Management Audit of the Hawaiʻi Public Housing Authority

A Report to the Governor and the Legislature of the State of Hawaiʻi

Report No. 11-01
June 2011

THE AUDITOR
STATE OF HAWAIʻI

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaiʻi State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. Financial audits attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. Management audits, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called program audits, when they focus on whether programs are attaining the objectives and results expected of them, and operations audits, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. Sunset evaluations evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. Sunrise analyses are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. Health insurance analyses examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. Analyses of proposed special funds and existing trust and revolving funds determine if proposals to establish these funds are existing funds meet legislative criteria.

7. Procurement compliance audits and other procurement-related monitoring assist the Legislature in overseeing government procurement practices.

8. Fiscal accountability reports analyze expenditures by the state Department of Education in various areas.

9. Special studies respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaiʻi's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

THE AUDITOR
STATE OF HAWAIʻI
Kekuanaoʻa Building
465 S. King Street, Room 500
Honolulu, Hawaiʻi 96813

Management Audit of the Hawai‘i Public Housing Authority

Report No. 11-01, June 2011

Tenant welfare can be improved if performance monitoring and asset management are prioritized

Office of the Auditor
465 S. King Street
Rm. 500
Honolulu, HI 96813
Ph. (808) 587-0800

Marion M. Higa
State Auditor
State of Hawai‘i

HPHA by the Numbers

Total units: 6,195

Unrepaired units: 233

Families on wait list: 9,000+

Wait time: 2-5 yrs

Recommendations

Responses

Previous Audits

Oversight of housing projects erratic

The authority administers 5,331 public housing units in 67 federally-funded buildings and 864 units in 14 state-funded buildings. During FY2007-2010, the authority lacked staff with the resources and time to sufficiently monitor project managers' performance. Oversight for rent collection, federal reporting, and issues affecting tenants' daily lives—such as building conditions, property upkeep, and timely addressing of repair and maintenance problems—was erratic.

Both state- and privately-run housing projects reported backlogs in repair and maintenance. Turnaround on vacant units was slow, adversely impacting families on the waiting list as well as rent collections. As of February 15, 2011, the authority had a total of 233 vacant units that either had pending maintenance work or were available for rent; overall, these units had been vacant an average of six months. With approximately 9,000 families on the waiting list and an average wait time of two to five years, delays in turning around vacant units negatively impacts families waiting for public housing, rent revenues, and overall funding available to the authority.

Turning the ship around

The authority is severely behind schedule in implementing the U.S. Department of Housing and Urban Development-mandated "asset management" system. Despite the directive's issuance in 2005, the authority has yet to reach a first-year implementation level. Asset management is a method of managing public housing projects intended to improve operational efficiency and effectiveness by shifting accountability from the central housing authority to individual housing project managers. The method encourages managers to operate their properties as businesses, monitoring rent revenues and managing related expenditures to accrue capital for long term asset preservation and growth.

The deadline for meeting two of the five components of this model was in 2007; full implementation of all components is required by June 30, 2011. While the authority's executive director is aware the authority cannot realistically meet this deadline, she has begun to determine what is reasonable to implement, assign responsible parties, and develop a plan of action. We cannot comment on the results of her planning effort, but note the contrast with the efforts under the previous executive director, whose tenure ended in March 2010. The new action represents a concerted effort to rectify the substantial lag in implementing the asset management model.

The authority has many challenges ahead. It must improve its monitoring of project managers to ensure tenants' needs are addressed and the State's assets are protected for future users. It must also implement the federally-mandated asset management system model of operation. Any further delays in implementation may put federal funds at risk; for an agency already suffering from backlogs of deferred maintenance and staffing constraints, such a loss would be devastating.

Agency response

The authority did not take issue with our findings. According to the executive director, our findings are compatible with her "to do" list and her action plans will address some of our recommendations. These include a comprehensive operations manual to ensure consistent enforcement of policies. The authority is converting to asset management by improving its budgeting and accounting processes and utilizing the technical assistance plan provided by Econometrica, Inc.

For the full text of this and other reports, visit our website: http://www.state.hi.us/auditor

Management Audit of the Hawai‘i Public Housing Authority

A Report to the Governor and the Legislature of the State of Hawai‘i

Submitted by

THE AUDITOR
STATE OF HAWAI‘I

Report No. 11-01
June 2011

Foreword

This is a report on our management audit of the Hawai‘i Public Housing Authority in response to Senate Concurrent Resolution No. 31, Senate Draft 2, House Draft 1, and House Concurrent Resolution No. 94, House Draft 1, Senate Draft 1, of the 2009 legislative session. We conducted the audit pursuant to Section 23-4, Hawai‘i Revised Statutes, which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. Additionally, Chapter 103D, Hawai‘i Revised Statutes requires the State Auditor to periodically audit procurement practices within the government.

We wish to express our appreciation for the cooperation and assistance extended to us by the board of directors, executive director, and staff of the Hawai‘i Public Housing Authority, and others whom we contacted during the course of the audit.

Marion M. Higa
State Auditor

Table of Contents

List of Exhibits

Chapter 1
Introduction

Background

Concerned about the management of public housing facilities in Hawai‘i, in 2009 the Legislature made two separate requests for an audit of the Hawai‘i Public Housing Authority (HPHA). House Concurrent Resolution No. 94, House Draft 1, Senate Draft 1 of the 2009 Regular Session asked the Auditor to conduct a review of the management of the Pu‘uwai Momi and West O‘ahu housing facilities to compare the performance of state- versus privately-operated public housing projects. The resolution also asked that we determine the relative contributions of funding levels, mismanagement, and tenant and visitor actions toward these properties' failure to meet performance standards.

Simultaneously, the 2009 Legislature passed Senate Concurrent Resolution No. 31, Senate Draft 2, House Draft 1 requesting the Auditor to conduct a management and financial audit of the authority's maintenance contracts. The resolution asked the Auditor to review the management of those contracts and investigate reports of disrepair, noncompliance with the federal Americans With Disabilities Act, and other concerns of residents. It asked that we take into account the newly implemented U.S. Department of Housing and Urban Development's Deficiency Report Checklist. And it also asked that we focus on contracts and facilities with high dollar value, volume of complaints, contractual terms not strong enough to protect the State's interests, serious lack of internal controls, or other screening approach to scope the audit into a manageable size.

History, mission, and funding of HPHA

The Hawai‘i Public Housing Authority's mission is to promote adequate and affordable housing over the long term for low-income individuals. Although its general purpose has changed little over the years, its name and purview have been altered a number of times.

In 1935, the Territorial Legislature created the Hawai‘i Housing Authority (HHA) to provide safe and sanitary housing for low-income residents of Hawai‘i. In 1976 the Hawai‘i Community Development Authority (HCDA) was established to guide the revitalization of Honolulu's Kaka‘ako district. Hawai‘i Community Development Authority's responsibilities included planning the installation of infrastructure as well as planning and regulating development in the district. A specific mission of HCDA is to increase the amount of low income housing in Kaka‘ako. Hawai‘i Community Development Authority is still extant.

In 1987 the Housing Finance and Development Corporation (HFDC) was created to assume housing development and financing functions from HHA in order to streamline and expedite the supply of affordable rental and for-sale housing for low- to moderate-income people. In 1997 HHA and HFDC were consolidated into a new entity, the Housing and Community Development Corporation of Hawai‘i (HCDCH), effective July 1, 1998. The Housing and Community Development Corporation of Hawai‘i's mission was to serve as a catalyst to provide Hawai‘i's residents with affordable housing and shelter opportunities in a balanced and supportive environment.

In 2005 the subject of this audit, the Hawai‘i Public Housing Authority (HPHA), was born when HCDCH's functions were split into two new agencies effective July 1, 2006. The other agency is the Hawai‘i Housing Finance and Development Corporation (HHFDC), which is tasked with developing and financing low- and moderate-income housing projects and administering homeownership programs. Most recently, in 2010, HPHA's mandate was narrowed to remove responsibility for homeless programs.

Mission

Public housing authorities across the country are responsible for managing and operating public housing programs. This includes assuring compliance with leases (including rent collections); setting other charges, such as security deposits and excess utility consumption fees; reexamining tenants' income at least once a year; and maintaining housing developments in decent, safe, and sanitary conditions. Like other public housing authorities, HPHA's mission is to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination. HPHA is charged with managing federal and state public housing programs, including the federal Housing Assistance Payment Program pursuant to the Housing and Community Development Act of 1974 (known as the "Section 8" program) and elderly housing.

Funding

Hawai‘i's public housing projects receive the majority of their funding through the U.S. Department of Housing and Urban Development's (HUD) federal grants, as shown in Exhibit 1.1. Capital improvement project (CIP) funds are also provided for various capital projects at public housing properties throughout the state.

Exhibit 1.1
Hawai‘i Public Housing Authority—Program Appropriations, FY2008–FY2011

HMS 220: Rental Housing Assistance	FY2008	FY2009	FY2010	FY2011
General Funds	$10,194,240	$5,039,240	$4,414,556	$4,414,556
Federal Funds	$43,869,465	$43,869,475	$33,718,184	$32,945,694
Revolving Funds	$3,992,323	$3,992,323	$3,914,984	$3,865,232
Total	**$58,056,028**	**$52,901,038**	**$42,047,724**	**$41,225,482**
Federal funds as a percent of total operating funds	*76%*	*83%*	*80%*	*80%*
Lump sum for statewide public housing capital improvement projects (CIP)	$25,000,000	$16,410,000	$7,913,000	$4,500,000
Total Appropriations	**$83,056,028**	**$69,311,038**	**$49,960,724**	**$45,725,482**

Source: Office of the Auditor analysis of Session Laws of Hawai‘i

Public housing projects–what HPHA oversees

The Hawai‘i Public Housing Authority owns, manages, and maintains both federal and state public housing projects as well as the state supplemental rent program. Tenants' acceptance into public housing facilities and their rental rates are based on their annual gross income; whether they qualify as elderly, disabled, or a family; and their citizenship status (i.e., whether they are U.S. citizens or qualified immigrants).

"Low income" means eligible applicants earn 80 percent or less of the median income for their relevant area; "very low income" means they earn 50 percent or less. Rental rates for state public housing projects are set to produce revenues sufficient to pay all management, operational, and maintenance expenses.

Unlike in federal housing projects, tenants of state public housing projects must be Hawai'i residents. In addition, while state moneys can be used for state or federal public housing projects, federal funds can be used only for federal projects. Exhibit 1.2 shows the number of federal and state housing projects throughout the state.

Exhibit 1.2
Federal and State Housing Projects, by Island

	Federal		State		Totals	
	No. Projects	No. Units	No. Projects	No. Units	No. Projects	No. Units
O'ahu	33	4,145	10	750	43	4,895
Kaua'i	10	321	1	26	11	347
Maui and Moloka'i	6	196	1	32	7	228
West and North Hawai'i	9	305	1	26	10	331
East Hawai'i	9	364	1	30	10	394
Totals	**67**	**5,331**	**14**	**864**	**81**	**6,195**

Source: Office of the Auditor analysis of Hawai'i Public Housing Authority data

Hawai‘i’s public housing projects are organized into 17 groups. Sixteen of these are known as “asset management projects,” or AMPs. They are primarily federally funded, grouped together based on geographic proximity, and inspected annually based on HUD criteria. The last group of public housing projects, known as a “management unit,” or MU, is comprised of state elderly housing on O‘ahu and is primarily state-funded. Exhibit 1.3 details all public housing projects in the state.

Exhibit 1.3
Public Housing Projects in Hawai‘i

No.	Project Name – Asset Management Project (AMP) or Management Unit (MU)	No. Federally-Funded Units	No. State-Funded Units	Total No. Units	Managed By
1	AMP 30: Pu‘uwai Momi	363	-	363	State
2	AMP 31: Kalihi Valley Homes	373	174	547	State
3	AMP 32: Mayor Wright Homes	364	-	364	State
4	AMP 33: Kamehameha Homes	373	-	373	State
5	AMP 34: Kalākaua Homes	583	-	583	State
6	AMP 35: Punchbowl Homes	587	-	587	State
7	AMP 37: Lanakila Homes	364	30	394	Hawai‘i Affordable Properties
8	AMP 38: Kaua‘i	321	26	347	State
9	AMP 39: Kahekili Terrace	196	32	228	State
10	AMP 40: Kūhiō Park Terrace	748	-	748	Realty Laua
11	AMP 43: Ka Hale Kahalu‘u	202	-	202	Hawai‘i Affordable Properties
12	AMP 44: Wai‘anae	260	-	260	‘Ewa Pointe Realty
13	AMP 45: Kāne‘ohe	226	-	226	Realty Laua
14	AMP 46: Noelani	103	26	129	Hawai‘i Affordable Properties
15	AMP 49: Wahiawā	150	-	150	State
16	AMP 50: Pālolo Valley Homes	118	-	118	State
17	MU 42: Hale Pō‘ai	-	576	576	Hawai‘i Affordable Properties
	Total	5,331	864	6,195	

Source: Office of the Auditor analysis of Hawai‘i Public Housing Authority data

Exhibit 1.4 illustrates the number of projects, units, and percentage of total statewide units managed by each private contractor and the State.

Exhibit 1.4
Breakdown of Projects and Units, by Manager, as of June 30, 2010

Manager	No. Projects Managed	No. Units Managed	Percent of Total Units Managed
‘Ewa Pointe Realty	1	260	4.2%
Hawai‘i Affordable Properties	4	1,301	21.0%
Realty Laua, LLC	2	974	15.7%
State of Hawai‘i	10	3,660	59.1%
Total	**17**	**6,195**	

Source: Office of the Auditor analysis of Hawai‘i Public Housing Authority data

Rental payments and subsidies

The State’s Rental Supplement Program helps eligible families with part of their monthly rent. All families pay at least 30 percent of their adjusted family income in rent; the difference between their share and the total rent, up to a maximum of $160 per month, is paid by the rental supplement program.

Rental payments and federal subsidies are paid into HPHA’s three revolving funds. The federal Low-Rent Revolving Fund accounts for the proceeds from federal contributions for the development of rental property as well as rental income and federal operating subsidies from such properties. The Housing Revolving Fund accounts for various state multifamily housing projects. The Housing for Elders Revolving Fund accounts for various state elderly housing projects throughout Hawai‘i.

HPHA’s ancillary responsibilities

In addition to public housing, HPHA is also responsible for the federal Section 8 Housing Choice Voucher Program, which assists low-income families, elderly, and disabled persons to afford decent, safe, and sanitary housing in the private market. Participants in this program find their own housing and a subsidy is paid directly to the landlord by HPHA. Participants pay the difference between the actual rent and the subsidy.

Until July 1, 2010, HPHA was also responsible for the State's Homeless Assistance Program, which provides federal and state funding to agencies to provide various services. The services include emergency or transitional shelter, case management, meals or cooking facilities, basic survival, counseling and referral, and housing placement. Recognizing that this level of housing services is best met by the Department of Human Services, the Legislature removed this responsibility from HPHA's purview effective July 1, 2010.

Organization

The HPHA is administratively attached to the Department of Human Services. It is headed by an 11- member board of directors and comprised of the Office of the Executive Director, eight support offices, and four branches. As of June 30, 2010, the authority had 262 employees and a total of 328 approved positions. By December 2010, the authority had 325 approved positions, of which 255 were filled. Exhibit 1.5 shows the authority's organizational structure. The offices and branches relevant to this audit are described below.

Exhibit 1.5
Hawai‘i Public Housing Authority Organization Chart

*Note: Effective July 1, 2010, the responsibilities of the Homeless Programs Branch were transferred to the Department of Human Services.

Source: Office of the Auditor analysis of Hawai‘i Public Housing Authority data

The **Board of Directors** is responsible for establishing policies and executive direction for the authority. The board approves program activities and actions taken by the authority and adopts and revises its administrative rules and procedures. The board also employs the authority’s executive director.

The **Office of the Executive Director** provides overall administration and management of all functions and activities for daily operations. The executive director is responsible for delivering housing services to the state.

The **Compliance Office** provides oversight to ensure programs and activities operate according to federal and state requirements, agency policies, and fair housing laws and regulations.

The **Fiscal Management Office** provides administrative assistance and advisory services in fiscal management, budget, and accounting services. The office oversees the authority's assets–including real property–and formulates policies, procedures, and standards for administering central accounting, asset management, and contract monitoring activities.

The **Planning and Evaluation Office** provides housing research, needs assessments, and overall planning support functions. The office is responsible for evaluating implementation of the authority's objectives and policies, and assists in the development of housing studies and reports.

The **Procurement Office** provides centralized procurement, storekeeping, and inventory services for the authority statewide. The office is also responsible for ensuring compliance with applicable federal and state procurement laws, rules, regulations, policies, and procedures.

The **Construction Management Branch** provides overall administration of the State's public housing rehabilitation and modernization programs. The branch coordinates and conducts periodic physical needs assessments of existing facilities, develops short- and long-range plans for modernization, capital improvement, and extraordinary repairs and maintenance of facilities. It also provides construction management, technical assistance, and architectural and engineering support.

The **Property Management & Maintenance Branch** provides for the management and maintenance of federal and state low-income public housing, vacant land, equipment, and various other properties owned or managed by the authority. The branch develops and establishes management and maintenance plans, assesses the adequacy and effectiveness of management, maintenance, and resident programs, and makes necessary adjustments to meet residents' needs.

U.S. Department of Housing and Urban Development

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 and administers federal aid to public housing authorities nationwide that manage housing developments for low-income residents at affordable rents. The U.S. Department of Housing and Urban Development also provides technical and professional assistance in planning, developing, and managing such developments.

The U.S. Department of Housing and Urban Development provides the majority of funding and oversight for public housing projects in Hawai‘i. As shown in Exhibit 1.1, federal moneys account for between 76 and 83 percent of the authority's budget. Because of its vested interest in Hawai‘i's public housing projects, HUD heavily scrutinizes HPHA's expenditures and management. The federal housing agency provides regulations regarding the development of public housing projects, eligibility of residents, and management and maintenance of housing projects. The agency annually grades public housing authorities' performance based on compliance with its regulations.

HUD Corrective Action Order

The authority and its predecessors have historically had problems with procurement. In 2002 HUD placed HPHA's predecessor under a corrective action order (CAO) for non-compliance with federal procurement procedures. Among other things, the authority budgeted funds for management improvements but used them on other items, did not meet deadlines for obligating funds, and failed to properly evaluate prospective professional consultants as required by federal law.

The corrective action order required the authority to submit certain documentation to HUD prior to approving any contract greater than $25,000. The required documents relate to the solicitation and selection of contractors and employees for managerial positions, proposed contracts, and proposed contract modifications for professional services, equipment, or management services. The purpose of the CAO was to prevent and mitigate the effects and recurrence of the deficiency; failure to comply could result in financial sanctions for the authority.

The corrective action order is still in effect, but has recently been modified. In November 2010 HUD advised that, except for property management contracts, the authority is no longer required to submit the above-specified documentation to HUD prior to issuing approval.

Recent litigation

At the time we began this audit, the authority was involved in two class action lawsuits. On December 18, 2008, the tenants of Kūhiō Park Terrace and Kūhiō Homes filed two complaints against the State of Hawai‘i, the Hawai‘i Public Housing Authority, and Realty Laua, LLC.

The *Faletogo* litigation was filed in the Circuit Court of Hawai‘i. Tenants claimed the defendants violated the warranty of habitability implied in all residential leases; breached express terms of the leases between the tenants and the authority; breached terms of the management agreements between Realty Laua and the authority, of which the tenants are intended beneficiaries; and violated numerous state and county health and safety regulations, constituting unfair trade practices, arising from the defendants' ownership, operation, control, and management of Kūhiō Park Terrace.

The *McMillon* litigation was filed in the U.S. District Court. Tenants claimed the authority violated the Americans With Disabilities Act of 1990 (ADA), the Rehabilitation Act of 1973, and the Fair Housing Amendments Act of 1988 (FHAA); and that Realty Laua had violated the ADA and FHAA. Tenants alleged the defendants failed to provide safe and accessible housing, prepare and implement evacuation plans, remedy hazardous environmental conditions, maintain safe and accessible elevators, or implement an effective system for receiving and responding to requests for accommodations at Kūhiō Park Terrace and Kūhiō Homes.

Both lawsuits have settled. The order granting preliminary approval of the *Faletogo* settlement was made on December 6, 2010. The court noted that both the defendants and plaintiffs acknowledged that several of the conditions at Kūhiō Park Terrace that were the basis of the lawsuit have purportedly been, or are in the process of being, remediated. These include installation of a new fire alarm system, elevator modernization, and garbage chute replacement; and the authority has procured and entered into contracts for each of these projects. While the elevator modernization is in progress, the authority is also to make a freight elevator available for tenants if necessary to ensure each tower is served by two elevators during peak hours. The authority has also developed a fire disaster and preparedness plan for Kūhiō Park Terrace and is to provide tenants with a fire evacuation notice. Lastly, the authority is to make reasonable efforts to ensure Kūhiō Park Terrace is maintained in safe, sanitary, and habitable condition; and enforce the provisions of its management contract with Realty Laua. That contract requires Realty Laua to maintain the overall physical appearance and condition of the properties, including maintenance and upkeep of the individual units.

The order granting preliminary approval of the *McMillon* settlement was made on December 16, 2010. The settlement terms include all of those described above in relation to *Faletogo* as well as a monetary payment to the plaintiffs. In addition, the authority is to:

- Retain or engage a consultant for a minimum of two years to monitor compliance with the ADA and FHAA at Kūhiō Park Terrace and Kūhiō Homes, review policies and procedures regarding ADA and reasonable accommodations, conduct training for management personnel, and review any construction or alteration plans before they are carried out;

- Make all reasonable accommodation modifications for tenants in accordance with state and federal law, accommodations which do not endanger a housing project's physical structure, create undue financial or administrative burden, or result in fundamental alteration of the program;

- Install bathroom grab bars for tenants upon request and without verification of medical need;

- Remove or reasonably mediate any barriers to the management offices which prevent, impede or hinder disabled residents from entry or exit; and

- Install three crosswalks at Linapuni Street and regularly inspect the Koko Head sidewalk between the terrace towers, and patch and smooth any cracks there.

Prior audits

This is our first audit of the Hawai'i Public Housing Authority in its present form. However, we have conducted a number of audits and studies related to housing in Hawai'i and the authority's predecessors. Relevant issues are summarized below.

In Report No. 90-07, *Audit of the Rent Supplement Program of the Hawai'i Housing Authority* (HHA) (January 1990), we found that the program had not kept pace with changes in housing needs. Policies on how the program assessed need and eligibility and where it concentrated its efforts required clarification. We questioned the program's providing support to non-immigrant student aliens and persons already receiving other types of housing subsidies. We found there were some obsolete and unnecessary provisions in the statutes and rules that required attention, questionable limits on income and assets, and inadequate efforts to verify information provided by applicants. We also found that of the program's appropriation for FY1990, HHA set aside $1 million for other uses while cutting back on supplement payments. It also did not transfer certain moneys to the Housing Revolving Fund for proper accountability.

In Report No. 91-14, *Review of the Hawai'i Housing Authority's Repair and Maintenance Program* (February 1991), we found that:

- The authority did not collect sufficient information about the physical condition of its housing projects to plan appropriate levels of funding for repair and maintenance. There was therefore no baseline data on the physical condition of the entire housing stock.

- The authority did not have a program of preventive maintenance to ensure housing was kept decent, safe, and sanitary. Improved communication between engineering and housing management branches was needed to establish priorities and assign responsibilities.

- Many older housing projects needed major repairs. Work was deferred, funds for extraordinary maintenance were not always spent, and planning for major repairs was not systematic. The authority had funds that could have been used for these repairs, but were not. The Housing Management and Engineering Branches developed separate budgets—regarding federal and state low rent programs, and federally funded repairs and maintenance and modernization work, respectively—but had no system to coordinate their efforts.

- It was anticipated that state funds would be needed to correct long-standing maintenance problems, but the authority lacked a commission-approved maintenance plan and attendant budget. We found the authority needed to present the Legislature with more complete financial data on its housing programs. At the time of our study, operating revenues for both the federal and state low-rent programs were insufficient to cover program needs as reported by area managers, and general funds were needed to cover the shortfall.

In our Report No. 95-2, *Financial Audit of the Hawai'i Housing Authority* (January 1995), we found that the authority was using the unrestricted administrative fees it earned for operating HUD's federal Section 8 Rent Subsidy Program to purchase equipment and appliances for housing projects. We again recommended that the authority use these funds for maintenance programs. We also found that the managing agents of the Banyan Street Manor and Wilikina Apartment Projects had not kept detailed fixed asset records as required under their management agreements, and we recommended the authority enforce these agreements.

We issued Report No. 95-7, *A Preliminary Study of a Proposed Department of Housing* (February 1995), in response to a resolution from the 1994 legislative session requesting that the Auditor examine the feasibility of establishing a Department of Housing by consolidating the Hawai'i Housing Authority (HHA), the Hawai'i Community

Development Authority (HCDA), and the Housing Finance and Development Corporation (HFDC). In this, the first of a two-phase report, we found that the three agencies perform some overlapping functions for different target groups. We concluded that various issues needed to be reconsidered, such as target client groups, housing goals, and strategies to achieve these goals before a decision was made on the how the State's housing efforts should be organized.

In our Report No. 96-7, *A Study of a Proposed Department of Housing—Final Phase* (February 1996), we reported that the State needed a clearer idea of its housing role in order to determine whether a housing department was needed. We concluded that consolidation of the HHA, HCDA, and HFDC had the potential to improve the effectiveness and efficiency of the State's efforts to achieve its housing policy goals. However, we noted that the State must evaluate its housing policies and goals in conjunction with a realistic assessment of the housing market to ensure that such a consolidation would result in operational efficiencies. We also noted that the governance and operations of such a new entity must be clearly determined and the transition well planned to address housing programs and services during the merger period, reclassification of personnel, and the need for legislation to restructure funding and organizational structure.

In Report No. 01-14, *Financial Audit of the Housing and Community Development Corporation of Hawai'i* (September 2001), the financial auditor KPMG LLP found that although the 1997 and 1998 Legislatures appropriated $800,000 and $8.7 million, respectively, for design and construction of roofing improvements for four state-owned low-income housing projects, in one instance the corporation did not execute a design consultant contract until 23 months after the funds became available. Three other projects faced similar delays, and this was attributed to poor communication between the board and the staff. The corporation did not dispute the findings and stated that it had established a process for prioritizing capital improvement projects and that it had instituted bi-weekly meetings to monitor the status of board-approved projects.

On March 18, 2010 we issued the *Hawai'i Public Housing Authority—June 30, 2009 Financial Statements and Single Audit Report*. The financial auditor KMH LLP found four material weaknesses related to HPHA as a whole. Specifically, a lack of appropriate management leadership and a shortage of adequate staffing in the Fiscal Management Office continued to impact significantly HPHA's ability to perform its core accounting functions, a condition which had been noted in prior years. Although the "Emphasys" system was being used as a general ledger, there was a lack of monthly financial statements; reconciliation of detailed fixed assets and CIP to the general ledger was not performed during the year; there was a lack of information to perform budget to actual comparisons regarding sufficiency of funds to adequately cover operations; and there was a lack of information to perform monthly cost analyses at the management unit or asset management project (MU or AMP) level to identify causes of overruns. There was also a lack of clear policies and procedures, as had been noted in 2008. These included regarding cash reconciliations, tenant accounts receivable reconciliations, general accounts payable processing, HPHA's reporting, capital fund monitoring, and financial reporting procedures including HUD's Real Estate Assessment Center's electronic submission filing.

Lastly, on March 25, 2011, we issued the *Hawai'i Public Housing Authority - June 30, 2010 Financial Statements and Single Audit Report*. The financial auditor KMH LLP found nine material weaknesses related to HPHA as a whole. In addition to repeating the four material weaknesses noted above, the report noted additional problems related to the Section 8 Housing Choice Vouchers Program.

Objectives of the Audit

1. Assess and compare the Hawai'i Public Housing Authority's management of state and privately operated public housing projects in Hawai'i.

2. Assess the degree to which the authority has implemented the federally required asset management system.

3. Make recommendations as appropriate.

Scope and Methodology

The concurrent resolutions asked the Auditor to compare the performance of state versus privately operated public housing projects and to conduct a management and financial audit of the authority's maintenance contracts. At the same time, due to the economic condition of the State, the Legislature also asked that we look for ways to eliminate costs of the audit and prioritize our efforts by scoping the audit to a manageable size. We therefore did not perform a separate financial audit, since the authority has an annual financial audit conducted by a certified public accounting firm; we procure and administer that financial audit.

Our audit focused on the authority's management of its public housing projects, including its communication with project managers and its planning, execution, and monitoring of contracts with private project managers. We compared the performance and management of selected state- and privately-run housing projects. We also focused on the degree to which selected housing projects had implemented the federally required asset management system, including the authority's and the board's guidance and initiative in that effort. We particularly looked at communication between the board, the authority, and individual housing project managers. We did not evaluate any housing voucher choice (Section 8) or homeless programs. Our audit covered the authority's activities from July 1, 2006 through June 30, 2010. We also took into account developments from July 1, 2010 through the close of our fieldwork in February 2011.

We conducted interviews with authority management and key staff, federal oversight officials, legislators, board members, and representatives of public housing management companies. We reviewed planning documents relating to governance, policy formation, procurement, and repairs and maintenance conducted within the public housing projects. We examined federal and state guidelines; internal policies, procedures, and memos; contracts and amendments; and procurement and expenditure documentation. We reviewed procedures and transactions for compliance with applicable laws, regulations, and contract provisions.

We also conducted site visits at six housing projects around the state. Of the housing projects we visited, one was managed by the State, three by private contractors, and two by both state and private contractors at different times during the period under audit.

Based on the authority's list of private contractors managing housing facilities for FY2007 through FY2009, we judgmentally selected asset management projects to include all contractors who had worked with the authority during the relevant time period. This sample covered approximately 77 percent of the privately managed housing units in the state.

Our audit was performed from June 2009 through March 2010 and December 2010 through February 2011. Our audit was conducted according to the Office of the Auditor's *Manual of Guides* and generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Chapter 2
Tenant Welfare Can Improve By Prioritizing Performance Monitoring and Asset Management

This audit was conducted as a result of two concurrent resolutions that focused on the Hawai‘i Public Housing Authority's management of its units and contracts. We found there was no significant difference in either the performance or management of the Pu‘uwai Momi versus West O‘ahu housing projects or any of the other state-run versus privately-run housing projects that we reviewed. Instead, our greater concern was with how the authority monitors all of its public housing projects and its lack of progress in implementing the federally required asset management model of operation.

Further, on the authority's monitoring of its public housing projects, we found that for the period under audit (July 1, 2006 through June 30, 2010) the authority's oversight was ineffective. The Property Management and Maintenance Services Branch, which is responsible for managing the authority's housing projects—specifically, for overseeing their individual managers—lacked staff with the resources and time to sufficiently monitor project managers' performance to ensure they achieved expectations and that any problems were identified and resolved. Thus, oversight was erratic regarding rent collection and federal reporting requirements, as well as issues directly affecting tenants' daily lives. Those issues included building conditions, property upkeep, and the amount of time taken to address repair and maintenance problems. Contract monitoring was also inconsistent, with performance deficiencies not always identified or corrected.

In relation to asset management, we found the authority is severely behind schedule. In 2005 the U.S. Department of Housing and Urban Development (HUD) issued a rule that public housing agencies that own and operate 250 or more units are required to convert from an agency-centric management model to an asset-based management model. The deadline for meeting the accounting and budgeting components of this model was June 30, 2007; full implementation of all components of the asset management model is required by June 30, 2011. Due to the authority's late start, it will be extremely challenging to meet this deadline.

Summary of Findings

1. The Hawai‘i Public Housing Authority’s ineffective oversight of state- and privately-managed housing projects impacts tenant welfare.

2. The authority has not yet implemented the federally mandated asset management system.

The Authority’s Ineffective Oversight of State- and Privately-Managed Housing Projects Impacts Tenant Welfare

The Hawai‘i Public Housing Authority (HPHA)’s ineffective oversight of state- and privately-managed housing projects means the authority cannot ensure it is fulfilling its mission to “promote adequate and affordable housing, economic opportunity and a suitable living environment free from discrimination.” We found that the authority’s monitoring of its housing project managers, both state and private, is sporadic and therefore lacks robustness. Both state- and privately-run housing projects have backlogs of repair and maintenance issues. Turnaround on vacant units at both state and privately run housing projects is slow, adversely impacting families on the waiting list as well as rent collections. Inventory procedures vary considerably between housing projects and hamper managers’ ability to effect quick repairs. There is no uniform method for addressing tenant complaints, which means trends cannot be extrapolated or rectified.

The authority administers both federal- and state-funded public housing projects. Statewide, there are 5,331 public housing units in 67 federally funded buildings and 864 units in 14 state-funded buildings. These units and buildings are organized into 16 federal asset management projects (AMPs) and one state management unit (MU). A few state buildings are grouped within otherwise federal AMPs.

As the vast majority of public housing in Hawai‘i—86 percent of all units—is funded through the U.S. Department of Housing and Urban Development, HUD scrutinizes and grades the authority and its AMPs to ensure the quality of HUD-assisted housing stock. In 2007, HUD gave the authority an overall score of 75 percent, designating it a *standard* performer. The score was composed of four elements: 1) physical condition of properties, 2) financial condition, 3) management operations, and 4) resident services and satisfaction. Since 2007, HUD has not provided any agency-wide scores (this is due to the transition to “asset management,” which is discussed under our second major finding, below); however, HUD continues to issue physical assessment scores for each AMP. In 2008, four of Hawai‘i’s 16 AMPs (25 percent) received failing scores of less than 60 percent. In 2009, all AMPs received passing scores, while in 2010, nine AMPs (56 percent) failed. This extreme fluctuation in physical assessment scores is indicative of the authority's faulty oversight of its AMPs. Without uniform and proactive monitoring, the authority cannot regularly identify and rectify problems in a timely manner.

Physical scores also represent the living conditions for thousands of Hawai‘i residents. Failing scores reflect multiple violations on the physical upkeep of a total housing site: from items such as fencing, grounds maintenance, and building foundations to issues such as roofs, water and electrical systems, and the habitability of individual dwelling units. For thousands of people living in public housing and thousands more waiting for a public housing unit, a stronger monitoring system would mean not just an improved physical assessment score from HUD, but a better and more habitable dwelling for them and their families.

HPHA's monitoring of its AMP managers lacks robustness

The authority is responsible for overseeing the management of all its public housing projects (AMPs); however, each AMP—regardless of whether it is operated by the State or by a private contractor—has its own manager. We found that the authority's monitoring of AMP managers' performance needs to be strengthened; there was no consistency in the monitoring of either state- or privately-managed AMPs.

According to the U.S. General Accounting Office (now known as the Government Accountability Office)'s *Standards for Internal Control in Federal Government*, the purpose of monitoring is to assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. This was seriously lacking in the authority's oversight of individual AMPs. We found no evidence that the authority addresses specific skills or corrects misunderstandings for managers of non-performing AMPs. Moreover, AMP managers operate according to their own understanding of requirements, rather than as a result of training or formal guidance from the authority. In addition, remedies for non-performing privately-contracted AMP managers are not utilized effectively.

Monitoring should be performed as part of the authority's normal operations, included in regular management and supervisory activities, comparisons, and other actions within normal duties. Monitoring should be governed by policies and procedures to ensure findings are promptly resolved. Management should promptly evaluate findings, determine appropriate actions, and complete, within an established timeframe, actions that correct or resolve matters brought to their attention.

The authority's oversight of its AMP managers' performance is inconsistent and inadequate

We found that the authority's oversight of AMP managers' performance is inconsistent and does not promote accountability. The authority does not have written policies and procedures governing the monitoring process, resulting in monitoring reports that were not consistently submitted by assigned staff. The branch chief also did not require staff to provide documentary evidence, such as photos or specific descriptions of site visits. Moreover, there were no repercussions for monitoring staff who did not complete their monitoring reports.

The authority has not provided AMP managers with consistent or complete written policies and procedures, which contributes to inadequate performance. Although public housing specialists are meant to visit AMPs monthly, this does not consistently occur, leading to poor communication between the authority and its AMP managers and ultimately contributing to an environment lacking in accountability. When there are new policies, the authority communicates them to AMP managers by email or through an interoffice memorandum; but based on discussions with AMP managers, we conclude these notifications are performed inconsistently. Lack of guidance from the authority allows AMP managers to operate as they please. For example, one AMP manager reported that until she receives a formal policy from the authority on a particular issue, she will continue to create her own for in-house use.

Of the authority's 16 AMPs and one MU, eight AMPs and the MU were managed by private contractors during the period under audit. Of those, we selected a sample of five AMPs and the MU (77 percent of privately managed housing units) to test the specific monitoring performed by the authority. For the 21-month period October 2008 through June 2010, we expected to receive 126 monthly monitoring reports (six AMPs multiplied by 21 months); however, we received only 71 reports (56 percent of the number expected).

According to the Property Management and Maintenance Services Branch (PMMSB) chief, who is responsible for monitoring the State's entire housing property inventory, the lack of reports was primarily due to insufficient monitoring staff. In one case, however, the relevant staff member simply did not do the work; yet the staff member experienced no repercussions as a result. This is an example of the branch chief not holding staff accountable for their work. In another instance, the branch chief admitted that she advised staff to not monitor a particular AMP and instead to focus their efforts elsewhere. However, we found no risk assessment or other documentation showing the AMP in question performs at an adequate level and thus requires less oversight.

Moreover, this change in policy directly conflicts with the branch chief's responsibilities. The chief's position description specifically states that the chief is to monitor and evaluate program operations to determine levels of effectiveness and accomplishment of objectives, and that monthly inspections of all projects are to be done to evaluate the condition of physical facilities to ensure they are maintained according to established state and federal standards.

For the reports we did receive, there was no evidence that underperforming AMP managers received counseling or coaching for improvement. The branch chief told us that if an AMP manager does not achieve certain benchmarks, monitoring staff might work with the manager and develop a corrective action plan to rectify the problem. However, we saw no corrective action plans in any of the monitoring reports we reviewed, despite seeing reports where benchmarks were not achieved on a consistent basis.

Deficiencies included reporting of income discrepancies, community service, and crime reports that were either late or not submitted at all. In addition, housing specialists are supposed to report on overall physical appearance of properties based on site visits. However, the monitoring reports we reviewed did not provide evidence that monthly site visits were conducted, as there were no notations or photographs to document observations. For the reports we examined, there was no clear indication of improvement in contractors' performance. Reports often indicated a discrepancy in one month, but there was no follow-up made by the housing specialist in the following month; or the same discrepancy was reported in subsequent months, with no resolution noted.

In addition to the inadequate system of monitoring, PMMSB lost all three full-time monitoring staff (due to resignation or retirement) in February, March and July 2010, respectively. Due to statewide budget constraints, the State was in a hiring freeze and the branch chief reported that she was unable to hire replacement staff until recently, in December 2010. Rather than reassign monitoring functions to other staff, the branch chief absorbed the responsibilities herself. By July 2010, the branch chief alone was left to monitor all of the State's properties; as a result, monitoring fell by the wayside. Instead of completing monthly monitoring reports, the branch chief reported to us that she reviewed a combination of high-level reports and investigated anomalies in specific AMPs as complaints were received. However, the branch chief did not maintain any documentation to evidence this change in her monitoring process. The authority has since hired staff to fill these vacant positions, but it remains to be seen whether monitoring will resume accordingly. With the branch now fully staffed, the branch chief and executive director should ensure that expectations regarding work required, particularly in relation to monitoring, are clearly communicated and enforced amongst new hires.

Underperformance by AMP managers, and monitoring to ensure this does not occur, is a serious issue. An AMP manager's performance directly impacts a housing authority's HUD score for overall management of its housing projects, and poor scores can lead to decreased federal funding, which is something the State cannot afford to lose. By not performing this function, the authority does not provide itself with a baseline for continued improvement and accountability. Some performance categories (such as vacancies) have remained unchanged, which shows that AMP managers face lax consequences for not meeting standards and have no real incentive for improvement. Moreover, by not monitoring AMP managers consistently, the authority cannot be assured that tenants are provided with a suitable living environment in accordance with its mission. The authority should hold both state and private AMP managers, contract administrators, and the branch chief who oversees them accountable for their respective performance. In instances where staffing constraints limit availability for recurring monitoring, the authority should employ a risk-based approach in its review process. A well-executed monitoring system would provide the authority with information and assurance on how well AMP managers are addressing tenants' physical needs.

The authority does not consistently enforce private contract terms to protect the State's interest

We reviewed the terms of contracts with private AMP managers and found that although remedies exist for poor performance, they are not utilized by the authority to demand better performance from its contractors. For example, contracts explicitly allow for oversight through desk monitoring, site inspection, and other appropriate methods. In addition, if certain benchmarks (such as completing particular reports or work orders within a specified timeframe, turning over vacant units within 20 days, or passing physical site inspections) are not met, a portion of the contractor's management fees can be deducted. If a contractor fails to comply with requirements, the authority can engage another company to remedy the problem and deduct the cost from the original contractor's fees. If costs of remedying the defect are higher than what was due to the original contractor, the original contractor must pay the difference to the authority.

In four of the six privately-managed AMPs we reviewed, there were several occasions when the private contractor did not receive its full monthly management fee as a result of failing to meet specific benchmarks. However, although deductions were for contractor underperformance, corrective action plans were not implemented. In subsequent months, contractors continued to receive either a portion or their full management fee, yet there was no documentation or explanation for the withheld fees, nor anything addressing how the problem had been remediated. The lack of explanatory documentation was compounded by the fact that many monitoring reports were not completed at all, as we described above. We note that according to the executive director, the authority is now beginning to address this discrepancy and to align individual performance reviews, including those for state workers, with the performance of their respective housing projects.

Failure to adequately monitor and enforce contractual terms is contrary to best practices as laid out in the National State Auditors Association Best Practice Document "Contracting for Services." Contract monitoring is an essential part of the contracting process; without it, the contracting agency cannot be assured that contractors are complying with contractual terms, performance expectations are achieved, and problems are appropriately identified and resolved. The authority should assign a contract manager with the authority, resources, and time to monitor the project. The authority should also ensure that deliverables are received on time and document the acceptance or rejection of deliverables.

We also found that the authority does not evaluate contractors' performance upon completion of their contracts. Many contracts are multi-year, with annual renewal stipulations. We reviewed 41 contracts and contract extensions; although 12 contracts ended during the time period under audit, no contractor evaluations were conducted. The contracts and procurement officer told us that monitoring reports are one factor used to determine whether to extend a contract, but it is the PMMSB chief who decides whether or not to extend a specific contract. In instances of unsatisfactory performance, a contract may be extended if there is a continued need for services, if there have been no signs of intentional negligence, or if the contractor has shown adequate progress with a corrective action plan. According to the PMMSB chief, she now intends to begin documenting contractors' performance in order to help determine future contracts; however, we note that at the time of our audit work, overall monitoring was lacking. The authority should explicitly document problems with performance to ensure contractor accountability.

Failing property assessment scores indicate a failure to communicate and enforce standards

We found that AMP managers, both public and private, are not held accountable for poor performance at public housing projects. Without an effective monitoring system, the authority cannot guarantee AMP managers are held accountable for their performance, which directly impacts tenants.

The U.S. Department of Housing and Urban Development conducts annual site visits to each federally funded property and grades it based on physical assessment criteria which focus on the overall site, building exteriors, building systems, dwelling units, and common areas. A passing score is 60 percent. If a public housing authority scores poorly, federal funding can be withheld. Exhibit 2.1 shows the individual physical assessment scores for each of Hawai‘i’s public housing projects (AMPs) over the past three fiscal years.

Exhibit 2.1
Physical Assessment Scores, by AMP

AMP	FY2008	FY2009	FY2010	Managed By
30: Pu‘uwai Momi (‘Aiea, O‘ahu)	55	68	62	State
31: Kalihi Valley Homes (Kalihi, O‘ahu)	65	61	64	State
32: Mayor Wright Homes (Honolulu, O‘ahu)	71	67	52	State
33: Kamehameha Homes (Honolulu, O‘ahu)	72	82	57	State
34: Kalākaua Homes (Honolulu, O‘ahu)	85	78	75	State
35: Punchbowl Homes (Honolulu, O‘ahu)	83	86	43	State
37: Lanakila Homes (Hilo, Hawai‘i)	78	92	77	State
38: Kaua‘i (Kapa‘a and Kekaha, Kaua‘i)	65	81	53	State
39: Kahekili Terrace (Wailuku, Maui)	72	74	66	State
40: Kūhiō Park Terrace (Honolulu, O‘ahu)	22	72	40	Private
43: Ka Hale Kahalu‘u (Kailua-Kona, Hawai‘i)	74	76	64	Private
44: Wai‘anae (Wai‘anae, O‘ahu)	53	73	39	Private
45: Kāne‘ohe (Kāne‘ohe, O‘ahu)	65	85	45	Private
46: Noelani (Waimea, Hawai‘i)	75	87	68	Private
49: Wahiawā (Wahiawā, O‘ahu)	66	92	49	State
50: Pālolo Valley Homes (Honolulu, O‘ahu)	45	64	40	State

Source: Office of the Auditor analysis of Hawai‘i Public Housing Authority data

As illustrated in Exhibit 2.1, performance on the physical assessment indicator was not significantly different between state- and privately-managed AMPs; both need improvement. We found that both state and private AMP managers' awareness of protocols and understanding of public housing management varied significantly, and this was because the authority has failed to uniformly communicate and enforce standards. For instance, in areas where managers were asked to define common reporting terms and usage, we found a wide disparity in interpretation. This is significant because, as previously noted, the performance of individual AMPs relates directly to federal oversight and ultimately to federal funding. Therefore, particularly in areas where HUD assesses AMP performance, a common understanding of specific terms should be communicated to AMP managers to ensure that terms are applied appropriately and uniformly to specific criteria. The authority should develop a training program to promote standard interpretation of HUD terminology.

The physical scores detailed above are also indicative of other issues. For example, we found that at the AMPs we reviewed, repair and maintenance issues and the processing of work orders and related paperwork in a timely manner were highly unsystematic. Asset management project managers told us that delays in these areas were closely tied to their level of staffing, materials inventory on hand, and inability to make timely purchases. However, we found that the cause more often related to individual AMP managers' leadership priorities and abilities. With the authority's guidance, an AMP manager should be able to identify priorities and make plans accordingly so that routine needs can be addressed more promptly. This in turn will aid the authority in achieving its mission to promote adequate and affordable housing.

State- and privately-managed AMPs have backlogs of repairs

We found no consistency in managing or processing work orders, either within our sample overall or amongst either state- or privately-run AMPs. A work order is generated by either an AMP's maintenance or administrative staff whenever an area is identified by tenants, management, or outside inspector(s) as requiring repair or maintenance. A new work order is opened within the authority's accounting system, Emphasys, identifying the work required and prioritizing the job by the type of work required. For example, repairs to address health and safety issues are prioritized as *emergency* work orders and must be abated within 24 hours. *Urgent* matters are to be addressed within 48 hours; and routine maintenance repairs reported by tenants or requested by management are to be addressed within 25 calendar days.

We reviewed closed work order statistics for selected AMPs. As illustrated in Exhibit 2.2, all these AMPs attended to non-emergency work orders in less than 25 days, as required by the authority. However, none managed to consistently abate emergency work orders within 24 hours. For privately-run AMPs, management fees were deducted for these failures; but as previously noted, we did not see any documentation regarding subsequent corrective action.

Exhibit 2.2
Closed Work Order Statistics, Selected AMPs, FY2010

AMP	Total Work Orders	Average Days to Repair Non-Emergency Work Orders	Total Emergency Work Orders	Percent Emergency Work Orders Abated Within 24 Hours
30: Pu‘uwai Momi (state)	3,886	8	202	88.11%
38: Kaua‘i (state)	996	12	170	93.52%
40: Kūhiō Park Terrace (private)	4,599	8	651	95.85%
44: Wai‘anae (private)	1,564	19	86	68.60%
45: Kāne‘ohe (private)	1,125	14	26	92.30%
49: Wahiawā (state)	609	1	99	98.98%

Source: Office of the Auditor analysis of Hawai‘i Public Housing Authority data

We also reviewed open work orders. For the six AMPs we reviewed, for the period January 1, 2004 through February 1, 2011 there were 1,332 open work orders. Of those, 35 (3 percent) were outstanding for more than a year, as shown in Exhibit 2.3.

Exhibit 2.3
Open Work Orders, Selected AMPs, January 1, 2004 Through February 1, 2011

AMP	Open Work Orders	Open Less Than 365 Days	Open More Than 365 Days
30: Pu‘uwai Momi (state)	660	656	4
38: Kaua‘i (state)	33	32	1
40: Kūhiō Park Terrace (private)	44	44	-
44: Wai‘anae (private)	309	282	27
45: Kāne‘ohe (private)	156	154	2
49: Wahiawā (state)	130	129	1
Totals	**1,332**	**1,297**	**35**

Source: Office of the Auditor analysis of Hawai‘i Public Housing Authority data

Most open work orders related to leaks, broken door knobs, broken screens, clogged sinks, and toilets (i.e., non-emergency repairs). We also found that, for a selection of work orders outstanding more than a year, AMP managers were unaware the work orders were open, either because they lacked procedures to close the work order, or the work had been done but no one had recorded the information. According to the branch chief, monitoring procedures do not include reviewing open working orders. Based on this, the branch should consider developing procedures to review open work orders to ensure tenant needs are addressed in a timely manner.

We found that although the process for generating and prioritizing work orders was generally the same amongst AMPs, there was no consistency in closing work orders. At one AMP, maintenance staff could simply telephone the main office and report a work order closed, with no evidence of verification by the tenant. At another AMP, the manager reportedly did not have enough staff to close work orders within the Emphasys accounting system because they were focused on other tasks. However, at yet another AMP, work orders were systematically reviewed monthly to ensure progress. Although we acknowledge that the number of open work orders reported in the Emphasys system could simply be an administrative backlog of paperwork, we believe that given the large number of failing physical assessment scores throughout the authority, it is not unreasonable to conclude that the number of open work orders represents actual work requiring attention. Ultimately, such backlogs impact the tenants' quality of life.

Deferred maintenance slows vacant unit turnarounds

Failure to close repair and maintenance work orders in a timely manner also affects an AMP's ability to quickly turn over a vacant unit to a new tenant. According to the authority's maintenance policies and procedures, vacant units should be made ready for re-occupancy within 20 calendar days of notification of availability.

As of February 15, 2011, the authority had a total of 233 vacant units that either had pending minor maintenance work or were available for rent; overall, these units had been vacant an average of approximately six months. Exhibit 2.4 shows that for the AMPs we visited, there were 82 vacant units pending minor maintenance or available for rent as of February 15, 2011. The units were vacant an average of 180 days.

Exhibit 2.4
Current Vacancies, Selected AMPs Through February 15, 2011

AMP	No. Units Vacant	Total No. Days Vacant	Average No. Days Vacant
30: Puʻuwai Momi (state)	15	1,841	123
38: Kauaʻi (state)	21	4,770	227
40: Kūhiō Park Terrace (private)	14	1,200	86
44: Waiʻanae (private)	14	3,817	273
45: Kāneʻohe (private)	6	891	149
49: Wahiawā (state)	12	2,251	188
Totals	**82**	**14,770**	**180**

Source: Office of the Auditor analysis of Hawaiʻi Public Housing Authority data

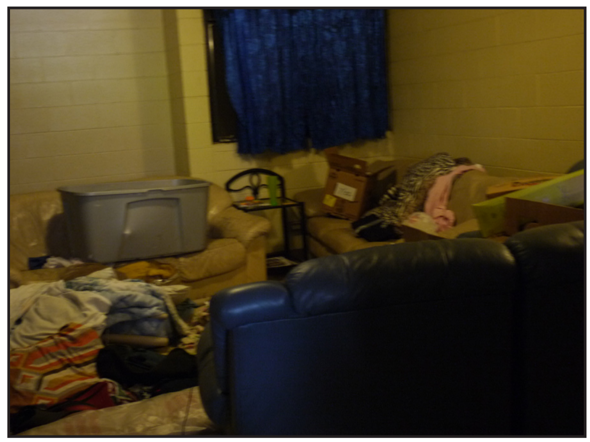
We toured some of these vacant units and noted that they required varying degrees of repair. In one instance, shown in Exhibit 2.5 below, the tenant vacated in July 2010 and the repair needed was very minimal; maintenance staff told us it would take approximately three days to make ready for a new tenant. However, as of February 2011, the unit had not been repaired and was unoccupied. With an average rent of $212 per month, this unit represents lost revenue of approximately $1,500 through February 2011.

Exhibit 2.5
AMP 49, Wahiawā, Unit Vacated July 2010

Source: Office of the Auditor

In another instance, shown in Exhibit 2.6 below, tenants were evicted from their four-bedroom unit in July 2010, leaving behind many of their possessions. Maintenance staff reported this unit would take approximately 4.5 days to make ready for a new tenant. However, the unit had not been cleaned or reoccupied as of February 2011. According to the authority, the average rent for a four-bedroom unit is approximately $425 per month; this unit thus represents lost revenues of approximately $3,000 through February 2011.

Exhibit 2.6
AMP 30, Pu‘uwai Momi, Unit Vacated July 2010



Source: Office of the Auditor

There are also a number of units statewide that require larger scale, major renovations, such as those suffering from roof or structural damage and which require additional expertise not available at an AMP level. As of February 15, 2011, the authority had 146 of these units, which have been vacant an average of 3.7 years. Examples of this type of unit are shown at Exhibit 2.7 below.

Exhibit 2.7
AMP 44, Wai‘anae, Units Damaged by Fire in 2005 and 2008

Source: Office of the Auditor

These larger scale renovations are the responsibility of the authority's Construction Management Branch, not the individual AMP. In addition to the renovation of units as described above, the Construction Management Branch is responsible for prioritizing unit-specific repairs against structural and system repairs across the state. Examples of such repairs include the hot water problem at Mayor Wright Homes, and broken elevators and garbage chutes at Kūhiō Park Terrace, both of which have received considerable media attention. Exhibit 2.8 below shows ongoing construction projects at Kūhiō Park Terrace. The authority reports that the garbage chute repairs should be completed by July 2011 and elevator repairs by December 2011.

Exhibit 2.8
Ongoing Construction Projects at AMP 40, Kūhiō Park Terrace

According to HPHA, garbage chutes (top right) should be repaired by July 2011. Freight elevator (left) is used to remove garbage until the garbage chute repairs are complete. Passenger elevator (bottom right) should be repaired by December 2011.

Source: Office of the Auditor

Delays in turning around vacant units to new tenants impact families waiting for public housing, rent revenues, and overall funding available to the authority. The authority reports that approximately 9,000 families are on the waiting list for public housing and that the average wait time is between two and five years. Given that the authority's mission is to promote adequate and affordable housing, when housing units sit broken and empty as a wait list for them grows, the authority is not achieving its overall mission.

Turning over vacant units to new tenants should be a priority for HPHA, second to its main responsibility of addressing emergency and existing health and safety repairs. The authority should prioritize completing work orders and turning over vacant units to new tenants, although we acknowledge that the latter must be balanced against the authority's statewide list of much-needed capital improvement projects. Priorities should be communicated to stakeholders (including AMP managers and tenants) to promote understanding of the authority's plans to reduce its 9,000-plus wait list and serve its population by achieving maximum tenancy.

Streamlining inventory processes would assist with repair and maintenance backlog

We also found that inventory processes at the six AMPs we visited varied considerably. At one location, a systematic process was in place wherein an item could be easily identified given the coding on its label, tied to the related inventory listing, and assigned to a specific work order so charges would be properly reflected. At another, the arrangement of inventory items was haphazard, with no clear organization or labeling, and items could not be traced to inventory listings. Only maintenance staff were able to identify items and assign them to a work order.

We found no correlation between an AMP's type of management (state or private) and the quality of its inventory system. For instance, AMPs 38 (Kaua‘i) and 40 (Kūhiō Park Terrace), state- and privately-managed respectively, each had inventory systems that were organized and had adequate amounts of dedicated space. Managers for both these properties had systematic approaches to procurement and restocking to ensure that an appropriate level of stock was on hand. In addition, both managers clearly understood and articulated the need for a systematic approach to inventory management: in order to efficiently address repair and maintenance issues it is necessary to have regularly used items on hand, such as plumbing items, toilet repair items, and screens. Exhibit 2.9 shows a well-functioning inventory system.

Exhibit 2.9
Inventory at AMP 38, Kauaʻi

Source: Office of the Auditor

At other AMPs, however, we found inventory was disorganized, with items not clearly marked or arranged. In some cases items were stacked, sometimes unstably, causing a potentially hazardous situation for individuals accessing materials. Moreover, at those sites the AMP managers reported that items listed in Emphasys did not necessarily represent actual stock on hand. Where inventory was disorganized, AMP managers complained of difficulties in addressing repair and maintenance issues due to lack of needed materials. They also reported that procuring items was cumbersome and that repairs were delayed as a result. Exhibit 2.10 shows an asset management project that did not have a well-maintained inventory system.

Exhibit 2.10
Inventory at AMP 45, Kāneʻohe

Source: Office of the Auditor

We found there is a discernible difference in state- versus privately-managed AMPs' ability to procure quickly: state-run AMPs can use purchasing cards (known as pCards) for small purchases of under $1,000, while privately-managed AMPs must always use purchase orders, which require prior approval for every purchase and are therefore time consuming. However, although using pCards may speed up the procurement process in the short term, proper planning and prioritizing—tasks done prior to purchasing—are more important factors in ensuring appropriate inventory is available. The executive director and the PMMSB branch chief agree with us in this viewpoint.

Given that there are well-functioning inventory systems at both a state-run (Kaua'i) and at a privately-run (Kūhiō Park Terrace) AMP, the authority should consider developing a method to share best practices among its public housing projects. Managers at the AMPs we visited expressed an interest in bettering their operations, but they have no way of learning from other managers within Hawai'i and other jurisdictions.

The authority lacks a consistent method for addressing tenant complaints

We found no consistent method utilized to track tenant complaints, either at the AMP or authority level. Complaint logs were not maintained at any of the AMPs we visited or at the authority centrally. Asset management project managers anecdotally reported that tenant complaints are often related to noise, pets, suspected drug dealing, loitering, gambling, and repairs.

For complaints related to repair and maintenance issues, a work order is generated, and depending on the severity of the problem, the repair is prioritized based on the authority's maintenance guidelines. Emergency and health and safety situations must be abated within 24 hours, per federal requirements. For non-maintenance related complaints, managers reported that they work with the tenant and retain any written documentation within the tenant's file. However, we found that absent a logging mechanism and without prior knowledge of an existing complaint, there is no way to track the progress or outcome of a tenant's complaint.

The authority has not provided AMP managers with specific guidance for managing tenant complaints. The Property Management and Maintenance Services Branch chief also does not maintain a complaint log; instead she offered us access to all the telephone messages which she said documented the complaints. However, we note that the ability to access all tenant files or all complaints-related messages misses the point. The purpose of a log book is to record all complaints as they are received and provide a singular point of reference to review as needed to ensure tenant complaints have been addressed. The authority should develop a means to ensure tenant complaints are uniformly documented, recorded and addressed, and communicate this clearly to all AMP managers.

The Authority Has Not Yet Implemented the Federally-Mandated Asset Management System

The authority is behind in implementing the HUD-mandated "asset management" system. Now five years since the directive was issued, the authority has yet to reach the level expected of first-year implementation.

Asset management is a method of managing public housing properties, intended to improve the operational efficiency and effectiveness of public housing assets by shifting accountability from the central housing authority (in this case, HPHA) to individual AMP managers. In 1999, the U.S. Congress directed HUD to contract with Harvard University to conduct a study on the cost to operate well-run public housing. Harvard's Public Housing Operating Cost Study, completed in 2003, asserted that public housing agencies operate under extremely centralized arrangements, which is counter to good business practice and an ineffective use of resources. The report recommended a shift to an asset management model, maintaining it would help achieve steady performers among the vast majority of properties because owners (in Hawai‘i's case, AMP managers) would be responsible for the real consequences of poor performance. Thus, implementing the model would result in high compliance and low monitoring costs. Pursuant to the Harvard study, in 2005 HUD released a new operating funding formula and required public housing authorities that own and operate more than 250 units to convert from their agency-centric management model to the asset management model.

Under the asset management model, AMP managers are to have greater flexibility in managing their specific budgets—and therefore a greater ability to preserve and protect each housing asset—while tenants will be able to hold managers directly responsible for their living conditions. Essentially, asset management encourages managers to operate their properties as businesses, monitoring rent revenues and managing related expenditures in order to accrue capital for long-term preservation and/or growth of those assets. The five elements of asset management are project-based funding, budgeting, accounting, management, and oversight/performance assessment. Public housing authorities (such as HPHA) are directly responsible for implementing three of these elements: project-based budgeting, accounting, and management.

Project-based budgeting means that operating budgets are created by and for each project (in this case, for each AMP), rather than the authority as a whole. *Project-based accounting* means tracking financial performance at the project (AMP) level, and requires providing AMPs with the necessary information for them to make effective decisions for their AMP. *Project-based management* means that property management services are tailored to the unique needs of each AMP, given the resources available to that AMP.

We found that for the period under audit, the authority did not fully implement these key elements of asset management. We also found that HUD has yet to finalize its penalties for failure to implement the asset management model. However, regardless of penalties, the model is a good business practice and will aid AMPs in planning for success (in terms of rent collections, condition of units, and tenant satisfaction). Historically, HUD's penalties include a reduction in an authority's status to *sub-standard* or *troubled* and decreased funding. As previously mentioned, decreased federal funding is not something the State is in a position to overcome; and any such decrease is likely to have a direct impact on tenant welfare.

While HUD's new rules for overall scoring of a public housing authority are still pending, authorities will continue to receive their physical assessment scores. The Hawai‘i Public Housing Authority is currently designated a *standard* performer. However, if its physical assessment score falls below 60 percent, it will become *substandard physical*, and HUD may issue another Corrective Action Order (CAO) if deficiencies are not addressed. Failure to correct deficiencies within the required timeframe can prompt HUD to take action which includes, but is not limited to, the remedies available for substantial default under the 1937 Housing Act, the Annual Contributions Contract, and other HUD regulations. Under the Annual Contributions Contract, if a public housing authority substantially defaults on its physical assessment score or other key criteria, the authority may be required to convey title to or deliver possession and control of the project(s) to HUD.

The authority's accounting system does not adequately support asset management

The authority did not implement either project-based budgeting or project-based accounting for the period under audit. *Project-based budgeting* refers to the creation of budgets at the AMP level, while *project-based accounting* refers to the means by which that budget is tracked. With an adequate accounting system, the authority should be able to produce monthly operating statements for each AMP showing actual financial performance against original projections. We found that the authority only recently, beginning with December 2010 financial data, began providing operating budgets and monthly statements to its AMPs.

According to HUD's planning guide for asset management, the ability to monitor and track operating and fiscal performance of each property is a key to successful project-based management. The guide further states that significant authority cannot be delegated to a housing manager without a proper means of measuring that property's performance on a routine basis, particularly against stated goals. Therefore, a strong accounting system, with the ability to monitor and track individual projects, is vital in implementing asset management. HUD expects individual AMP financial statements to track the progress and development of project-level funding subsidies.

The authority's executive director, fiscal officer, property management and maintenance services branch chief, AMP managers, and board chairperson all spoke to us of the necessity of having good financial data. For a number of reasons, including accounting system limitations and lack of qualified staff, financial report generation was, until recently, not a priority. Because of this, the ability to budget properly and report on transactions was inadequate. We note that the authority is currently in the process of fixing its budgeting and financial process; the executive director met with Emphasys representatives in March 2011 to discuss problems and solutions regarding system needs. The authority should continue this process and seek the Legislature's approval, as needed, to update and streamline its accounting system so that its AMP managers have access to timely and accurate financial data.

Budgeting is based on "guess-timates"

Asset management project managers reported that for FY2011 budget preparation, they were asked to provide budget projections to the authority, but were not given their prior year expenditures from which to begin their planning process. Managers from both state- and privately-managed AMPs reported being in similar situations with regards to budgeting. Of the six AMPs that we visited, four managers reported receiving their budgets for FY2011 within a week of our visit in February 2011—seven months into the fiscal year.

Asset management project managers also reported that they do not receive detailed ledgers to support their budgets, and that it is difficult for them to prepare budgets when they are not provided with their previous expenditure details. Managers were unsure of specific dollar amounts spent by the authority on their AMP's behalf, and because they have no access to their accounting details, managers are unsure whether charges for items such as central maintenance services are accurate.

The authority's fiscal officer confirmed that AMP managers currently do not have access to their own detailed general ledgers. Beginning with December 2010 data, the authority's fiscal officer provided each AMP with their respective profit and loss statements. However, the fiscal officer did not provide detailed ledgers or balance sheets. The fiscal officer explained that much of the difficulty in producing reports for the individual AMPs is because the accounting system is an old, DOS-based system. To generate a report from the authority's Emphasys accounting system, specific data must first be spooled in the system, which can take anywhere from 20 minutes to two hours. Once the data is available, the fiscal officer imports the information into a more usable format, beginning with a text file then uploading into a Microsoft Excel file. Given the system's constraints, it is reasonable to conclude that to provide details on the activity for 16 AMPs on a monthly basis would be time and resource intensive.

The fiscal officer reported that he is currently developing a model for detailed project-level budgets. He plans to develop a model budget for AMPs, which includes HUD subsidies, salaries and wages, benefits and depreciation. He then plans to meet with each AMP manager individually to review the model budget and instructions for tailoring it to a specific AMP. Asset management project managers will then be responsible for adding in their remaining operating expenses, with descriptions, and return the budget to the authority for its review and consolidation. A consolidated budget (meaning all AMPs plus the central authority) is to be presented to the board of directors for approval in May 2011, in time to begin planning for FY2012.

Asset management project managers have not received regular financial operating statements

Asset management project managers and board members alike reported that until recently (beginning December 2010) they were not provided with financial statements. This is consistent with findings noted by KMH, LLP in its 2010 financial audit, which reported that despite using the Emphasys system as a general ledger, the authority lacked monthly financial statements. Asset management project managers reported that they could not plan adequately for their properties without a better sense of their financial position.

Also consistent with KMH's 2010 financial audit report, we found that the authority's accounting system has been hampered by vacancies in the Fiscal Management Office. Staff shortages significantly impacted the authority's ability to perform its core accounting functions. The Fiscal Management Office lacked a fiscal officer and a chief financial management advisor for much of the audit period of July 1, 2006 through June 30, 2010. This resulted in a system that failed to provide accountability and transparency to enable AMP managers to accurately develop budgets or account for their expenditures. This is most evident in the authority's inability to generate timely, accurate financial information.

The current fiscal officer began with the authority in November 2010. At that time, he began to develop a reporting format that gave AMPs profit and loss statements showing monthly and year-to-date actual versus budget, as well as prior year's amounts, with percentage variances. He also provided reports that showed total annual budget versus year-to-date actual figures, to give AMPs an idea of their remaining balances for the year. These statements were intended to help managers gauge their operating expenditures and remain within budget. Moreover, when asset management is implemented, these financial statements will assist AMP managers to operate their projects as for-profit entities. In addition, these reports help the authority's administration and board see which AMPs are having financial difficulty so they can plan and take steps to contain losses.

The authority's conversion to the asset management model is seriously restricted without AMP-specific financial statements. Under asset management, the authority must develop and maintain a system of budgeting and accounting that allows for analysis of actual revenues and expenses associated with each property, on a project level. These reports must reasonably represent the financial performance of each project. Elements such as project-specific operating income—including federal operating funds, rental income, and excess income—and project specific expenses, such as administrative costs, utilities, maintenance, tenant services, and property management fees, must be identified to specific properties.

Given the constraints in the authority's financial accounting system described above, the authority is now working with its software vendor to find solutions. According to the executive director, the authority's goal is to have a more robust financial accounting system that provides the authority and individual AMPs with financial reporting tools such as access to AMP general ledgers, report writing, quicker running of reports, and ease of use.

The authority is making strides towards implementing asset management

We found that the transition to asset management has been hampered by multiple changes of leadership and vision for the authority. For example, from 2002 through 2010, the authority had eight different executive directors serving in either an appointed or acting capacity. Furthermore, as described in Chapter 1, in 2002 HPHA's predecessor agency, the Housing and Community Development Corporation of Hawai'i (HCDCH), was placed under a Corrective Action Order (CAO) by HUD as a result of procurement violations. The CAO has been somewhat mitigated since, but is still in effect today. In 2004, HCDCH was designated a *troubled* agency by HUD, which again resulted in increased HUD scrutiny. In 2006, HCDCH underwent a major reorganization, which resulted in the creation of the Hawai'i Public Housing Authority (HPHA) and the Hawai'i Housing Finance Development Corporation (HHFDC).

Until recently, the HPHA board was primarily focused on operational crises rather than long-term strategic planning. However, with the hiring of a new executive director in March 2010, we witnessed an improvement in the communication and education processes between the board members and the authority. The board has also improved and clarified its role and relationship to the authority. During our 2009 fieldwork, we found no board policies assigning appropriate responsibilities to the board or executive director. Board members also lacked in training, and in some cases conducted business in a manner inconsistent with sunshine laws. During our 2011 fieldwork, we found the board had begun documenting policies and procedures, attended board training, and revised its means to create task force committees consistent with sunshine laws. With this foundation of better communication and education between the current executive director and the board, the authority is now in a position to be able to implement asset management and begin planning for its future successes.

The authority's board and management understand the necessity of asset management

The current executive director sees asset management as a priority, and with board support, is developing plans to ensure compliance with the model. The current executive director began with the authority in March 2010. By September 2010, she had secured technical assistance funds from HUD and organized an agreement with a private consultant to review the authority's position with respect to asset management. The consultant's draft technical assistance report was provided to the authority in February 2011, and the executive director plans to present a timeline and implementation plan to the board by April 2011.

These actions are in stark contrast to the previous executive director, who was with the authority from May 2007 through February 2010. During that time, the authority hired a consultant to assist with accounting services and conduct a reorganization study to implement asset management. That draft report was provided to the previous executive director in May 2008. The report recommended, among other things, a reorganization of the authority's structure and a change in its overall service delivery model to better serve the interests of the AMPs. The report was presented briefly to the board in May 2008, at which point the board advised the previous executive director to work with relevant employee unions to determine the authority's responsibilities with respect to the reorganization.

However, no action followed. When we spoke to the previous executive director in August 2009, he told us that because he did not like the findings of the draft report, he did not finalize it and that as a result, he was not obliged to implement its recommendations. Despite having spent $40,000 on this study, and despite providing accounting assistance and asset management training sessions to the board and to AMP managers, the authority took no steps towards implementing asset management during the previous executive director's tenure.

In contrast, the current executive director has made a concerted effort to educate the board on the importance of asset management. Under the previous executive director, during our fieldwork in 2009, board members spoke to us not of the importance of asset management, but of various operational crises, which the authority routinely faced due to "major concerns about the managerial ability of the executive director." By February 2011, however, under the current executive director, the board chairperson described asset management to us as "critical" to the authority and a good business practice. The board chairperson also described the current executive director as "competent" and "professional" and added that the board will support the executive director as needed to help implement the asset management model.

The authority is developing an asset management implementation plan with a target completion date of June 2011

The authority is well aware that its conversion to an asset management model of operations is severely behind schedule. Approximately three months after beginning with the authority, the current executive director applied for HUD technical assistance grant moneys in order to have an outside consultant assess the authority's progress with asset management implementation. This effort was undertaken with the awareness that there is a difference between implementing asset management components and actually practicing asset management on a daily basis.

The final technical assistance plan provided to HUD by Econometrica, a Maryland-based private research and consulting firm, noted that the Hawai'i Public Housing Authority requested technical assistance in several areas to address its needs. Namely, the authority requested a project-by-project assessment of asset management processes and procedures to identify areas of additional opportunity to achieve a comprehensive project-based operation that is in the best interest of the projects. The authority also asked for a review of the current AMP structure to determine whether it is in the best interests of the projects.

Our 2011 fieldwork coincided with the final phases of Econometrica's study. Econometrica issued a draft report to the authority on February 15, 2011 with its assessment of the housing portfolio's organization and recommendations for changes needed for the authority to fully convert to asset management. Econometrica recommends, in part, creating additional asset management projects (AMPs), developing standard protocols for all site offices (including for work order processing and a budget procedures manual), and raising the purchasing threshold at all asset management projects. Econometrica told HUD that HPHA should implement its recommendations by June 1, 2011, to coincide with the asset management implementation deadline set forth by HUD.

The executive director admits that this deadline is not realistic for the authority to fully implement asset management; nevertheless, she has begun the process of staff outreach to determine what is reasonable to implement, assign responsible parties, and develop a plan of action. Working from Econometrica's draft report, the executive director stated that for March 2011, the focus will be on staff outreach to determine priorities and specific action planning with a projected plan and timeline presentation to the board by its April 2011 meeting. While we cannot comment on the results of this planning effort, we do note that the current movement on implementing the asset management model represents a concerted effort on the authority's part to rectify its substantial lag in previously doing so.

Because the authority is in the plan development process, we recommend that it include a detailed work plan that assigns responsibility to appropriate people for the transition to asset management, with deliverables and a timeframe for completion. As appropriate, the authority should incorporate Econometrica's recommendations regarding the practical implementation of the asset management model, particularly those related to financial reporting and materials inventory storage, as they have the potential to improve current operations.

Conclusion

The Hawai‘i Public Housing Authority is tasked with promoting adequate and affordable housing to one of Hawai‘i's neediest populations. The authority's recent history—with multiple changes in executive directors, varying degrees of U.S. Department of Housing and Urban Development intervention, and a complete reorganization—had combined to shift management's attention away from the main goals of public housing management. However, with a new executive director, a supportive board of directors, and additional staff resources, the authority is now better situated to refocus its efforts on achieving its mission.

The authority has many challenges ahead. It must improve its monitoring of asset management project managers to ensure that tenants' needs are addressed and that the State's assets are protected for future users. The authority must also take action to implement the federally mandated asset management system model of operations as required by the U.S. Department of Housing and Urban Development. Any further delays in implementation may put federal funds at risk; for an agency already suffering from backlogs of deferred maintenance and staffing constraints, such a loss would be devastating.

Recommendations

The Hawai‘i Public Housing Authority should:

1. Improve monitoring over asset management project managers by:

    a. Holding AMP managers (both state employees and private contractors), contract administrators, and the branch chief who oversees them, accountable for their respective performance. Contract monitoring should be tied into actual results, with disincentives and/or penalties imposed for non-performance. Remedial plans and actions should be documented.

    b. In instances where staffing constraints limit availability for recurring monitoring, the authority should consider employing a risk-based approach in its review process and document those results.

    c. Developing a training program to promote standard interpretation of U.S. Department of Housing and Urban Development terminology. Specifically, in areas where HUD assesses AMP performance, a common understanding of specific terms should be communicated to AMP managers to ensure terms are applied appropriately and uniformly as they relate to specific criteria.

2. Improve operational consistency and organizational communication by:

    a. Prioritizing repair and maintenance work orders and turning over vacant units to new tenants (balanced against achieving much-needed capital improvement works). Priorities should be communicated to stakeholders to promote the understanding of the authority’s plans to reduce its 9,000-plus wait list to serve its population by achieving maximum tenancy.

    b. Developing a means to ensure tenant complaints are uniformly recorded, documented, and addressed; and communicate this clearly to all AMP managers.

    c. Developing a method to share best practices among its public housing projects. Some best practices have been recognized among housing managers both within Hawai‘i and in other jurisdictions, and the authority should be able to leverage off their success.

3. Address asset management implementation by:

    a. Seeking the Legislature’s approval, as needed, to update and streamline its accounting system so that its AMP managers have access to timely and accurate financial data.

    b. Developing a detailed work plan that assigns responsibility to appropriate people for the transition to asset management, with deliverables and a timeframe for completion.

    c. Incorporating, as appropriate, the recommendations in Econometrica’s technical assistance study regarding the practical implementation of the asset management model.

    d. Disseminating information and/or training, as needed and on a continuing basis, regarding how to implement asset management in practical terms.

4. The Hawai‘i Public Housing Authority’s board should continue its efforts to:

    a. Create policies and procedures specific to board operations and roles and responsibilities, including required training to orient new members as they are appointed to the board; and

    b. Support management’s efforts to implement asset management, creating policies as appropriate.

Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the board chairperson and the executive director of the Hawai‘i Public Housing Authority on May 17, 2011. A copy of the transmittal letter to the executive director is included as Attachment 1. The authority's response, received on May 27, 2011, is included in its entirety as Attachment 2.

The authority did not take issue with our findings. According to the executive director, our findings are compatible with her "to do" list. The executive director's response reported on her current action plans to address some of the report recommendations. These include a revitalization of the authority's AMP monitoring program, including development of and training on a comprehensive operations manual to ensure consistent enforcement of policies. The authority is also working on its conversion to asset management by improving its budgeting and accounting processes and utilizing the technical assistance plan provided by Econometrica, Inc.

ATTACHMENT 1

STATE OF HAWAI'I
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawai'i 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

May 17, 2011

COPY

Ms. Denise Wise, Executive Director
Hawai'i Public Housing Authority
1002 North School Street
Honolulu, Hawai'i 96817

Dear Ms. Wise:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Management Audit of the Hawai'i Public Housing Authority*. We ask that you telephone us by Thursday, May 19, 2011, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, May 27, 2011.

The Chairperson of the Hawai'i Public Housing Authority Board of Directors, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures

NEIL ABERCROMBIE
GOVERNOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
HAWAII PUBLIC HOUSING AUTHORITY
1002 NORTH SCHOOL STREET
POST OFFICE BOX 17907
Honolulu, Hawaii 96817
FAX: (808) 832-4679

DENISE M. WISE
EXECUTIVE DIRECTOR

BARBARA E. ARASHIRO
EXECUTIVE ASSISTANT

IN REPLY PLEASE REFER TO:
11:OED-108

May 26, 2011

RECEIVED
2011 MAY 27 PM 1:11
OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion Higa
Office of the Auditor
Kekuanao'a Building
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

The Hawaii Public Housing Authority (HPHA) appreciates the opportunity to respond to the Management Audit for the period July 1, 2006 to June 30, 2010. The audit does an excellent job in identifying the major issues facing the Hawaii Public Housing Authority. In reviewing the audit report, HPHA does not take issue with the findings. As you are aware, the audit was initiated before my tenure as Executive Director; and in fact, your findings are very compatible with my 'to do' list prepared soon after my appointment.

Economic reality precluded the successful resolution of many of the issues the audit identified. I became the Executive Director approximately 14 months ago and since then, there have been significant changes in key managerial positions, such as the Chief Planner, Chief Compliance Officer, State Housing Development Administrator, Fiscal Officer, and Procurement Officer. As we have proceeded with team building, we have been faced with unexpected challenges including a hiring freeze, furloughs, a reduction in force and our federal operating subsidies were reduced by 12%. My focus has been on meeting the challenges of asset management; building financial reporting capability; filling vacant units and improving the overall management of the Authority, while implementing Board policy direction relative to a major mixed income development project at Kuhio Park Terrance and Kuhio Homes.

In the detailed response that follows, I am reporting action plans that are currently in place, and explaining, to some degree, the reasons why we have not completed these actions to date.

It is my belief that HPHA is taking positive steps in the right direction, and in fact, we would welcome a follow-up review by your staff following the completion of FY 2012.

As you know, when faced with the responsibility of housing low-income families, children, the elderly and the disabled, the issues and challenges are often more complex than they appear. We remain committed to building an efficient and effective system to deliver housing services as a high performing agency.

In closing, we'd like to express our appreciation for the professional courtesy extended to us by your staff.

Sincerely,

Denise M. Wise
Executive Director

1. *The Authority's ineffective oversight of State- and privately-managed housing projects impacts tenant welfare.*

"HPHA's monitoring of its AMP managers lacks robustness. Monitoring of AMP manager's performance need to be strengthened, and more consistent."

The HPHA acknowledges that monitoring should be performed as part of the authority's normal operations and should be governed by policies and procedures to ensure consistency and accountability. As correctly noted within the audit report, the Property Management and Maintenance Services Branch (PMMSB) suffered deleterious staffing decreases that were compounded by State mandated hiring freezes, RIFs, and furloughs such that vacated positions could not be filled or reassigned.

Recent staffing changes have occurred that allow the authority to revitalize its AMP monitoring program and ensure consistent enforcement of policies. PMMSB is currently working with the Office of the Executive Director and the Board of Directors to formulate and implement more robust policies and procedures, as well as developing mandatory training programs for AMP management and recently hired staff monitors to further monitoring strength.

"The authority's oversight of its AMP managers' performance is inconsistent and inadequate."

Several of the vacancies that occurred in PMMSB during the audit period were a direct result of non-performance, so the HPHA did in fact impose repercussions for delinquent monitoring reports. However, due to the State hiring freeze, the authority was unable to replace these staff positions and the Branch did not have adequate staff remaining to assist the Branch Chief with the unassigned duties.

PMMSB is aware of the monitoring deficiencies noted in the audit report and as a result AMP managers are undergoing training with the monitors to be made aware of performance appraisal expectations. Underperforming AMP management will work with monitors to develop Corrective Action Plans based on prudent property management practices.

"The authority does not consistently enforce private contract terms to protect the State's interest."

The authority works closely with the U.S. Department of Housing and Urban Development (HUD) and the State Office of the Attorney General with all contracts to ensure compliance with procurement and contracting requirements. It was noted in the audit that the HPHA's contracts include provisions which protect the interest of the State.

All new additions to HPHA staff, including PMMSB, Planning & Evaluation Office, and Compliance Office, are required to undergo mandatory contract monitoring and administration training offered by the State Procurement Office. New PMMSB staff tasked with monitoring privately managed AMPs will be uniquely qualified to enforce necessary contract provisions and utilize the remedies provided therein to ensure safe, sanitary, decent housing is maintained by contractors. Failure to do so may result in lost management fees or contract termination.

"Failing property assessment scores indicate a failure to communicate and enforce standards."

PMMSB is currently in the process of developing a comprehensive property operations manual which will provide a consistent, thorough review of HUD and authority expectations for physical assessment standards. This manual, in addition to current monitor training programs and monthly AMP manager meetings, will provide consistent communications and enforcement capability for PMMSB.

The audit noted that "particularly in the areas where HUD assesses AMP performance, a common understanding of specific terms should be communicated to AMP managers to ensure that terms are applied appropriately and uniformly to specific criteria." After 2 years of delays, HUD finally issued its changes to the Public Housing Assessment System (PHAS) under interim rules on February 23, 2011. The new metrics of the PHAS will be incorporated into the monitoring reviews to ensure that the HPHA is tracking the appropriate data.

"State- and privately-managed AMPs have backlogs of repairs."

The authority acknowledges that during the audit period, there were a number of apparent deficiencies regarding duration of open work orders. As noted in the audit report, all reviewed AMPs attended to non-emergency work orders in less than 25 days. In fact, from 2007 to 2010, the authority saw an improvement in work order turnaround time to 20 days.

Review of a sample size of AMP work order logs did reveal inconsistencies in closing out routine work orders, which resulted in skewed lengths of time. Emphasis is being placed on such administrative tasks, and review of open and closed work orders will be a part of the reinstated monitoring program. The monthly AMP manager meetings will provide PMMSB staff an opportunity to address work order administration and ensure more accurate reporting.

"Deferred maintenance slows vacant unit turnarounds."

The HPHA acknowledges the accuracy of the audit report's statement that slow vacant unit turnarounds has an impact on families waiting for public housing, rent revenues, and overall funding available to the authority. Emphasis is being placed on the reduction of vacant unit turnaround times, and the end of the State hiring freezes and furloughs should assist the agency in seeing improvement in this management indicator. The authority is in recruitment for several positions throughout the State to increase maintenance staff levels so that lease up can be maximized to the greatest extent.

"The authority lacks a consistent method for addressing tenant complaints."

The authority acknowledges the value inherent in consistent tenant complaint methods. Written tenant complaints have been logged and tracked consistently throughout the audit period. However, PMMSB staff has been aware of this deficiency with respect to telephone complaints and has instituted a more robust tenant complaint log to track and evaluate telephoned complaints at the authority level. This authority level methodology will be communicated to AMPs at the monthly AMP managers meeting, and implementation will be monitored thereby.

2. The Authority has not yet implemented the Federally-mandated Asset Management System.

"The authority's accounting system does not adequately support asset management."

As acknowledged in the audit report, the HPHA is currently in the process of fixing its budgeting and financial process. In January 2011, the HPHA began providing operating budgets and monthly statements to its AMPs.

"Budgeting is based on "guess-timates"."

As acknowledged in the audit report, the HPHA is currently in the process of fixing its budgeting and financial process. During prior year budget processes, the AMPs were required to prepare their budgets under zero-based budgeting methods. Although financial reports were not issued by the fiscal office, AMP managers and Central Offices were required to maintain declining balance sheets to monitor and track expenses at the project level. Those balance sheets served as the historical basis for budget projections.

For the current budgeting cycle, AMPs and Central Offices were provided with expenditure reports for the current fiscal year. To that end, the budget for fiscal year 2011-2012 will be in compliance with the asset management requirement for project based budgets.

"Asset management project managers have not received regular financial operating statements."

As stated in the audit, the authority's fiscal system was hampered by vacancies in the fiscal office in key positions (i.e., Chief Financial Management Advisor and Fiscal Officer). The current fiscal officer began in November 2010 and at that time he began developing a reporting format that gave AMPs profit and loss statements showing monthly and year-to-date versus total annual budget, and variances.

Given the constraints in the authority's financial accounting system, the authority is now working with its software vendor to find solutions. The authority's goal is to have a more robust financial accounting system that provides the authority and AMPs with financial reporting tools such as access to AMP general ledgers, reporting writing, quicker running of reports, and ease of use.

"The authority is making strides towards implementing asset management."

As stated in the audit, "the transition to asset management has been hampered by multiple changes of leadership and vision for the authority. For example, from 2002 – 2010, the authority had eight different executive directors. The HPHA's predecessor agency was placed under a Corrective Action Order (CAO) by HUD. The CAO has been somewhat mitigated since, but is still in effect today."

The audit report further notes the improvement in the communication and education processes between the board members and the authority. The new executive director and the executive assistant have worked with the board to improve and clarify its role and relationship to the authority through written, detailed policies. Emphasis has been placed on board trainings and board practice has been improved by policy revisions enabling the creation of task force committees consistent with sunshine laws.

"The authority's board and management understand the necessity of asset management."

As stated in the audit, the HPHA is well aware that its conversion to an asset management model of operations is behind schedule. In February 2011, HPHA received a technical assistance plan from Econometrica, a Maryland based private research and consulting firm. While this transition has been delayed by staffing inconsistencies and State hiring freezes, the audit report notes that progress has been made toward this management indicator. HPHA Directors and staff have highlighted to complete conversion to asset management as a top agency priority.

The authority is working with the draft Econometrica report and agency staff to assure that the transition is carefully and properly completed in the most expeditious manner.