for PHAs to manage their own housing programs. The intent of the Act is to give as much flexibility and responsibility to the State and its units of local government as possible. In turn, HUD is to ensure that PHAs meet performance requirements and provide technical assistance, with the goal of safeguarding both public investment and resident quality of life.

HUD’s objective is to identify endangered funds and assist PHAs in correcting deficiencies it identifies while monitoring PHAs. Field offices monitor PHAs remotely from the field office or onsite at the PHA. A field office generally does not perform onsite monitoring of a PHA unless it knows of performance or compliance problems. Field offices may focus efforts on PHAs that are determined to be in the greatest need of attention. To identify those in greatest need of attention, PHI uses a risk-based monitoring approach that accounts for a PHA’s risk in five areas. These five areas are (1) organization, management, and personnel; (2) assets management; (3)
finance and budget; (4) marketing, leasing, and management; and (5) community relations and involvement.

In addition to the field offices’ monitoring activities, PIH’s Real Estate Assessment Center (REAC) inspects HUD properties to ensure that units are decent, safe, sanitary, and in good repair. REAC uses a uniform physical inspection protocol with an intent to ensure that the inspections of HUD properties are as uniform and objective as possible. REAC examines four indicators about the PHA: its physical condition, financial condition, management operations, and Public Housing Capital Fund program. Inspectors submit inspection data to REAC, which REAC checks and analyzes. A PHA’s physical conditions indicator score affects the frequency of its inspection cycle, with poorly performing PHAs requiring inspection more frequently. REAC compiles each of the four indicators into an overall score using a scale of 0 to 100. This score helps HUD identify PHAs with performance issues using its Public Housing Assessment System (PHAS). Using this PHAS score, PIH designates the PHA as a high, standard, substandard, or troubled performer. A PHA that achieves an overall PHAS score of less than 60 percent would be designated as a troubled performer.

PIH policy requires that the field office initiate the PHA Recovery and Sustainability (PHARS) protocol for PHAs designated as troubled. In 2011, PIH launched the PHARS protocol as a four-phased approach to recover PHAs. HUD created this protocol as a holistic approach to solving and remediating systemic issues at PHAs. When a PHA is found to be troubled, the regional director usually assigns a PHARS team to lead in the recovery effort of that PHA. This team is composed of staff from the Office of Field Policy and Management (FPM), PIH, and the Departmental Enforcement Center (DEC). The PHARS team performs a preliminary financial management and governance assessment of the PHA. The PHARS team (1) works with troubled PHAs to assess the underlying systemic issues causing the PHA’s troubled status, (2) creates recovery agreements, and (3) implements action plans that will ensure the sustainability of successful PHA performance. It also continues to monitor the PHA and provide support during the implementation and cure period.

Although HUD generally follows the PHARS protocol to remedy negative conditions at PHAs, HUD also has the authority to declare a PHA in substantial default in emergency situations. In these cases, the PHA is not provided an opportunity to respond or cure negative conditions when HU Determines that conditions exist that pose an imminent threat to the life, health, or safety of public housing residents or residents of the surrounding neighborhood or (3) the events or conditions precipitating the default are determined to be the result of criminal or fraudulent activity. HUD may also determine that PHAs with serious financial, physical, management, or ethical problems that cannot be remedied through the PHARS protocol are in substantial default of their contract with HUD. When a PHA is found in substantial default, HUD temporarily takes possession of the PHA to correct identified problems through a process known as administrative receivership. HUD views administrative receivership as a last resort for assisting PHAs with the most severe problems. In extreme cases, HUD may also suspend or debar PHA officials as an administrative remedy to address longstanding performance issues at the PHA. PIH’s Office of

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1 During fieldwork, a HUD official told us that the procedures had changed and HUD may now initiate this process for substandard performing PHAs as well.
2 24 CFR (Code of Federal Regulations) 907.5(d)
3 Administrative receiverships may include PHAs under settlement agreements, PHAs under cooperative endeavor agreements, possession and control of PHA projects, and HUD “Secretary in possession” of PHAs.
Receivership Oversight is responsible for providing day-to-day oversight and direction for
developments. If the PHA’s improvement is sustained, the PHA may be returned to local control,
and PIH’s local field office resumes oversight and monitoring of the PHA. Otherwise, HUD
maintains control of the PHA through the receivership process.

Scope and Methodology

We completed this evaluation under the authority of the Inspector General Act of 1978 as
amended and in accordance with the Quality Standards for Inspection and Evaluation, issued by
the Council of the Inspectors General on Integrity and Efficiency (January 2012).

Scope

We performed fieldwork for this evaluation between August and December 2017. This
evaluation covered operations within six HUD programs offices – PIH, DEC, the Office of Fair
Housing and Equal Opportunity (FHEO), FPM, the Office of General Counsel (OGC), and the
Office of Davis-Bacon and Labor Standards (Labor Standards). We assessed HUD’s oversight
of ACHA since 2010 to determine what HUD knew about ACHA, when it knew those facts, and
what steps it took to correct identified deficiencies. We did not assess ACHA, except as it
related to interactions with the above-named HUD program offices. We did not include in our
scope a comparison of ACHA to other PHAs and their receiverships.

Methodology

To address our objective, we conducted 24 interviews with current and former HUD officials
identified in our scope. Through these interviews and other documentation collected during our
evaluation, we learned what actions HUD took in an attempt to identify and address deficiencies
at ACHA. We also identified the roles and responsibilities of personnel involved in the
monitoring and oversight of ACHA. We reviewed relevant statutes, regulations, and other
documentation to determine criteria for the monitoring and oversight of PHAs.

Limitations

On November 22, 2017, we sent HUD a request for several HUD officials’ emails to determine
what they knew and communicated about ACHA at the time the issues occurred. HUD produced
the requested emails and provided them to us in June 2018. We received nearly 50 gigabytes of
e-mail data, which we will review following the release of this report. If our findings or
recommendations are substantially affected by new information, we will communicate that
information in an appropriate format.

4 In December 2017, we issued a report finding that OGC’s collection of electronically stored information, including
emails, does not meet customer demand because processing these requests takes too long to meet each program
office’s needs.
A Primer: HUD’s Oversight of ACHA

On February 19, 2016, HUD declared ACHA in substantial default of its contract with HUD, removed its board, and took possession of it. In April 2017, HUD announced its plan to relocate about 400 residents, including 200 children, from two ACHA housing developments, Elmwood and McBride. Those developments will be demolished. According to news reports, residents remain angry and frustrated with HUD’s decision. The city of Cairo has insufficient housing stock for these displaced families, so almost 200 families will have to move out of the city. A HUD spokesperson said that HUD was “stunned ... at what we saw, not just in terms of the deplorable living conditions that we encountered but at the poor, even absent record keeping, the staggering backlog of critical repairs, all of this going to the very health and safety of the residents living there.” However, the deplorable conditions at ACHA did not occur overnight. HUD had been aware of negative conditions at ACHA since at least 2010. Over the span of 6 years, HUD performed multiple assessments and reviews of ACHA. Figure 1 below outlines the steps HUD had taken since 2010 in an attempt to address the negative conditions.

Figure 1 - Timeline of HUD’s oversight of ACHA

HUD had failed ACHA in every physical condition indicator since fiscal year (FY) 2012 and identified weaknesses with its financial condition as early as FY 2013. ACHA was generally uncooperative in addressing the negative conditions identified by HUD’s assessments and reviews. Despite HUD’s attempts to bring ACHA into compliance, the negative conditions remained. In June 2017, DEC and OGC issued an indefinite debarment from participating in government programs for two former ACHA executives and a 3-year debarment for a board member. This action resulted from many violations of HUD regulations and the contract, such as deplorable physical conditions, severe misuse of Federal funds, civil rights violations, lead-based paint violations, and other issues.

5 Since we concluded our fieldwork, HUD decided that two additional ACHA housing developments (Sunset Terrace and Mary Alice Meadows in Thebes, IL) will also be closed as necessary repairs there are too expensive for ACHA to cover. Some of the residents relocated from the Elmwood and McBride developments ended up at the Thebes developments, so they will have to relocate again.
Findings

PIH Used Several Oversight Tools To Identify Issues at ACHA, but Negative Conditions Persisted

Since 2010, HUD\(^6\) had performed multiple assessments and reviews of ACHA, which highlighted issues with its governance, including the misuse of funds, conflicts of interest, and a failure to comply with HUD policies and Federal civil rights laws. Despite HUD’s attempts to bring ACHA into compliance, the negative conditions remained. ACHA was generally uncooperative in addressing the negative conditions HUD identified during its assessments and reviews. On February 19, 2016, HUD removed ACHA’s board and took possession of ACHA, declaring it in substantial default of its contract with HUD.

PIH Identified Issues at ACHA During a Review in 2010, but Closed the Findings

In keeping with routine oversight practices, the Chicago field office assigned a team to monitor and oversee ACHA. This team was assigned to ensure that ACHA complied with HUD rules and regulations and to provide technical assistance to ACHA as needed. The team was composed of an engineer, a financial analyst, and a public housing revitalization specialist. In March 2010, this team completed a review of ACHA, which identified improper payments and other high-risk elements.\(^7\) During this review, the team conducted tenant file reviews to determine whether ACHA calculated rents accurately and reviewed its compliance with HUD policies.

The team made nine findings and four observations, one of which indicated that there was a conflict of interest among the board of commissioners, the president of the resident council, and ACHA. PIH records and the team leader of the review confirmed that the field office closed the findings.

The Field Office Conducted Onsite and Remote Assessments of ACHA in 2012 and 2013, but ACHA Did Not Correct Identified Negative Conditions

For FY 2012, REAC scored ACHA as a substandard physical performer due to the poor physical conditions of its buildings. A team member assigned to ACHA told us that the substandard score required the field office to conduct an onsite review. Before the onsite review, this team member performed a remote assessment of ACHA. He said that during the remote assessment, he identified several issues unrelated to ACHA’s physical conditions score, such as inappropriate procurement practices and nepotism, stating that ACHA’s organization chart looked like a “family tree.” After completing the remote assessment, he issued a letter to ACHA, stating his findings, and asked for a response and for ACHA’s plans to address the findings before the upcoming onsite review. In response, ACHA provided an action plan, which the team member believed did not sufficiently address the concerns in the findings letter. Accordingly, this

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\(^6\) When “HUD” is used, officials or actions from more than one program office are being cited. When PIH is used, we are referring only to PIH officials or actions.

\(^7\) HUD completed a Consolidated Tier II review. Consolidated Tier I or Tier II reviews were a type of onsite review of PHAs, which PIH no longer performs.
response required the field office to continue its onsite review of ACHA. In May 2013, the National Association for the Advancement of Colored People also sent HUD a letter alleging discriminatory conditions at ACHA, which reinforced the need for the onsite review.

The field office conducted the onsite review of ACHA from September 4 through 13, 2013. A team member who participated in the review told us that ACHA personnel were very uncooperative during the visit. For example, one team member told us that several members of the ACHA staff attempted a “sick-out” to avoid being interviewed. Team members also observed serious civil rights violations during the review, such as segregated housing and segregated staffing. One team member said the team conducted physical inspections of all of the ACHA housing developments, during which it reviewed the building interiors and exteriors and inspected a sample of units. He said, in total, these physical inspections took about a half day. This team member also said that the poor physical condition of the properties was obvious, even from the outside. However, when the team members went inside the properties, one team member said that he observed broken and outdated appliances and pest infestations in housing developments occupied by African-Americans.

On November 1, 2013, following the onsite review, the field office issued a letter to ACHA, which detailed concerns related to its finances, operations, and procurement practices. In total, the field office made 9 findings related to the physical condition of ACHA’s properties and 20 findings related to its overall management. Major findings included that

- The McBride and Elmwood housing developments had ongoing security issues.
- The plumbing at the McBride housing development was deteriorated and in need of rehabilitation.
- The former executive director improperly procured a consultant services contract for himself.
- ACHA awarded retirement packages and offered part-time employment to specific employees with no documented or defined formula or eligibility requirements.
- ACHA’s nepotism policy was inadequate.
- An ACHA board member had a nephew and grandson employed by the PHA.
- The executive director’s son-in-law and the assistant executive director’s husband were maintenance workers at ACHA.

In December 2013, ACHA provided an action plan to address the issues identified during the onsite review, in which it generally disagreed with the field office’s findings and observations. Field office staff members told us and documentation confirms that they found ACHA’s response insufficient. Field office staff members also told us that they informed regional PIH leadership about issues pertaining to ACHA. Around this time, the field office staff also approached HUD’s Region V Administrator. The Administrator is responsible for engaging with local officials and acting as a liaison for HUD field offices and programs. As such, he was positioned to engage with ACHA and Cairo, IL, officials.
REAC Routinely Inspected ACHA, but Physical Inspection Scores Did Not Always Accurately Reflect ACHA’s Conditions

As discussed earlier, REAC scored ACHA as a substandard physical performer for FY 2012 due to the physical conditions of the Elmwood and McBride housing developments. The FY 2012 inspection report continuously indicated the presence of peeling paint, graffiti; deteriorated caulk and sealants; and the presence of insects, such as bed bug and live roach infestations, among other issues. It also noted health and safety hazards, such as inoperable electrical breakers and appliances and obstructed accessibility routes.

Despite these findings, in FY 2013, ACHA’s REAC scores indicated that the physical conditions had improved dramatically. Field office staff members were concerned that the FY 2013 physical condition scores did not reflect the actual conditions at ACHA. One remarked that he was shocked by the inflated score. At this time, ACHA’s budget showed that only two major capital improvements had been undertaken. PIH’s practice was to wait to initiate the PHARS protocol until it had designated a PHA as troubled. Without a score low enough to consider ACHA troubled, PIH was unable to initiate the PHARS protocol, which aims to recover PHAs by solving and remediating systemic issues. As a result, in April 2014, field office staff requested that REAC rescoring the housing developments off cycle and immediately release the scores. The field office staff continued to request updates on the status of the rescoring request, and in August 2014, REAC confirmed that ACHA would be reinspected.

REAC began the FY 2013 rescoring for the housing developments in November 2014 and completed it by February 2015. According to a REAC official, a number of factors can delay REAC inspections of PHAs and 95 to 99 percent of the time those delays are related to procuring contract inspectors to perform the inspections. Further, documents showed that holidays and HUD staff’s use of “use or lose leave” contributed to delays as well.

REAC’s revised scores showed that conditions had deteriorated since FY 2012 and not improved as the original FY 2013 score indicated. For two housing developments, the score was lowered by more than 50 points. The score for the Elmwood and McBride housing developments, which are now scheduled for demolitions, were lowered by 54 points. Figure 2 below provides the physical conditions scores in FYS 2012 and 2013 and the rescoring for FY 2013.

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8 ACHA has several housing developments that receive individual physical conditions scores during the inspection process.

9 During the interim period, PIH field offices also have the ability to implement a zero threshold review of capital fund grants. However, this is not a sanction. This action requires PIH field office staff to review and approve all draws that a PHA wants to make from its Capital Fund.
Figure 2 – ACHA housing developments’ physical conditions scores from FY 2012 to 2013

<table>
<thead>
<tr>
<th>Development name</th>
<th>FY 2012 physical conditions score</th>
<th>FY 2013 original physical conditions score</th>
<th>FY 2013 physical conditions score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elmwood and McBride</td>
<td>82</td>
<td>82</td>
<td>82</td>
</tr>
<tr>
<td>Scattered sites</td>
<td>76</td>
<td>73</td>
<td>71</td>
</tr>
<tr>
<td>Conseil F. Smith Building</td>
<td>74</td>
<td>92</td>
<td>54</td>
</tr>
</tbody>
</table>

The revised FY 2013 inspection report for the Elmwood and McBride housing developments showed that there were 112 health and safety deficiencies and concluded that if all buildings and units were inspected, 1,134 health and safety deficiencies would be found. REAC decertified and dismissed the contract inspectors who performed the initial FY 2013 inspections for not following REAC’s inspection protocol.

Only After HUD Assembled a Cross-Programmatic Team Did It Take Major Enforcement Action Against ACHA

After PIH field office staff approached him with concerns about ACHA, the Region V Administrator assembled a cross-programmatic review team in early 2014 to review ACHA. The Administrator, who is part of FPM, served as the lead on this team. The team consisted of Region V staff from the following HUD program offices: PIH, FHEO, DEC, and Labor Standards. Each participating program office focused on its respective programmatic jurisdiction.

HUD Conducted a Cross-Programmatic Review of ACHA in 2014, Which Resulted in Negative Findings Against ACHA

Several cross-programmatic review team members stated that this type of review was uncommon and that they had not seen so many program offices work collectively to review a single PHA. The onsite portion of the cross-programmatic review occurred from June 24 through 26, 2014. Participating team members reviewed ACHA documents, conducted interviews, and inspected low-rent housing properties. Unlike its response to PIH’s 2013 reviews, HUD staff told us that ACHA was relatively cooperative as the team carried out its cross-programmatic review.

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9 The inspections examine a sample of units at a given PHA and not every unit.

10 This protocol refers to the standard set of rules and procedures for inspectors to follow on all inspections. The purpose of the physical inspection process is to provide HUD with the ability to assess whether its properties are in a safe, decent, and sanitary condition and in good repair.

11 In response to a congressional mandate, REAC released a report, entitled “Efforts and Progress Made to Improve Inspection Processes and Protocols,” on February 23, 2018. Within the report, REAC stated that its physical inspection process has declined over time due to a number of reasons, including competing demands of Federal inspection staff, a shifting quality environment, and external pressures. However, most notably, REAC stated that it also faced challenges in acquiring contract inspectors that met HUD’s quality inspection standards in the performance of duties. To address issues highlighted in the report, REAC stated that, as of June 2017, it had identified and implemented 86 process improvements in an effort to enhance its inspection process.
PIH, DEC, and Labor Standards made several significant findings on ACHA's noncompliance with several HUD rules and regulations, which included mismanagement of ACHA, misuse of Federal funds, misadministration of contracts subject to Davis-Bacon and related acts, and governance issues. In July 2014, ahead of releasing its official findings, PIH field office staff issued a memorandum to ACHA which placed its Capital Fund under zero threshold review, which required PIH field office staff to review and approve all draws ACHA wanted to make from its Capital Fund. In November 2014, PIH issued a memorandum to ACHA, which documented its official cross-programmatic review findings of ACHA noncompliance with several Federal, State housing, and labor laws.

During this review, DEC also identified an issue that inappropriately benefited ACHA's financial condition score used for PHAS. DEC found a significant deficiency in ACHA's internal control over financial reporting and compliance when it borrowed funds in a manner not permissible under the HUD Financial Management Handbook or Office of Management and Budget Circular A-133. ACHA borrowed more than $400,000 from the Elmwood and McBride operating fund to cover the central office cost center's deficit, which resulted from the cost center's failure to charge fees to any of ACHA's three housing developments. ACHA's method for recording the transaction made the financial condition appear better than it was and, hence, inappropriately benefited its financial condition score. A DEC official stated that had ACHA recorded the transaction properly, the PHAS financial condition score would have declined from “satisfactory” to “unsatisfactory.” As a result of this issue, the original financial condition score was reduced from 18 to 10. This score revision and the revised physical conditions scores (released in 2015) resulted in HUD's changing ACHA's overall performance designation for FY 2013 to troubled.

However, FHEO made the most significant findings of the cross-programmatic review. FHEO issued its findings to ACHA in a separate memorandum, dated September 30, 2014. FHEO found that ACHA violated rules under Title VI of the Civil Rights Act for its racial segregation of public housing and employment discrimination on the basis of race. Additionally, FHEO found that the Elmwood and McBride housing developments, where heads of household were 96.8 percent African-American, were older and more poorly maintained than other ACHA housing developments. Figure 3 below provides a summary of FHEO findings of racially segregated housing in the housing developments at ACHA.

Figure 3 – FHEO findings of racially segregated housing developments at ACHA

<table>
<thead>
<tr>
<th>Development name(s)</th>
<th>Number of units</th>
<th>Percentage of units occupied by African-American heads of household</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elmwood and McBride</td>
<td>267</td>
<td>96.8%</td>
</tr>
<tr>
<td>Carrend F. Smith</td>
<td>188</td>
<td>57.4%</td>
</tr>
</tbody>
</table>

In its findings, FHEO also noted that ACHA had a documented history of discriminating against African-American employees. FHEO found that the highest paid ACHA maintenance

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15 Title VI of the Civil Rights Act states, "No person in the United States shall, on the ground of race, color or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance" (42 U.S.C. (United States Code) 2000d).
technicians were what FHEO referred to as white employees and that those employees’ seniority
had no direct correlation to their pay rates compared to their African-American peers. For
example, ACHA contracted two white retirees for part-time work at a pay rate of more than $20
per hour, whereas a part-time African-American retiree, not under contract, received a pay rate
of just under $16 per hour for the same position. In another example, ACHA employed four full-
time maintenance employees in September 2013. Two were white and two were African-
Americans. The white employees had 8 and 4 years of job experience, respectively, and earned
an equal or higher rate of pay compared to the two African-American employees who had 28 and
4 years of job experience, respectively. FHEO also found that African-Americans typically
serviced the Elmwood and McBride housing developments (identified as racially segregated)
instead of other ACHA housing developments.

FHEO and other HUD officials said that PIH senior officials were reluctant to move quickly
against ACHA on the cross-programmatic findings. Some officials attributed this delay to
different causes, such as the disagreement over programmatic jurisdiction (FHEO’s versus
PIH’s). When asked about their reaction to the cross-programmatic review, some PIH senior
officials, including the PIH Region V Director at the time, stated that they were unaware of it or its
findings. However, field office staff and the Region V Administrator claimed that they met with
the PIH Region V Director and discussed this topic in August 2014.

Following the Cross-Programmatic Review Findings, FHEO Entered Into an Agreement
With ACHA, Which ACHA Violated

FHEO officials said that FHEO’s authorities enable it to act more quickly than other HUD
program offices. Therefore, FHEO could act as the “tip of the spear” to get ACHA to comply
with public housing rules and regulations. Once FHEO makes a finding of noncompliance at a
PHA, the PHA is required to review the finding within a 30-day window and enter into a
voluntary compliance agreement to remedy the identified negative conditions. Additionally,
FHEO officials said that PIH generally requires a much more lengthy remedial process for PHAs
and that PIH’s remedial process, the PHARS protocol, could take up to 1 year or more.

ACHA entered into the agreement with HUD in August 2015. It required ACHA to comply with
fair housing, security of housing, and equal employment opportunity. For example, to ensure fair
hiring practices, the agreement required ACHA to obtain prior HUD review and approval before hiring a new executive director. Among other things, it also required
ACHA to develop a public housing waiting list to provide residents in the Elmwood and
McBride housing developments the opportunity to relocate to a more racially integrated housing
development.

FHEO officials said that ACHA officials violated the agreement and the violations were
deliberate and serious. For example, ACHA unilaterally fired a new executive director, and
FHEO officials considered this violation to also be a breach of its contract with HUD. FHEO
and PIH officials disagreed about the extent to which this provision of the agreement was
permissible and enforceable. In January 2016, the Region V Director of FHEO issued a
memorandum to the PIH field office director formally challenging ACHA’s compliance with the

11 The term PIH “senior officials” refers to PIH staff at the regional public housing director level and above. We
choose to refer to this group as “PIH senior officials” because of the many staffing changes that occurred within PIH
from 2010 to the present, with some individuals occupying more than one senior position at different times.
contract. FHEO officials said that this memorandum forced PIH to take action on ACHA. The violation of the agreement became the basis for finding ACHA in substantial default of its contract with HUD. On February 19, 2016, HUD removed ACHA’s board and took possession of ACHA, declaring it in substantial default of the contract.

Despite ACHA’s limited cooperation in addressing PIH-identified deficiencies over time, PIH did not feel that it could take more aggressive action against ACHA. Without a score low enough to consider ACHA troubled, PIH was unable to initiate the PHARS protocol, which aims to recover PHAs by solving and remediating systemic issues. However, the cross-programmatic approach, led by FPM, empowered HUD to use alternative means of enforcement against ACHA. Specifically, FHEO’s involvement enabled HUD to leverage different authorities that would have required ACHA to remedy issues more quickly. When ACHA did not remedy the deficiencies within this period, HUD was empowered to take swifter action against it. Without FHEO’s involvement, negative conditions at ACHA may have persisted longer before HUD took it into receivership. Involving several parts of HUD, such as FHEO or DEC, may improve PIH’s oversight of uncooperative PHAs like ACHA.

HUD Hesitated To Exercise Its Authority To Take ACHA Into Receivership

HUD temporarily takes possession of a PHA to correct identified problems through a process known as administrative receivership. HUD views administrative receivership as a last resort for assisting PHAs with the most severe problems. Residents at ACHA continued living in deplorable conditions as ACHA languished, and HUD hesitated to take ACHA into receivership. Despite negative conditions at ACHA, HUD did not take it into receivership earlier for several reasons; namely,

- PIH officials initially allowed ACHA several opportunities to improve instead of using HUD’s authority to declare it in substantial default and take possession of it. In our discussions with PIH officials, they did not seem to be aware of HUD’s authority to take possession of ACHA without first offering it an opportunity to cure deficiencies.
- ACHA’s official performance scores were not initially low enough to initiate the PHARS protocol.
- PIH officials disagreed about the extent to which ACHA’s actions and existing documentation were sufficient to place it into receivership.
- HUD officials claimed that receiverships were costly to administer and could attract negative attention to the agency.
- HUD guidance and expertise on receiverships were limited at the time.

PIH Officials May Not Have Been Aware of HUD’s Authority To Declare PHAs in Substantial Default

HUD has the authority to declare a PHA in substantial default of its contract with HUD in emergency situations. In these cases, HUD is not required to provide the PHA with an opportunity to respond to or cure negative conditions when (1) HUD determines that conditions exist that pose an imminent threat to the life, health, or safety of public housing residents or residents of the surrounding neighborhood or (2) the events or conditions precipitating the
default are determined to be the result of criminal or fraudulent activity. Although this authority allows PIH to declare a PHA in default of its contract before the maximum 2-year cure period ends, PIH headquarters and field officials emphasized during interviews the necessity to use the PHARS protocol and allow PHAs the full 2 years to cure negative conditions. The living conditions at ACHA posed an immediate threat to its residents and we believe PIH should have exercised this authority sooner. We are concerned that the PIH officials we spoke with may not have been aware of HUD’s authority to declare substantial default and take PHAs into possession in emergency situations. If PIH officials are not aware of this authority or prepared to use it, uncooperative PHAs with similar issues may languish without adequate corrective action at the expense of housing development residents, as ACHA did.

**ACHA’s Official Performance Scores Were Not Initially Low Enough To Trigger the PHARS Protocol**

As discussed earlier, HUD designates PHAs as high, standard, substandard, or troubled performers based on their performance. Once a PHA is designated as troubled, HUD initiates the PHARS protocol. A troubled PHA is given a maximum of 2 years to cure negative conditions. If the PHA cannot cure its issues within 2 years, this condition should trigger a referral for administrative receivership. However, PIH has not enforced this referral procedure uniformly. Given this lack of uniformity, the Office of Receivership Oversight has begun developing protocols and a standardized process for assessing PHAs that have not met their 1- or 2-year recovery goals and for making referrals. At the conclusion of our fieldwork, this process had not been completed or implemented.

ACHA’s performance scores were not initially low enough to trigger the PHARS protocol, which is a process of enhanced oversight meant to help a PHA solve and remediate systemic issues or later receivership action. Until FY 2012, ACHA scored substandard or better on all of its PHAS assessments. As discussed earlier, REAC did not revise ACHA’s FY 2013 physical conditions score or its financial conditions score until much later, which resulted in HUD’s changing ACHA’s overall performance designation to troubled for FY 2013. PIH’s practice was to wait to initiate the PHARS protocol until it designated a PHA as troubled. One HUD official told us that at the time, there was no formal remedial process for substandard PHAs (such as ACHA) as there was for troubled ones. A PIH employee told us that he suggested placing ACHA into the PHARS protocol in 2013, although it was not yet officially designated troubled, but that management opposed this approach. A PIH senior official said that if a substandard PHA remained uncooperative about addressing identified issues, it would continue to decline until it reached troubled status. Conditions at ACHA continued to decline this way over time. Figure 4 below lists ACHA’s performance scores from FY 2010 to 2016.

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15 24 CFR 907.5(d)
16 During this period, the PHA has 1 year to raise its PHAS score to at least 50 percent of the difference between its poor PHAS score and the current score and a maximum of 2 years to raise it to at least 65 percent overall. HUD takes incremental steps to work with the PHA to cure the conditions during that 2-year period.
17 However, the recovery process is not limited to administrative receivership. There are two basic types of receiverships: administrative and judicial. Judicial receiverships are established, monitored, and supervised by Federal courts.
Figure 4 – ACHA’s overall PHAS scores from FY 2010 to 2016

<table>
<thead>
<tr>
<th>FY</th>
<th>Total score</th>
<th>Designation status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>No score</td>
<td>No score released</td>
</tr>
<tr>
<td>2011</td>
<td>78</td>
<td>Standard</td>
</tr>
<tr>
<td>2012</td>
<td>67</td>
<td>Substandard physical</td>
</tr>
<tr>
<td>2013*</td>
<td>52</td>
<td>Troubled</td>
</tr>
<tr>
<td>2014</td>
<td>52</td>
<td>Troubled</td>
</tr>
<tr>
<td>2015</td>
<td>29</td>
<td>Troubled</td>
</tr>
<tr>
<td>2016</td>
<td>27</td>
<td>Troubled</td>
</tr>
</tbody>
</table>

*Indicates the revised FY 2013 score that REAC released in February 2015

PIH Officials Disagreed About the Extent to Which ACHA’s Actions and Existing Documentation Were Sufficient To Place It Into Receivership

HUD officials told us that there was a major emphasis on developing an action plan and continuing to work with ACHA officials to remedy the negative conditions there. Records showed that field office staff began working to develop an action plan as early as October 2013. ACHA submitted its action plan to PIH in December 2013. The action plan refuted PIH’s results and determinations and stated that ACHA personnel were not willing to cooperate to remedy the negative conditions PIH had identified. Several field office staff members also told us that ACHA personnel were uncooperative. However, we were told that PIH senior officials encouraged the field office to continue to work with ACHA officials to remedy the conditions at the local level despite their lack of cooperation.

Once HUD has decided to take a PHA into receivership, HUD gathers substantial documentation to show the necessity for the receivership. PIH senior officials were generally unsatisfied with the existing administrative record and encouraged field office staff to document the negative conditions at ACHA. PIH senior officials also told us that there was a major emphasis on gathering documentation to substantiate the need for taking the PHA into receivership, which resulted in delays. We heard that this documentation was critical for establishing a clear administrative record of the negative conditions. This record could be necessary if ACHA attempted to challenge a receivership decision in court.

Personnel disagreed about the extent to which the existing action plan and corresponding documentation were sufficient to warrant receivership. Field office staff members told us that they requested that PIH senior officials take action against ACHA and they were frustrated with senior leadership’s inaction. They argued that such action would help ensure that the decision to take ACHA into receivership was sound and defensible if ACHA appealed. PIH senior officials consulted OGC staff about the sufficiency of the administrative record. According to OGC staff, consultations began on February 4, 2016, approximately 2 weeks before HUD issued the substantial default letter to take ACHA into receivership.
HUD Officials Claimed That Receiverships Were Costly To Administer and Could Attract Negative Attention

During interviews, HUD officials told us that taking a PHA into receivership was very costly, so HUD was not inclined to initiate receiverships. PIH’s Deputy to the Deputy Assistant Secretary for the Office of Field Operations stated that a receivership can take many years to execute, require the labor of four to five full-time employees, and cost more than $5 million. Other HUD officials said that there were concerns about not having the necessary funding for executing a receivership of ACHA. Field office staff told us that the Region V Director commented in 2014 that there were no funds available to take ACHA into possession.

HUD officials added that the agency must consider the political repercussions from taking a PHA into receivership. These concerns contributed to HUD’s hesitation to take ACHA into receivership.

HUD Guidance and Expertise on Receivership, Due in Part to a Lack of Training, Were Initially Limited and Could Still Be Improved

HUD officials told us that an administrative record to justify receivership must include an onsite review of a PHA, its results, and follow-up activity with the PHA. One of the officials told us that it takes years to build such a record. However, that official also said that the receivership process “isn’t too mapped out,” and another told us that he was unsure of what precisely triggers a receivership.

From 1985 to 2015, HUD initiated administrative receiverships of 20 PHAs without a receivership manual.18 At the time HUD took ACHA into receivership in 2016, HUD was in the process of creating such a manual. As a result, there was no systematic process for executing receiverships when HUD initiated the receivership of ACHA or the 20 other PHAs taken into administrative receivership before that.

HUD developed a PowerPoint training presentation for receivers in March 2013. However, two PIH staff members who served as receivers, including the one assigned to ACHA, told us that they did not attend formal training on receivership. One of the receivers told us that he relied on his institutional knowledge from previously working at PHAs. Multiple officials told us that a limited number of HUD staff members had the expertise to fulfill this role.

HUD did not publish its Internal Procedures Manual for HUD Receiverships until April 2017, approximately 14 months after HUD took ACHA into receivership. HUD has also not updated its PowerPoint training for receivers to align with the Internal Procedures Manual released in 2017. Although the Internal Procedures Manual for HUD Receiverships outlines post receivership actions HUD officials should take when executing an administrative receivership, it does not provide guidance to HUD officials or circumstances in which initiating a receivership may be appropriate.

The small pool of experienced receivers, inadequate guidance, and outdated training pose...
organizational risks that could negatively affect HUD’s oversight of PHAs over time. Without these elements, HUD may avoid taking PHAs into receivership when it is necessary and may oversee PHAs in receivership improperly or inadequately.
Recommendations

Conditions at ACHA had deteriorated over a decade or more, and two housing developments there, Elmwood and McBride, are scheduled for demolition. Since we concluded our fieldwork, HUD decided that two additional ACHA housing developments (Sunset Terrace and Mary Alice Meadows in Thebes, IL) will also be closed as necessary repairs there are too expensive. Further reducing available, affordable housing stock for low-income residents. While local officials are responsible for the daily administration of ACHA, HUD could and should have done more to oversee it. Although it may be too late to save ACHA, as of June 2018, 50 other PHAs were designated as troubled. Therefore, we recommend that the General Deputy Assistant Secretary of Public and Indian Housing:

1. Create Agreements and Strategies With Other Program Offices That Describe When Cross-Programmatic Reviews and Enforcement Actions Against PHAs Are Required

Considering ACHA’s limited cooperation in addressing PIH-identified deficiencies over time, we are concerned that the PHARS protocol does not enable PIH to address issues at uncooperative PHAs in a timely manner. Although PIH has strategies to engage some HUD offices, such as DEC, when it encounters serious performance issues at PHAs, the cross-programmatic approach led by FPM empowered HUD to use alternative means of enforcement against ACHA. Specifically, FHEO’s involvement enabled HUD to leverage different authorities that required ACHA to remedy issues more quickly. Involving several parts of HUD, such as FHEO or Labor Standards, may improve PIH’s oversight of uncooperative PHAs like ACHA so that conditions can be improved more quickly.

2. Train PIH Officials on the Authority and Processes for Declaring PHAs in Substantial Default and for Taking PHAs Into HUD Possession

The living conditions at ACHA posed an immediate threat to its residents, and we believe PIH should have exercised its authority to declare it in substantial default sooner. PIH headquarters and field officials emphasized during interviews the necessity to use the PHARS protocol and allow troubled PHAs the full 2 years to cure negative conditions. This interpretation of HUD’s authority and process may enable uncooperative PHAs like ACHA to languish at the expense of housing development residents. PIH should train its officials at all levels to identify when a cure period is not appropriate. This includes emergency situations in which conditions exist that pose an imminent threat to the life, health, or safety of public housing residents or residents of the surrounding neighborhood. PIH should also train PIH officials at all levels about the process for expeditiously exercising the authority to declare a substantial default without a cure period.

The housing developments will be removed from public housing inventory. However, HUD has not decided how the housing developments will be removed. They will be either demolished or sold.
3. Update and Strengthen the Training Program for HUD Receivers of PHAs

PIH's expertise on receiverships was limited at the time of ACHA's receivership and could still be improved. PIH should update its training for receivers to align with the Internal Procedures Manual released in 2017.

4. Update Procedures for Receiverships To Include Specific Guidance on When Initiating a Receivership May Be Appropriate

While PIH has released its Internal Procedures Manual for HUD Receiverships, guidance and policy on when initiating receivership may be appropriate are not included. The limited HUD guidance and expertise on receiverships present organizational risks that could negatively affect HUD's oversight of PHAs over time.
Agency Comments and OIG Response

Summary of PIH’s Comments

PIH agreed with each of our four recommendations. However, PIH stated that although it agreed in concept with recommendation 1 and that requiring cross-programmatic reviews was inappropriate, it requested that the recommendation be reworded. In its comments, PIH stated that PHAs face “varying circumstances and challenges,” which requires PIH to have flexibility in addressing issues at PHAs. PIH further stated that agreements and strategies should outline when cross-programmatic reviews are appropriate. For recommendations 2, 3, and 4, PIH stated that it would address the recommendations when it submitted its proposed management decision for each recommendation within 120 days of final report issuance.

OIG Response to PIH’s Comments

Based on PIH’s response, we consider recommendations 1, 2, 3, and 4 “unresolved-open.” With regard to recommendation 1 and PIH’s request to reword the recommendation, we agree that cross-programmatic reviews and enforcement actions may not be required in every instance. Therefore, we changed the language to make it clear that the agreements and strategies with other program offices should describe when cross-programmatic reviews and enforcement actions are required. We will reevaluate the status of recommendations 2, 3, and 4 upon receipt of documentation detailing PIH’s proposed management decision, along with target dates for completing corrective actions to address our recommendations.
PIH Comments to the Draft Report

MEMORANDUM FOR:
Brian T. Parson, Assistant Inspector General for Evaluation, OIG
FROM:
Blanca E. Huber, Deputy Assistant Secretary for Public and Indian Housing
SUBJECT:
Response to Discussion Draft Audit Report - HUD's Oversight of the Alexander County Housing Authority (ACHA) in Cairo, Illinois. OIG Audit Report 2017-0E-0014

Thank you for conducting a thorough review and making recommendations that can help the Office of Public and Indian Housing (PIH) improve its oversight of troubled agencies. PIH appreciates the collaborative discussions held during the audit and during the Exit Conference held on May 3, 2018. Many of the comments and feedback provided on the working draft report were considered and incorporated into the draft report. We have reviewed the draft report and our suggestions for the findings and recommendations are outlined below.

PIH Recommendation: Create Agreements and Strategies with other Program Offices and require Cross-Programmatic Reviews and Enforcement Actions against PHAs.

PIH Recommendation: We request that this recommendation be reworded as Create Agreements and Strategies with other Program Offices that Include Cross-Programmatic Reviews and Enforcement Actions Against PHAs.

Justification: PIH agrees with this recommendation in concept but believes "requiring" reviews is inappropriate. As discussed during the Exit Conference, each PHA has varying circumstances and challenges which require flexibility in addressing. The agreements and strategies should outline when cross-programmatic reviews are appropriate.

PIH Recommendation: Train PIH Officials on the Authority and Procedures for Declaring PHAs in Substantial Default and for Taking PHAs into HUD's Possession.

PIH Recommendation: PIH agrees with this recommendation and will address the recommendation when submitting the Proposed Management Decision within 120 days of issuance of the final report.

PIH Recommendation: Update and Strengthen the Training Program for HUD Receivers of PHAs.

PIH Recommendation: PIH agrees with this recommendation and will address the
recommendation when submitting the Proposed Management Decision within 120 days of issuance of the final report.

IG Recommendation: Update Procedures for Receivership. To include specific guidance on when initiating a Receivership may be appropriate.

PIB Recommendation: PIB agrees with this recommendation and will address the recommendation when submitting the Proposed Management Decision within 120 days of issuance of the final report.

PIB also wishes to note the accomplishments made at the Alexander County Housing Authority since possession on February 22, 2018, to correct deficiencies, substantially reduce the administration costs that threatened to bankrupt the agency and reposition the assets.

Specifically:
- Physical assessment of four properties (containing 524 units) contributed to the administration that demolition was the best course of action due to rehabilitation costs in excess of $35 million. For the two properties, PIB has approved the demolition for the Elmwood and McBride properties, and the demolition for the Mary Alice Meadows and Sunset Terrace is in process.
- As of June 29, 2018, 105 of the 195 families at Elmwood and McBride have moved to decent and safe housing. Five of the 11 families at Mary Alice Meadows and Sunset Terrace have vacated. Relocation and mobility services pre- and post-move continue for all families.
- ACHS has developed a plan addressing the capital needs of the remaining 153 units in the inventory. Staff has developed and implemented standard operating practices, including new to stabilize the maintenance and management operations. It has made investments in reducing the rodent and infestation issues.
- A Violent Compliance Agreement required ACHS to address numerous civil rights violations. Staff have worked with the Office of Fair Housing and Equal Opportunity to make substantial progress towards resolving these violations.
- ACHS has taken steps to reduce its operating expenses by eliminating the Collateral Bargaining Agreement, negotiating a flat rate to reduce utility and trash payments, and significantly reduced maintenance costs, treatment programs, and other operating costs.

Thank you for your continued partnership. We look forward to working with you to implement the recommendations.

If you have any questions, please do not hesitate to contact my office at 202-402-4100.
Appendixes

Appendix A – Acknowledgements

This report was prepared under the direction of Brian T. Pattison, Assistant Inspector General for Evaluation, Paul H. Bergstrund, Director of the Program Evaluations Division, and Lindsay K. Clarke Brubaker, Supervisory Evaluator. The Office of Evaluation staff members who contributed are recognized below.

Major Contributors

Josh Rowell, Senior Evaluator (team lead)
Christa Kidd, Senior Evaluator
Sonia Pena, Senior Forensic Auditor

Other Contributors

Angelina Johnston, Senior Evaluator
### Appendix B – Acronyms

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<thead>
<tr>
<th>ACRONYM</th>
<th>DEFINITION</th>
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<tbody>
<tr>
<td>ACHA</td>
<td>Alexander County Housing Authority</td>
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<tr>
<td>DEC</td>
<td>Departmental Enforcement Center</td>
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<td>FHCEO</td>
<td>Office of Fair Housing and Equal Opportunity</td>
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<td>FPM</td>
<td>Office of Field Policy and Management</td>
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<td>FY</td>
<td>fiscal year</td>
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<td>HUD</td>
<td>U.S. Department of Housing and Urban Development</td>
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<td>OGC</td>
<td>Office of General Counsel</td>
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<td>PHA</td>
<td>public housing agency</td>
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<td>PHARS</td>
<td>PHA Recovery and Sustainability</td>
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<td>PHAS</td>
<td>Public Housing Assessment System</td>
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<td>Office of Public and Indian Housing</td>
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<tr>
<td>REAC</td>
<td>Real Estate Assessment Center</td>
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The Office of Inspector General is an independent and objective oversight agency within the U.S. Department of Housing and Urban Development. We conduct and supervise audits, evaluations, and investigations relating to the Department's programs and operations. Our mission is to promote economy, efficiency, and effectiveness in these programs, while preventing and detecting fraud, abuse, and mismanagement.

Report fraud, waste, and mismanagement in HUD programs and operations by:
- Completing this online form: https://www.hudig.gov/report-fraud
- Emailing the OIG hotline: hotline@hudig.gov
- Faxing the OIG hotline: (202) 708-4829

Sending written information to:
U.S. Department of Housing and Urban Development
Office of Inspector General Hotline (GFI)
451 7th Street SW, Room 8254
Washington, DC 20410

Whistleblowers are protected by law.
https://www.hudig.gov/fraud-prevention/whistleblower-protection

Website:
https://www.hudig.gov/
The Honorable Benjamin Carson, Jr.
Secretary
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Secretary Carson:

We urge the Department of Housing and Urban Development (HUD) to quickly implement the HUD Inspector General’s (IG) recommendations to improve HUD’s oversight and administration of public housing authorities as outlined in the report we first called for in May 2017 to evaluate HUD’s oversight of Alexander County Housing Authority (ACHA).

While acknowledging the role played by ACHA officials in contributing to the housing crisis currently facing residents in Alexander County, the IG report concludes that HUD “could have and should have done more to oversee” ACHA. The report reveals HUD had knowledge of negative living conditions at ACHA since at least 2010, but chose not to exercise its full authority to intervene—as residents continued to be subjected to unsafe and unsanitary living conditions. Further, it reveals that contributing to HUD’s hesitancy to take ACHA into receivership was a prevailing misunderstanding by HUD staff of HUD’s own authority to act. The report makes a number of recommendations to improve and clarify its procedures related to taking public housing authorities into receivership, as well as strengthening staff training.

HUD’s failure to effectively oversee ACHA has contributed to the public housing crisis that has subjected hundreds of residents to unthinkable living conditions and forced many out of their homes and their beloved community. No community should have its access to safe and healthy housing threatened as a result of HUD’s inaction.

We urge HUD to quickly implement the report’s recommendations to improve its oversight of public housing authorities and request that HUD provide us with an update of its plan to implement these recommendations by no later than September 27, 2018.

We look forward to continuing to work with you to ensure that residents of Alexander County are provided with the full assistance of HUD as their lives continue to be impacted by a crisis HUD played a role in creating.

Sincerely,

Richard J. Durbin
United States Senator

Tammy Duckworth
United States Senator
The Honorable Tammy Duckworth  
United States Senate  
Washington, DC 20510-1309  

Dear Senator Duckworth:

On behalf of Secretary Benjamin S. Carson, Sr., thank you for your letter regarding the Department of Housing and Urban Development’s (HUD) implementation of the Inspector General’s (IG) recommendations to improve HUD’s oversight and administration of public housing authorities (PHAs) as outlined in their report—a review initiated at your request in May 2017. The Department is committed to improving policies and procedures to ensure effective oversight of PHAs and concurs with the IG’s recommendations outlined in the report. The following information is from HUD’s Office of Public and Indian Housing (PIH).

In your letter, you urged the Department to quickly implement the report’s recommendations to improve HUD’s oversight of PHAs and you requested an update on the Department’s plan to implement the recommendations. Specifically, HUD has identified tasks and timelines to immediately begin implementing the following recommendations:

- **Create agreements and strategies with other program offices that describe when cross-programmatic reviews and enforcement actions against PHAs are required.**

  During September 2018, PIH began reaching out to program partners, including the Departmental Enforcement Center and the Office of Fair Housing and Equal Opportunity, to discuss strategies for cross-programmatic collaboration, including when reviews and enforcement actions are appropriate. From October 2018 to January 2019, agreements will be drafted and negotiated with the program partners. Final execution of all agreements is targeted for completion in February 2019.

- **Train PIH officials on the authority and processes for declaring PHAs in substantial default and for taking PHAs into HUD possession.**

  In October, PIH will work with the Office of General Counsel (OGC) to review the substantial default criteria and options that exist for taking PHAs into possession. OGC will assist with finalizing the training materials and conducting the training to PIH senior leadership including the Deputy Assistant Secretaries at headquarters and the public housing directors in HUD’s field offices. The training logistics will be announced in October with the training conducted in November 2018.
• **Update procedures for receiverships to include specific guidance on when initiating a receivership may be appropriate.**

Although a current internal procedures manual for receiverships exists, a complete review of the document will be completed to incorporate more specific guidance on when and how to initiate action for receivership. Review and editing of the existing 176-page document will occur between October 2018 and January 2019. The completed draft document will include review and concurrence by OGC and other program offices, with completion targeted for February 2019.

• **Update and strengthen the training program for HUD receivers of PHAs.**

After completion of the updated internal procedures manual in February 2019, PIH will update the existing training materials and conduct training for HUD receivers, recovery administrators and staff assisting at receivership PHAs. The training is scheduled for completion in April 2019.

The Department is committed to implementing the IG recommendations within the identified timelines and these efforts will improve policies and procedures for more effective oversight of public housing authorities. Thank you for working with HUD to address your concerns.

Sincerely,

[Signature]

Ken Wolfson
Assistant Secretary for Congressional and Intergovernmental Relations
May 25, 2017

The Honorable David A. Montoya
Inspector General
Office of Inspector General
U.S. Department of Urban Development
451 Seventh Street, SW
Washington D.C. 20410

Dear Inspector Montoya:

As your agency works to complete its investigation into the mismanagement and alleged misappropriation of federal funds by former Alexander County Housing Authority (ACHA) officials, we ask that you conduct an evaluation of the Department of Housing and Urban Development’s (HUD) oversight of the ACHA from 2010 to the present.

The HUD recently conducted a financial assessment of the Alexander County Housing Authority (ACHA) where it found that the ACHA is insolvent and is unable to pay its bills due to exposure from litigation claims and settlements, high utility costs, and the ACHA’s governance and financial management practices, which your agency is currently investigating. While we believe that former ACHA officials should be held responsible for apparent abuses of power, fraud, and negligence, based on HUD’s recent financial assessment it is clear that HUD shares responsibility for the gross mismanagement that created the current federal public housing crisis.

The report, as well as assessments and evaluations conducted by HUD over the past six years, repeatedly highlighted concerns with the governance of the ACHA, including improper payments, conflict of interests, unauthorized use of funds, failure to comply with HUD policies and federal civil rights laws, and generous employment and benefit contracts. According to the recent report, ACHA was designated as a "troubled performer" in 2013, has failed HUD’s physical assessment tool used to determine the habitability of public housing units since 2012, and has failed HUD’s financial indicator every year since 2013. Based on these findings, it is clear that HUD had knowledge of the mismanagement of the ACHA, misuse of federal funds, and the deteriorating conditions of ACHA housing. Despite HUD’s claims that it repeatedly pushed local authorities to fix the well documented problems at the ACHA, it did little to intervene until it took over the ACHA in February 2016. At that time, the damage had been done and options to adequately address the situation were few.

HUD’s negligent oversight of the ACHA is inexcusable and its actions warrant a comprehensive review to make certain that those responsible are held accountable and the necessary reforms are implemented to prevent this from happening at other housing authorities.

We appreciate your continued support assistance in this matter and await your timely response.
If you have questions or need assistance, please contact Lakecia Foster on Sen. Durbin’s staff at 202-224-2152 or Erika Moritsugu on Sen. Duckworth’s staff at 202-224-2854.

Sincerely,

Richard J. Durbin
United States Senator

Tammy Duckworth
United States Senator