

**EVALUATING PUBLIC HOUSING IN THE U.S.: REIN-
ING IN WASTE, FRAUD, ABUSE AND MIS-
MANAGEMENT AT PUBLIC HOUSING**

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT OPERATIONS
OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

MAY 22, 2014

Serial No. 113-113

Printed for the use of the Committee on Oversight and Government Reform



Available via the World Wide Web: <http://www.fdsys.gov>
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

88-247 PDF

WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

DARRELL E. ISSA, California, *Chairman*

JOHN L. MICA, Florida	ELIJAH E. CUMMINGS, Maryland, <i>Ranking</i>
MICHAEL R. TURNER, Ohio	<i>Minority Member</i>
JOHN J. DUNCAN, JR., Tennessee	CAROLYN B. MALONEY, New York
PATRICK T. McHENRY, North Carolina	ELEANOR HOLMES NORTON, District of
JIM JORDAN, Ohio	Columbia
JASON CHAFFETZ, Utah	JOHN F. TIERNEY, Massachusetts
TIM WALBERG, Michigan	WM. LACY CLAY, Missouri
JAMES LANKFORD, Oklahoma	STEPHEN F. LYNCH, Massachusetts
JUSTIN AMASH, Michigan	JIM COOPER, Tennessee
PAUL A. GOSAR, Arizona	GERALD E. CONNOLLY, Virginia
PATRICK MEEHAN, Pennsylvania	JACKIE SPEIER, California
SCOTT DESJARLAIS, Tennessee	MATTHEW A. CARTWRIGHT, Pennsylvania
TREY GOWDY, South Carolina	TAMMY DUCKWORTH, Illinois
BLAKE FARENTHOLD, Texas	ROBIN L. KELLY, Illinois
DOC HASTINGS, Washington	DANNY K. DAVIS, Illinois
CYNTHIA M. LUMMIS, Wyoming	PETER WELCH, Vermont
ROB WOODALL, Georgia	TONY CARDENAS, California
THOMAS MASSIE, Kentucky	STEVEN A. HORSFORD, Nevada
DOUG COLLINS, Georgia	MICHELLE LUJAN GRISHAM, New Mexico
MARK MEADOWS, North Carolina	<i>Vacancy</i>
KERRY L. BENTIVOLIO, Michigan	
RON DeSANTIS, Florida	

LAWRENCE J. BRADY, *Staff Director*

JOHN D. CUADERES, *Deputy Staff Director*

STEPHEN CASTOR, *General Counsel*

LINDA A. GOOD, *Chief Clerk*

DAVID RAPALLO, *Minority Staff Director*

SUBCOMMITTEE ON GOVERNMENT OPERATIONS

JOHN L. MICA, Florida, *Chairman*

TIM WALBERG, Michigan	GERALD E. CONNOLLY, Virginia <i>Ranking</i>
MICHAEL R. TURNER, Ohio	<i>Minority Member</i>
JUSTIN AMASH, Michigan	JIM COOPER, Tennessee
THOMAS MASSIE, Kentucky	MARK POCAN, Wisconsin
MARK MEADOWS, North Carolina	

CONTENTS

Hearing held on May 22, 2014	Page 1
WITNESSES	
Mr. David Montoya, Inspector General, U.S. Department of Housing and Urban Development	
Oral Statement	8
Written Statement	10
Mr. Cecil House, General Manager, New York City Housing Authority	
Oral Statement	25
Written Statement	27
Mr. Kelvin Jeremiah, President and CEO, Philadelphia Housing Authority	
Oral Statement	31
Written Statement	34
APPENDIX	
Sanford Housing Authority Timeline and Pictures, submitted by Chairman Mica	62

EVALUATING PUBLIC HOUSING IN THE U.S.: REINING IN WASTE, FRAUD, ABUSE AND MISMANAGEMENT AT PUBLIC HOUSING AU- THORITIES

Thursday, May 22, 2014,

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT OPERATIONS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:04 a.m. in room 2154, Rayburn House Office Building, the Honorable John L. Mica [chairman of the subcommittee], presiding.

Present: Representatives Mica, Connolly and Issa.

Also present: Representative Maloney.

Staff Present: Melissa Beaumont, Majority Assistant Clerk; Molly Boyd, Majority Deputy General Counsel and Parliamentarian; Katelyn E. Christ, Majority Professional Staff Member; John Cuaderes, Majority Deputy Staff Director; Mark D. Marin, Majority Deputy Staff Director for Oversight; Matt Mulder, Majority Counsel; Laura Rush, Majority Deputy Chief Clerk; Andrew Shult, Majority Deputy Digital Director; Aryele Bradford, Minority Press Secretary; Adam Koshkin, Minority Research Assistant; and Lucinda Lessley, Minority Policy Director.

Mr. MICA. Good morning.

I would like to call to order the Subcommittee on Government Operations, a subcommittee of the Government Oversight and Reform Committee. I welcome you to today's hearing.

The title of today's hearing is Evaluating Public Housing in the U.S.: Reining in Waste, Fraud, Abuse and Mismanagement at Public Housing Authorities. Let me explain the order of business.

First, members of the panel will be recognized for opening statements and then we will go to our witnesses. We have three witnesses this morning. We will hear their testimony and then get into questions.

I see we are joined by our colleague from the full committee, Mrs. Maloney. Mr. Connolly is recognized for a motion.

Mr. CONNOLLY. Mr. Chairman, I would ask unanimous consent that our colleague, Mrs. Maloney, be allowed to participate as a member of the subcommittee.

Mr. MICA. Without objection, so ordered. She, of course, is most welcome this morning.

I will begin with my opening statement.

Last night, I spent some time reviewing some of the material that been prepared for the hearing. Sometimes it makes it difficult to sleep at night when you read accounts of public funds and public endeavors to try and assist people that aren't working well.

We have all been shocked by what have seen at the Veterans Administration. Last night, I was shocked by what I saw in regard to waste, fraud and abuse. Mr. Issa always starts the hearing with a little statement that the purpose of our committee is oversight and making certain the taxpayers' money is properly spent. This is what we are going to do with this hearing today. It is an important function.

I will begin with an opening statement and yield to other members as we move forward this morning.

Today, we are going to look at how we can best improve the administration of public housing and low cost rental assistance programs, particularly with the U.S. Department of Housing and Urban Development, commonly known as HUD.

We will do so by examining some of the expenditures of taxpayer funds made by public housing authorities, also using the acronym PHAs.

Unfortunately, all too often these housing authority executives seem to be taking advantage of the system by paying themselves expensive and excessive salaries and benefits, by not distributing funds properly, and at times, we have documented cases of defrauding taxpayer money.

Today's hearing will examine how to best put a stop to some of these problems in mismanagement. HUD spends about \$6 to \$7 billion a year in capital operating funds for about 1.2 million public housing units which house about 2.7 million people.

Through its largest rental assistance program, the Section 8 program, a voucher program that HUD uses private sector market rentals for some 2.2 million low income households at a cost of about \$20 billion a year.

According to HUD, the average annual cost per unit for the HUD voucher program in 2013 was \$7,800, not an enormous amount of money but significant. Together, HUD's provision of all public housing and rental assistance programs accounted for nearly 60 percent of its total budget in 2013. In testimony last month, Secretary Donovan stated this figure increased over 84 percent in HUD's 2015 budget request.

Strengthening the integrity and soundness of the Nation's public housing system is absolutely critical to safeguarding public funds. Unfortunately, the public housing system in the United States also suffers from a large capital backlog, high vacancy rates in some places and many units are in desperate need of reconstruction.

HUD released a study in mid-2011 finding the backlog of capital needs in public housing at that point stood at \$2.7 billion and annual needs are accruing at a rate of some \$3.4 billion a year.

According to HUD, 478 total developments are currently considered failing. As of March 31, 2014, there were 10,258 public housing units that had been approved for and awaiting demolition and 23,524 currently under review for removal by HUD.

Nationwide, a system of approximately 4,000 quasi-governmental housing authorities exist and have administered public housing

and rental assistance on behalf of HUD for the past 80 years. Unfortunately, problems with some of the housing authority finances are all too common.

As of the second quarter of fiscal year 2014, 49 housing authorities were designated as very high risk, 38 housing authorities were also designated as troubled and assigned additional monitoring through HUD's public housing assessment system. Eight housing authorities are also under some type of receivership or falling into default in their contracts with HUD.

Unfortunately, misuse of taxpayer money by some of these housing authority executives is very common. Taxpayer money is being spent with little oversight and housing authority executives are oftentimes unethically dispensing funds on initiatives unrelated to public housing.

Since the start of fiscal 2012, the Office of Inspector General of HUD has issued 75 audits related to housing authorities reporting about \$225 million in questionable costs and about \$24 million in funds to be put to better use, according to his report.

Today, the Inspector General is here to discuss these audits and the substantial work that has been conducted to date on these issues. We will also hear testimony from officials from some of the Country's largest housing authorities.

Mr. Kelvin Jeremiah has been President and CEO of the Philadelphia Housing Authority for little over a year, since March 14, 2013. The HUD IG has found some serious problems with the Philadelphia Housing Authority which is the fourth largest housing authority in the United States.

Notably, Senator Chuck Grassley said, one of the strongest audits he had ever seen was released by HUD in March of 2011. That report found that the Philadelphia housing authority paid \$30 million to 15 law firms from 2007 to 2010 and could not fully explain what the money went for.

The Philadelphia Housing Authority also made unreasonable and unnecessary payments of \$1.1 million to outside attorneys to obstruct the progress of HUD OIG audits.

Mr. Cecil House, General Manager of the New York City Housing Authority, is also here to testify today. That Housing Authority is the largest in the Country.

The HUD OIG recently released two audits criticizing that authority's administration of its Section 8 vouchers. The first audit questioned \$1.16 billion in disbursed housing assistance payments. The second audit determined that 99 of the 119 units inspected at that housing authority did not meet HUD's housing quality standards; and 24 of these 99 units were in material noncompliance with HUD standards which could cost the New York Housing Authority \$148 million next year alone.

Mismanaging public housing funds is not relegated to the largest housing authorities. Let me tell you a quick story about my experience. I represent central Florida's small community to the north, Sanford, Florida. Ever since almost the day I took office, I have had nothing but problems with that particular housing authority.

It actually has never been in my district. It is adjacent and has been very close to my district. The first experience I had was the housing authority director coming to my office with a list of charges

by the State's attorney of offenses she had committed and asking me to help her. I tried to help her out the door of my office after I read what was going on.

I have been working on that issue, that project, this is a very small housing authority, not like the big ones we have here. My goal has been to ensure that taxpayer money is being expended in a transparent and efficient manner and also provide public housing or affordable housing to people who need it.

Unfortunately, the Sanford Housing Authority mismanagement, fraud and other problems go on and on like a nightmare. In October 2011, an OIG audit found that \$1.2 million in funds given to the Sanford Housing Authority starting in 2007 were "abusive or ineligible, not reasonable or not properly supported."

Specifically, the OIG uncovered over \$50,000 in credit card and leave abuses, including \$16,000 in unofficial travel by the former housing authority executive, I will put his name in the record; "\$481,000 in public assistance funds was not budgeted or eligible. Mr. Toot also spent \$1.1 million for services provided by three firms without support that he acquired services in compliance with HUD and SHA's procurement requirements."

As a result of this and prior mismanagement, HUD was obligated to spend more than \$9 million to relocate tenants and are going to demolish 374 of 480 public housing units owned and managed in six developments in Sanford that might otherwise have been preserved.

Unfortunately, today the mayor of Sanford was not able to be here so I am taking a couple minutes to go into what he would have told you.

Earlier this year, the Orlando Sentinel reported that the Sanford Housing Authority expects to spend \$1 million on operating expenses even though only six families are living in the public housing run by the authority. They had an over \$100,000 water bill for six families probably because nobody turned off the water and the public is paying for it. It is just outrageous.

I was quoted after I did a review saying we could put people up in the Ritz Carlton cheaper than the money we spent in this mess. In the past, I have actually written and had that authority taken over by HUD which you can do. I didn't know you could do that but they informed me after.

Tenants brought rats they captured in a cage to my office and no one would do anything about it. We took over, they spent millions of dollars getting it back and they put this guy in who ran away with taxpayer supported money, money that was supposed to be for people who need it for low cost housing.

HUD may argue that because public housing authorities are State and local government entities, there is no reason to conduct meaningful oversight of them at the congressional level. However, expenditure of all taxpayer money deserves our full attention and we will provide that proper oversight with this and other hearings as necessary.

At this hearing, we will start the conversation into how we can improve public housing, reining in the corruption, fraud and abuse that undermine the ability of scarce public housing funds to reach individuals and families most in need of that help.

Mr. MICA. That was a long opening statement. I want to thank the staff; they have done a great job in researching some of this.

I had to make up a history of my housing authority. I calculated the millions of dollars that have been wasted, abused and stolen. This is the story and I want that a part of the record. Without objection, Mr. Connolly asked it be made a part of the record.

Mr. MICA. It is just a nightmare. I apologize for taking more time. I have taken the time the mayor would have had.

I recognize Mr. Connolly for his opening remarks.

Mr. CONNOLLY. Thank you, Mr. Chairman.

The story you described is very sobering. Housing is a complex subject. The experiences vary obviously region to region. I am very interested in hearing more about the troubles and experiences in this hearing today.

I do want to talk about my own experience, however. Until I came to Congress, I was the Chairman of Fairfax County, one of the largest counties in the United States in suburban Washington.

I was chairman for five years. I started as one of my major priorities an affordable housing initiative, working with our Redevelopment and Housing Authority. The goal was to try to preserve, among other goals, 1,000 units for four years because we were rapidly losing affordable housing in our community.

We, in fact, preserved outright, that we purchased, 2,400 units. It is a very successful program. In fact, for 15 consecutive years, HUD has designated us as a high performer, the highest designation a housing authority can get. We have also been designated as a moving to work agency by HUD, one of only 39 in the United States. There are successful models.

Also, as part of that affordable housing initiative, we focused on workforce housing because our police, firefighters and teachers couldn't afford to live in the communities they served. We also focused on homeless in ten years because transitional housing is the key to achieving that kind of goal.

Since I started that initiative, we are the only major jurisdiction in metropolitan Washington that has seen any decrease in its homeless population. We have consistently seen a decrease every year such that we have reduced our homeless population by over one-third. I think that is a pretty good accomplishment.

We dedicated a penny in our tax rate to affordable housing. We had public support for it. A penny was about \$22-\$24 million a year. It was the first time in our history we had ever dedicated a penny on the tax rate for any purpose. We did it for affordable housing.

We were trying to deal with a crisis where housing prices were going through the roof before the bubble burst and the people that served our economy could not afford to live in our community and created enormous congestion.

It has actually been a kind of success story. We have had some bumps along the way. We have a single residency occupancy facility that is very successful in helping single folks in transitional housing get back on their feet.

We have a very vibrant partnership with the non-profit and faith communities, everything from a hyperthermia program in the winter that actually successfully allowed us to reduce the number of

hyperthermia deaths in the winter to zero for the first time in our history and get people back on their feet.

We opened some family shelters to make sure we could keep families together and not disperse kids into government foster care that broke them up and had a discontinuous impact on their education.

There are other models but you have to have a clean government, people committed to the mission, there had to be real clarity about what we wanted to accomplish, you have to have metrics and you have to have rigorous examination and zero tolerance for people who cheat. If people are gaming the system, they are going to be booted out of affordable housing.

The goal here is to use those taxpayer dollars in a wise fashion. So there are models of success. I humbly submit my community as one of them, but there are also, unfortunately, as the Chairman pointed out, a myriad of examples where we fall far short.

I think today's hearing is designed to try to better understand what the elements for success are, what elements have led to less than success and how can we, working together at the federal and local levels, overcome those obstacles so we can have more success stories.

Thank you, Mr. Chairman, for holding this hearing.

Mr. MICA. Thank you.

I might also say I have in my locale, a few miles away, a county housing authority that operates in an exemplary way. We changed out in my previous district pre-World War II housing in Daytona Beach, in Palatka and West Augustine.

I have always said the Federal Government should not be a slum lord and that we should be responsible. Unfortunately, today we will hear some of the examples of problems that need to be addressed but there are some authorities that do incredible work. I am glad to hear your story.

I will yield for five minutes to the gentlelady from New York, Mrs. Maloney. Welcome, and you are recognized.

Mrs. MALONEY. Thank you so much for including me in this hearing.

Public housing is critically important in our Nation. Mr. Connolly, the Ranking Member, and I share your concerns over waste, fraud and abuse that undermines the support of public housing and affordable housing that is so desperately needed in our Country.

I want to compliment Mr. Connolly on your innovative story on housing. I guess it is Arlington, right?

Mr. CONNOLLY. Fairfax County.

Mrs. MALONEY. Fairfax County. To have raised the money for affordable housing with the penny tax code is a very innovative and great idea.

I thank you for including me in today's hearing.

I want to welcome the New York City Housing Authority general manager, Cecil House, who will be testifying. NYCHA provides vital services to my constituents and so many others throughout New York City. It is the largest public housing authority in North America. NYCHA houses so many people that if it were a city, it would rank 23rd in population size in the United States.

More than 400,000 New Yorkers reside in NYCHA's 334 public housing developments around our five boroughs. It is hugely important to housing needs in New York City.

Another 235,000 receive subsidized rental assistance in private homes through the NYCHA-administered Section 8 leased housing program and NYCHA public housing represents 8.2 percent of the city's rental apartments and is home to over 4 million or 4.8 percent of the city's population.

More 76,000, roughly 20 percent, of residents are seniors and I thank the more than 11,000 NYCHA employees who work to support New York City's housing needs.

Public housing provides a real service to our communities which is why it is so important that they are well run and uses taxpayer dollars effectively. It is in huge demand in New York. When I was a city council member, the waiting list was over 900,000 people.

I join many of my New York federal and local colleagues in calling for a top to bottom forensic audit of how NYCHA is using its dollars. I look forward to seeing that report later this year so that we know best how to streamline NYCHA and preserve our public housing lifeline.

Affordable housing in New York is very hard to come by. Our new mayor has announced his plan to build and preserve 200,000 safe and affordable housing units in New York City. I look forward to working with Mayor de Blasio and NYCHA to achieve this goal to see the city's housing needs met.

We all know this requires critical investment. I am deeply committed to maintaining the quality of public housing in New York City and around the Country. I look forward to today's testimony and the way to best preserve it, in my opinion, is to make sure there is no waste, fraud and abuse so that the public support in tax dollars is there.

I thank all of you testifying today and especially my colleagues.

Thank you and I yield back.

Mr. MICA. Thank you, Mrs. Maloney, and thank you for participating.

I had some pictures of my housing authority in Sanford put up. I guess I should make these pictures a part of the record.

Mr. MICA. This is where people should live and have public housing. You see where we have vacant lots where we have torn down the units. This is boarded-up public housing, and that is some we had rehabbed and now they are being demolished. This picture is where they demolished some of the units.

Now we are having a debate as to whether to have the housing authority continue. I would like to see them consolidate with the other housing authority in town or in our community. The administration costs of two housing authorities closely aligned geographically makes no sense.

Let me mention to the witnesses this is an investigative hearing. I will swear you in in a minute. There are other members not here today. Members may have seven days to submit opening statements for the record.

I will recognize our panel composed of: David Montoya, Inspector General, U.S. Department of Housing and Urban Development; Cecil House, General Manager, New York City Housing Authority;

and Kelvin Jeremiah, President and CEO, Philadelphia Housing Authority.

I want to welcome our witnesses. As I said, this is an investigative hearing and we do swear in our witnesses. Please stand and raise your right hand.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

[Witnesses respond in the affirmative.]

Mr. MICA. Thank you.

Let the record reflect that the witnesses answered in the affirmative.

Welcome to each of you. I don't know if you have testified before us before. We would like for you to summarize your testimony in five minutes so we can have questioning and exchange of information. If you have additional information, testimony or data you would like submitted to the record, just make that request and we will comply.

First, let me welcome Mr. David Montoya, the Inspector General of the U.S. Department of Housing and Urban Development. You are recognized. Welcome, sir.

WITNESS STATEMENTS

STATEMENT OF DAVID MONTOYA

Mr. MONTOYA. Chairman Mica, Ranking Member Connolly and members of the subcommittee, I am David Montoya, Inspector General for the Department of Housing and Urban Development.

I thank you for the opportunity to highlight our perspective on waste, fraud, abuse and mismanagement in public housing authorities or PHAs and our work over the years.

Public housing was established to provide decent and safe rental housing eligible for low income families, the elderly and persons with disabilities. It is the role of HUD's Office of Public and Indian Housing to not only safeguard is but to create opportunities for residents' self sufficiency, economic independence and to assure integrity by all program participants.

There are approximately 1.1 million households living in public housing units which are managed by over 3,000 PHAs. Approximately 2,300 PHAs also locally administer HUD's Section 8 Housing Choice Voucher Program which is the department's principal program for assisting eligible families obtain housing in the private market. This program provides rental assistance to approximately 2.2 million families.

Oversight of HUD's public housing programs continues to be a priority for my office. Since the beginning of 2012, we have issued 75 audits related to PHAs, recording roughly \$225 million in questioned costs and approximately \$24 million in funds to be put to better use. Our investigative activity also continues to be significant as we have completed a total of 216 administrative and civil actions and 121 criminal actions.

In order to better synthesize and highlight the continuing problems we have identified in this area, we are assessing our lengthy

history of work for continuing patterns of practice that negatively affect PHAs.

This effort is intended to focus the department's attention on problem areas that we and others have reported on over many years and to set about to develop and recommend an array of strategies for consideration by the department and Congress on ways to address and correct longstanding problems.

We have found that PHAs often operate with little oversight and too often we see executive directors and PHA boards or commissions exercising little or no oversight of their own. Too often these officials have few or no qualifications to effectively discharge their responsibilities. Certification and accreditation of key personnel associated with running of a PHA are missing links in mitigating opportunities for mismanagement and poor governance.

These vulnerabilities are magnified when one considers that HUD relies a great deal on electronic recording through PHAs for self assessments and through other self reported information collected in HUD's information systems as its primary form of oversight.

Until HUD is able to modernize its outdated systems and more effectively target its resources, it will continue to be constrained in inadequate oversight.

This is further exacerbated by programs designed to loosen oversight of funding and reporting which we believe are counterintuitive to the many problems we and GAO have reported on over the years. It is my contention that cities, counties and States should do more to share in the burden and responsibility for the management, operation and oversight of their public housing authorities and programs.

While HUD is responsible for overseeing PHAs, it has limited resources which are easily overwhelmed by the magnitude of the program and requirements. In order to address recurrent systemic problems, we have issued several broad prevention materials including integrity bulletins and posted them on our website.

These are designed to showcase abuses as well as to educate PHA staff, local and State officials and the public on better ways to avoid mismanagement and fraud.

The department's role and mission has greatly increased over the last decade, including spearheading redevelopment in post-9/11 lower Manhattan, the devastated post-Katrina Gulf Coast, the economic crisis caused by the sub prime mortgage collapse and the recent Hurricane Sandy disaster response.

Because of the limited capability of the department to provide direct oversight, it is critically more important than ever that program participants, beneficiaries and local and State authorities take on more responsibility for proper administration and oversight of PHAs.

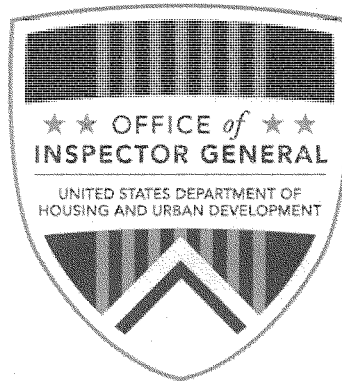
My office is strongly committed to working with the department and Congress to ensure that these important programs operate efficiently, effectively and as intended.

This concludes my oral testimony and I would be pleased to answer your questions.

[Prepared statement of Mr. Montoya follows:]

Testimony before the U.S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Government Operations

“Evaluating Public Housing in the U.S.: Reigning in Waste, Fraud, Abuse
and Mismanagement at Public Housing Authorities”



Testimony of
The Honorable David A. Montoya
Inspector General
Office of Inspector General
U.S. Department of Housing and Urban Development

May 22, 2013

9:00 a.m., Rayburn House Office Building, Room 2247

Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee, I am David A. Montoya, Inspector General of the U.S. Department of Housing and Urban Development (HUD). Thank you for the opportunity to highlight our perspectives on waste, fraud, abuse, and mismanagement in public housing agencies (PHA) and on related oversight issues in HUD's Public and Indian Housing (PIH) programs as well as to discuss our longstanding work in these areas.

Public housing was established to provide decent and secure housing for eligible low-income families, the elderly, and persons with disabilities. The role of PIH is to ensure safe, decent, and affordable housing; create opportunities for residents' self-sufficiency and economic independence; and assure fiscal integrity by all program participants. Public housing comes in all sizes and types, from scattered single family houses to high rise apartments for elderly families. There are approximately 1.1 million households living in public housing units managed by over 3,100 PHAs. HUD administers federal aid to local PHAs to manage housing for low-income residents at affordable rents. HUD furnishes technical and professional assistance in planning, developing and managing these local PHAs.

PHAs also administer HUD's Section 8 Housing Choice Voucher (HCV) program, which is the Department's principal program for assisting very low-income families, the elderly, and persons with disabilities enabling them to afford safe and sanitary housing in the private market. The HCV program provides rental assistance to about 2.2 million families and is administered locally by approximately 2,300 PHAs. Funding for the HCV program consists of housing assistance payments made to private owners to cover the difference between a tenant's rent contribution and the unit rent, and of administrative fees paid to PHAs to cover the cost of administering the program.

Oversight of PHAs continues to be a priority for HUD OIG. Since the beginning of fiscal year 2012, OIG has issued 75 audits related to PHAs reporting about \$225 million in questioned costs and about \$24 million in funds to be put to better use. Our investigative activity in this program area also continues to be significant. Since the beginning of fiscal year 2012, we have completed a total of 216 administrative or civil actions; 121 convictions, pleas or pretrial diversions; and produced financial recoveries exceeding \$8 million.

PIH programs have long been a source of concern for HUD OIG, particularly in regards to the overarching areas of financial management and governance. In order to better synthesize and highlight the continuing problems we have identified in our body of work in this area, OIG launched an initiative designed to assess our lengthy history of work products for continuing patterns of practice that negatively affect PHAs. The initiative is intended to focus the Department's attention on problem areas that we and others have reported on over many years and to set about to develop and recommend an array of strategies for consideration by the Department and Congress on ways to address and correct some of these long-standing problems. We have placed on our web site a list of focus areas emanating from this assessment of our PIH portfolio. These topics categorize where we have found, through the body of our work, areas that have continued to impede the overall effectiveness of the programs and where we intend to conduct special projects, audits, evaluations, or investigations into the future, and where the Department can concentrate its resources. These subject matters include:

- Ethics/Governance Structure
- Housing Quality Standards
- Improper Payments
- Movement of Poorly Performing Executive Directors (ED) from one PHA to Another
- Moving to Work Demonstration Program
- Program Oversight and Enforcement
- Procurement and Contracting
- Questionable/Ineffective Use of Administrative Funds
- PHAs under Receivership

Ethics/Governance Structure

A PHA is a legal entity authorized by a state to develop or to administer low-rent public housing as defined in the U.S. Housing Act of 1937. PHAs are authorized by state law and created by cities or counties, which must adopt an activating resolution. Once authorized by a city or county and activated by resolution, a PHA is a separate public body, a special purpose district---similar to a school district, public utility district or port authority---providing public housing. Therefore, a PHA is responsible for the management and operation of its local public housing program and, by extension, cities and counties are responsible for the second level of oversight after the PHA's ED and the boards/commissions which are established to operate the PHA.

Over the course of our work, we have seen that PHAs often run with little oversight and are, in some instances, prone to ethical lapses that may attract media attention. PHAs operate under state law and, accordingly, ethics rules and requirements vary from state to state. The activities of EDs and other officials should be overseen by the PHA board/commission, but we have also seen in many situations where the board/commission exercises little or no oversight and the members themselves have few or no qualifications to effectively discharge their responsibilities. Our audit and investigative case work over the years has shown a propensity for some officials to improperly use the resources of the PHA for personal benefit or gain. Oversight of the ED and PHA is an inherent responsibility of the board/commission and, if executed properly, would mitigate much of the misconduct and mismanagement we eventually uncover. Finally, we believe that such responsibility extends to levels above the housing authority governance structure to city, county and state government authorities. These units of government must take a more active and aggressive role in their oversight obligations especially when one considers that these programs support and service their citizenry including those that may be vulnerable. Without such checks and balances in place at all levels, abuses will continue.

Housing Quality Standards

Time and again we see violations of housing quality standards at individual PHAs. These standards are an integral part of HUD's commitment to safe, decent and sanitary housing. In particular, we have performed numerous audits of the administration of local Housing Choice Voucher (HCV) programs and whether the units located therein met applicable physical quality standards. In response to our audit work in this area, HUD has been working to revise its standards and to develop a uniform inspection protocol to provide for improved oversight of the physical condition of the rental units that are participating in the program.

One of our key positions from a May 2008 audit was a recommendation that the Department develop a physical inspection system for the HCV program within three years from the issuance of the report. HUD has been working on this system for approximately six years and has only recently tested protocols for conducting the inspections. Unfortunately, HUD does not expect to implement the inspection system until October 2014. In the meantime, our external audits of PHAs continue to report significant percentages of units that do not meet HUD's housing quality standards.

As a recent example, HUD OIG audited the New York City Housing Authority's (NYCHA) HCV program in a report dated May 1, 2014. NYCHA is the largest PHA in the United States and as of January 1, 2013, had 92,561 vouchers assisting 225,000 residents. Our findings revealed that the Authority did not always ensure that its units met HUD's housing quality standards. Of the 119 units HUD-OIG inspected in its sample, 99 did not meet standards at the time of inspection. Further, 24 of the 99 units were in material noncompliance. We concluded that a material deficiency existed if (1) the condition causing the deficiency created unsafe living conditions, (2) the deficiency was a preexisting condition, (3) the condition existed but was not noted in a prior inspection, or (4) the PHA allowed the owner to defer maintenance that was needed to bring the unit into compliance. We estimate that over the next year if the PHA does not implement our recommendations, HUD will potentially pay more than \$148 million in housing assistance for units that materially do not comply with HUD's standards.

HUD has challenges in monitoring the HCV program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in HUD's information systems. Based on recent audits and HUD's on-site confirmatory reviews, it is clear that the self-assessments are not always accurate and that there remains some question as to the reliability of the information contained in PIH systems. PIH management expects that it should be able to address these limitations with the Next Generation Management System, which is under development but currently is not fully funded and is years away from completion. HUD has implemented the Portfolio Management Tool, which is a positive step, but that system lacks all the functionality of the Next Generation Management System. Also, its data accuracy and completeness are dependent on field offices that do not fully utilize the application. Therefore, until both systems are completely implemented and evaluated, HUD will continue to face challenges monitoring the HCV program.

Improper Payments

Our latest review of HUD's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) was issued on April 15, 2014. We reported that HUD did not comply with IPERA reporting requirements because it did not sufficiently and accurately report its (1) billing and program component improper payment rates; (2) actions to recover improper payments; (3) accountability; or (4) corrective actions, internal controls, human capital, and information systems as required by IPERA. In addition, we found that HUD's supplemental measures and associated corrective actions did not sufficiently target the root causes of its improper payments, as identified by HUD's contractor studies, because it did not track and monitor processing entities to ensure prevention, detection, and recovery of improper payments due to rent component and billing errors.

HUD's billing error estimates were based on fiscal year 2004 data for public housing. The study was conducted several years ago, and HUD had not reevaluated it to consider inflation, programmatic, or population changes. Therefore, HUD's estimate did not reflect HUD's true annual billing error. Additionally, HUD did not report a billing error for the tenant-based rental assistance program because PIH believed it had eliminated a billing error when the program became budget-based using predetermined payments. OIG believes, however, that while traditional billing errors may not exist, HUD is still at risk of paying PHAs improperly since the predetermination of payments was based on expenses that were self-reported by PHAs through HUD's Voucher Management System. An error could still occur if a PHA reported its expenses incorrectly and was given funding over the amount of its actual expenses.

One specific area we would note for improvement concerns the lack of use of background checks. Housing agencies are required to conduct criminal history checks on applicants using the Department of Justice' National Crime Information Center (NCIC) database. Our experience has been that many PHA's do not conduct these checks routinely because of the cost. Each inquiry costs the PHA \$24 dollars and that amount cannot be passed onto the applicant. Consequently, agencies have been forgoing these checks and using methods that are not as effective. Because of mobility in the Section 8 program, we are seeing problem tenants moving to new jurisdictions with past issues not being discovered because NCIC checks are not being conducted.

OIG believes there is potential solution to this problem. HUD permits housing agencies to retain the greater of 50 percent of collections of fraudulent housing assistance payments or actual costs incurred to collect such amounts. During the past two calendar years, PHAs recovered over \$122 million in fraudulent housing assistance payments. We suggest Congress allow an additional portion of the recoveries to be placed into a fund, and be dedicated to all PHAs to fund the background checks. This would not only prevent improper payments, but would also reduce the administrative burden of the current "pay and chase" approach for improper payments. In addition we recommend that Congress also authorize PHAs to conduct NCIC checks on all new employees. This would help prevent the movement of embezzlers and swindlers from one agency to another.

Movement of Poorly Performing Executive Directors from one PHA to Another

Over the years we have anecdotally noted the movement of PHA officials from one PHA to another. In particular, situations were noted where a poorly performing individual, or individual who had even been caught engaging in questionable activity, emerged at a different PHA. This raises questions about the due diligence employed by the hiring PHAs to fully examine the skills, qualifications, and even the reputation of candidates for critical positions such as the ED. Except in the limited situation where HUD has taken over a PHA, HUD does not play a role in overseeing the hiring of a PHA's key officials, which is a function of the mayor or other local or county officials.

Moving to Work Demonstration Program

The Moving to Work (MTW) program has been a demonstration program for a small group of PHAs for the last 15 years. The program was authorized in 1996 legislation and implemented in 1999. MTW had been originally designed to provide PHAs the opportunity to design and test

innovative, locally-designed strategies that use federal dollars more efficiently, to help residents find employment and become more self-sufficient, and to increase housing choices for low-income families. MTW provides exemptions from many existing public housing and voucher rules and gives PHAs more flexibility on how to use its federal funds.

An assessment of the body of HUD OIG work generates a level of concern over such an amplification of this program. Monitoring and oversight, at all levels, of those authorities participating in the MTW demonstration program continues to be particularly challenging as each PHA has a different MTW plan. If the program is expanded, HUD needs to ensure that the selection and approval process is objective and not questionable as we have reported in the past. The demonstration program was originally intended for high performing authorities yet HUD has admitted substandard performers into the program. HUD should require all current MTW PHAs, and those being considered for inclusion, to demonstrate their ability to properly administer HUD funds and to have a proven track record before inclusion in the program. Simply, HUD should not admit a PHA with a long history of poor or of questionable performance. It is counterintuitive and goes against the intent of the authorizing language.

While participating PHAs report annually on their performance, an April 2012 Government Accountability Office (GAO) report found that MTW guidance does not specify that the plans provide that performance be quantifiable and be outcome oriented. By not identifying the performance data needed to assess the results of the PHA's MTW program, HUD is unable to effectively evaluate the program. Evaluation of its success is a key component of a demonstration program and provides the basis for determining whether such program has proven its effectiveness in order to continue into the future. It was never intended to be a permanent program until such time as the data proves its benefits. A demonstration program that has been going on for 15 years should be adequately "demonstrated" by this juncture. More troubling is that HUD has not developed a systematic way to identify lessons learned to get the benefit intended from the MTW demonstration program.

Accordingly, there appears to be limited evaluative support that MTW has accomplished what HUD and Congress intended. HUD needs to "demonstrate" where a designated PHA has actually designed and tested innovative strategies that use federal dollars more efficiently, helped residents find employment and become self-sufficient, and increased housing choices for low-income families before expansion. Currently, there is a wide push for expansion of the program. HUD has indicated that it intends to increase the number of MTW participants and believes that with additional participants it will be able to demonstrate the positive impacts of the program. However, we stress that HUD needs first to develop a methodology to assess MTW program performance as recommended by GAO and to evaluate the results prior to making a decision on increasing the number of MTW participants.

Expanding the program would require HUD to fully implement recommendations contained in GAO's April 2012 report on the program. HUD disagreed with GAO's recommendation that it create overall performance indicators. OIG feels strongly that performance indicators are critical to demonstrating program results especially when one considers the amount of federal dollars going into a program that then allows for less oversight of those dollars. Increased scrutiny is needed not only to ensure that the program's statutory objectives are met, but to also prevent waste (or outright fraud) such as in the excessive use and expense of outside attorneys and

insurance carriers, as well as other inappropriate uses of HUD funds which HUD OIG has shown occurred in recent audits of participating PHAs particularly when there is less oversight.

In fiscal year 2012, we reported significant departures from the MTW agreement by some of the participating PHAs. HUD needs to quantify a formal process for terminating participants from the demonstration program for failure to comply with established agreements especially because these PHAs are exempt from many existing public housing and voucher rules and therefore are subjected to less oversight by HUD.

Program Oversight and Enforcement

HUD relies a great deal on electronic monitoring through PHAs' self-assessments and through other self-reported information collected in HUD's information systems as its primary form of oversight. Until HUD is able to modernize its outdated systems and more effectively target its resources, it will continue to be constrained. Any system of "self-reporting" should be met by the Department, we believe, with a response of trust but verify.

In addition, we have observed reluctance by HUD to take enforcement actions on its own and have primarily relied on HUD OIG to initiate such remedy. An attitude often displayed by the Department in response to problems that come to the fore emphasizes that public housing is a locally administered program and that such problems are not a federal issue for resolution. It takes this position despite the fact that it is regularly criticized for not having better control over the PHAs. While HUD is ultimately responsible for overseeing PHAs regardless of its posture, it should be noted that it has limited resources which are easily overwhelmed by the magnitude of the program participants and of requirements. It is HUD OIG's contention that oversight responsibility begins with the ED, followed by the board or commission and then should be further enhanced with oversight by city, county and state government authorities where a PHA is located. When things go wrong, we often find that such responsibility has been neglected by some, if not all, of these parties and yet HUD bears the brunt of the blame.

Both the OIG and the GAO have reported recurrent oversight weaknesses. For example, GAO reported in 2009 that HUD's oversight processes could be more focused on identifying potential inappropriate use or mismanagement of public housing funds. In addition, and as mentioned earlier, OIG has long been concerned about HUD's reliance on PHAs' self-reported information to monitor the program. The assessments are not always accurate and there remains some question as to the resulting reliability of the information contained in PIH systems. The OIG continues to focus significant audit and investigative resources on oversight and enforcement issues.

Procurement and Contracting

Our external audits and investigations find repeated instances of PHAs violating HUD's and its own internal procurement requirements. For example, we routinely find that PHAs will bypass controls designed to ensure a fair and competitive procurement process, will award contracts to other than the lowest bidder with no justification, will pay for construction work that was not actually performed, or will even illegally accept bribes or kickbacks in exchange for contract awards. While it is difficult to quantify the extent to which procurement violations have

occurred, we nevertheless have seen enough blatant examples over time for this to be a cause for concern.

Questionable/Ineffective Use of Administrative Funds

Asset Management

PHAs of 250 or more units are required to operate their public housing programs under “asset management,” consistent with the broader multifamily management industry. Under asset management, a Central Office Cost Center (COCC) is established to manage all the centralized activities of a PHA. The COCC charges each project a reasonable management fee consistent with fees paid in the local market. These fees are in lieu of overhead allocations. The fees that a project or program pays the COCC are an eligible program expense and the earned fees are considered local income and thus are construed as nonfederal funds.

Under asset management, HUD made a policy decision to give a blanket approval for PHAs to use up to ten percent of their Capital Fund, without support, for administrative costs. Once this fee is “earned” by the PHA, any amounts in excess of the PHA’s costs become available for whatever purpose the PHA desires. We have found instances in our external audits of extravagant spending from these funds that did not appear to be within the statutory mission of PHAs. Due to this policy decision, our audit findings were disputed during the audit resolution process with the Department and were not ultimately sustained by the Department. We expect to issue an audit in the near future relating to HUD’s oversight of PHAs’ asset management fees and central office cost centers and the continuing concerns we have regarding abuses occurring when such funds are defederalized.

Executive Director Compensation

The fiscal year 2012 appropriations bill established a cap of \$155,500 on the use of federal funds for PHA salaries. This legislation was in response to media reports and to congressional outrage over revelations about excessive annual compensation for some PHA EDs, which in one case exceeded \$600,000 and in other cases exceeded the salary paid to a governor of a state or a mayor of a city.

In 2013, HUD published a notice in the *Federal Register* asking public housing authorities for more comprehensive data on how they pay their EDs, including information with a breakdown of base salary, bonus and incentive compensation, and which payments are made with federal funds. Last week, May 16, 2014, the Department published the results outlining 2013 executive compensation information on its website.

Despite its intention, a significant concern still exists that without capping the entire compensation package of the employee, this requirement can be easily bypassed. The legislation does not preclude the use of non-Federal funds to exceed the cap. Also, there may be ways to use federal funds if they are not within the strict definition of the term “salary,” such as using federal funds for a “bonus,” or to use federal funds if they cross fiscal years and split the amounts. Moreover, even with a total compensation package

- 13 cap, cars and other benefits can be made part of the PHA's inventory but then be made
- 14 available for the personal use of the employee. Also, other perks can be written off as
- 15 PHA expenses and, therefore, not appear as part of a compensation package. Moreover,
- 16 those under the cap are not required to publish their salaries and therefore transparency is
- 17 not achieved if there is non-reporting.

Use of Outside Attorneys

We have been concerned for some time about the extent to which some PHAs use outside legal counsel. This issue was particularly egregious at the Philadelphia Housing Authority which paid \$30.5 million for outside legal services provided by 15 law firms during the period April 2007 through August 2010. Alarming, the PHA could not adequately support \$4.5 million that it paid to outside attorneys during that period, virtually the entire limited amount we reviewed, raising questions about the propriety of the remaining \$26 million in payments that we did not review.

In addition, the PHA made unreasonable and unnecessary payments of \$1.1 million to outside attorneys to obstruct the progress of HUD OIG audits. The PHA also did not obtain required HUD written concurrence before accepting all settlement offers arising out of its litigations and allowed an apparent conflict of interest situation to exist when it entered into a contract with a law firm that employed the son of its board chairman.

PHAs Under Receivership

There are two basic types of receiverships: administrative and judicial. Administrative receivership is a process whereby HUD declares a PHA in substantial default of its Annual Contributions Contract and takes control of the PHA. In such a situation, HUD appoints one or more of its departmental staff to work on-site at the PHA to manage housing operations and conduct the affairs of the authority. Judicial receiverships are established, monitored and supervised by federal courts. HUD currently reports seven administrative and two judicial receiverships as outlined below:

Name	Locale	Start Date
Administrative		
East St. Louis Housing Authority	East St. Louis, IL	October 1985
Wellston Housing Authority	Wellston, MO	July 1996
Housing Authority of New Orleans	New Orleans, LA	February 2002
Virgin Islands Housing Authority	St. Thomas, VI	August 2003
Detroit Housing Commission	Detroit, MI	July 2005
Housing Authority of the City of Lafayette	Lafayette, LA	March 2011
Gary Housing Authority	Gary, IN	July 2013
Judicial		
Housing Authority of Kansas City	Kansas City, MO	July 1993
Chester Housing Authority	Chester, PA	August 1994

A September 2012 OIG audit relating to the East St. Louis receivership found that HUD did not effectively oversee and manage the receivership of that PHA. Specifically, it did not have an adequate structure in place for its staff and did not develop a receivership plan specific to the PHA.

As the above list indicates, some PHAs have remained under receivership for long periods of time. An August 2011 OIG evaluation report noted that since 1979, there have been 22 PHAs placed under receivership, either by HUD or by the Federal courts. As of February 2011, 7 PHAs had been under receivership between 6 and 26 years with an average of 14 years. PHAs under judicial receiverships have remained in that status for an average of 17 years. We have found instances where problems continued for years after the PHAs were under HUD control, notably at the East St. Louis and New Orleans PHAs. Particularly troubling were two major investigative cases at the New Orleans PHA (see below), where the frauds occurred while HUD was acting as receiver for the PHA.

Fraud in PHAs and by PHA Officials

HUD OIG's Office of Investigation conducts investigations involving allegations of fraud by PHA employees. Many of its cases highlight similar findings found in OIG audits in the areas of inadequate financial management and governance. Our analysis of our investigative casework for fiscal years 2010 through 2014 indicated there were 47 suspensions and 42 debarments,

which precluded discredited PHA employees from participating in federal programs for a specified period of time or indefinitely.

Historically, PHA fraud investigations involve the misuse of HUD funding. Some examples include: inappropriately using a PHA credit card for personal use; embezzling capital funds by over-paying relatives for maintenance/rehabilitation work that in some instances was never performed; soliciting/accepting bribes for resident waiting list priority; and embezzling receivables from tenant rent payments. Investigated PHA employees typically include EDs, accountants, contractors, maintenance personnel, inspectors, attorneys, and board members. In some instances, ED's were not criminally charged but were terminated under suspicion of illegal or unethical behavior. We have seen occurrences where an ED who was under investigation or suspicion had been rehired at another PHA despite their questionable prior conduct.

The PIH program represents approximately 37 percent of HUD OIG's total open investigations. Currently, OIG has 105 ongoing investigations involving allegations of fraud, waste, and abuse by PHA employees. Additionally, 47 of these open investigations are on current or former EDs of PHAs around the country. The level of public corruption exhibited by some local government officials entrusted to administer PHA programs is disconcerting. Below is a selection of recent cases investigated by OIG in which EDs or senior Housing PHA personnel were charged criminally:

- **Chelsea Housing Authority, Massachusetts**

A former ED pled guilty and was sentenced to 36 months in prison, followed by two years of supervised release, for falsely reporting his salary in annual budgets required by HUD and by the Massachusetts Department of Housing and Community Development.

- **Philadelphia Housing Authority, Pennsylvania**

A former maintenance worker was sentenced on conspiracy charges. Between September 2002 and July 2011, he and others conspired to purchase building materials with PHA funds, sell those materials at a discount, and conceal those fraudulent sales. He was sentenced to 13 months incarceration followed by a term of 3 years' probation and ordered to pay restitution of nearly \$350,000.

While not charged criminally, it is important to note that in March of 2014, HUD debarred the former ED from participation in federal programs for three years based on evidence of false certifications and improper use of federal funds for lobbying identified and reported on by HUD-OIG's Office of Audit.

- **Bessemer Housing Authority, Alabama**

A former accountant for the PHA was sentenced to 30 months incarceration, 36 months supervised release and ordered to pay nearly \$200,000 in restitution for her earlier guilty plea to embezzlement and aggravated identity theft. She embezzled the funds for her personal use.

- **Maywood Housing Authority, Illinois**

A former ED pled guilty to one count of felony theft and one count of official misconduct and was sentenced to 6 years imprisonment for diverting over \$400,000 in portable housing assistance voucher payments from several PHAs across the country. Although these funds were “earmarked” for Maywood, they were ultimately diverted to a hidden personal account. Those funds were later traced to the purchase and to subsequent monthly principal and interest payments on a personal residence, which was valued at more than \$500,000.

- **Housing Authority of New Orleans (HANO), Louisiana**

The former contract Chief Financial Officer was sentenced to 46 months incarceration, 36 months of supervised release, and ordered to pay a \$75,000 criminal penalty and approximately \$226,000 in restitution to HUD. From 2006 through 2009 the CFO was contracted to perform CFO services while the PHA was under HUD receivership. The CFO then submitted false timesheets for himself and his wife for hours which were never worked, overbilling the contract by over \$900,000. The CFO was also debarred from participation in federal programs for an indefinite period of time.

In another HANO case, a former employee was sentenced to 5 years’ probation, and ordered to pay approximately \$660,000 in restitution. Between April 2007 and May 2009, he and a former procurement officer carried out a scheme to steal more than \$600,000 from the agency when they created 135 fraudulent purchase orders, all payable to one of the employees who then deposited the checks and made cash payments back to the former procurement officer.

- **Taos County Housing Authority, New Mexico**

A former ED was sentenced to 30 months in prison and was ordered to pay restitution of nearly \$800,000, jointly and severally with her husband. In addition to the restitution, her husband was sentenced to 24 months in prison. Their respective sentences were a result of their individual guilty plea in August 2013 to one count of conspiracy. Between 2003 and 2011, the former ED conspired with her husband to embezzle about \$815,000 in HUD Section 8 funds.

- **Deerfield Beach Housing Authority, Florida**

A former executive assistant embezzled nearly \$350,000 from the PHA’s Housing Choice Voucher program. She was responsible for making payments to landlords but instead made changes to the PHA’s internal payment system and re-routed rental payments into her personal bank account. The scheme was detected when she forgot to pay a landlord and the bank noted that the payment in question had been paid but to another account. She was convicted of theft of government funds, sentenced to 18 months incarceration, and ordered to pay HUD nearly \$330,000 in restitution.

Addressing fraud at PHAs has long been a difficult challenge because agencies, or their Inspectors General, were not required to report suspected fraud to our office. However, this may be changing because the Office of Management and Budget issued a new uniform rule regarding recipients of federal awards. HUD has until December 26, 2014 to issue implementing regulations. Among the provisions is one that would require housing agencies, among other federal award recipients, to report in writing to the awarding agency all violations of federal criminal law involving fraud, bribery, or gratuity potentially affecting the federal award. My office will work with the Department to develop policies and procedures to make this an effective requirement.

Prevention Initiatives

In order to address some of the systemic causes of waste, fraud, abuse and mismanagement in public housing, the HUD OIG has issued several fraud prevention materials including integrity bulletins. These resources are designed to highlight abuses and red flags as well as to educate public housing officials on better ways to avoid poor management or operational decisions that may lead to fraud particularly in the areas of financial management and governance. HUD OIG has previously provided presentations to various national housing associations such as the Public Housing Authorities Directors Association (PHADA).

In order to educate PHAs, boards/commissions, city, county and state agencies and the public, we have posted on our web site prevention related materials that have covered best practices for:

- Avoiding embezzlements
- Hiring using good screening procedures
- Adopting enforceable fraud policies
- Alerting PHA commissioners to integrity risks
- Cautioning applicants and tenants on subsidy fraud

We believe these materials can play a role in assisting PHAs. Nevertheless, we also realize that pervasive institutional attitudes and behavior affect the way in which PHAs perceive HUD's oversight role and the way in which the Department views its responsibility. In our interaction over the years, we see that PIH at times seems to support an attitude of mission above management. As a reaction to some of the pervasive issues that appear in audits and investigations, we believe that rather than accepting them as a cost of doing business, the industry needs to step up to the plate to provide real enforcement and self-policing. This is necessary particularly in light of what we view as an erosion of HUD authority, ability, and sometimes willingness to hold PHAs accountable for the federal funds they receive. Programs like MTW and policies designed to loosen federal oversight of funding and reporting are, we believe, counterintuitive to the many problems we and GAO have highlighted over the years.

Both PIH and Congress have given PHAs more and more independence on how they operate so as to help them stretch limited funds. However, while some authority officials may be using those initiatives in productive ways to improve operations, others have used such separation to abuse the programs and to enrich themselves because HUD has ceded control. A manifestation of this scenario plays out in some states where lawmakers are increasingly calling for the consolidation of regional or state PHAs so that more accountability can be put into management

particularly at those that are small in size. Associations like PHADA would like to see strengthened ethics and accountability requirements but do not have the ability to impose corrective action because they are voluntary organizations and lack any real authority over their membership to impose standards.

All this discussion must be understood in light of the fact that neither the Department nor OIG will ever have enough resources to conduct comprehensive oversight of the thousands of PHAs. Consequently, some alternative is needed that gives HUD the ability to assert control when necessary but is not so restrictive in its administration of compliance with regulations and rules that it may not take into account differences in size, location, or capabilities at individual PHAs.

While housing authorities want the autonomy to run their own programs with little interference, history has shown that there needs to be support to make sure they have the skills, knowledge, and willingness to address integrity issues. Our current and future fraud awareness bulletins are aimed at providing that help but more needs to be done. Certification and accreditation of key personnel associated with the running of PHAs are a missing link in mitigating opportunities for mismanagement and poor governance. Integrity programs to reduce the rising costs of improper payments for rental assistance are another area needing attention. Finally, a clearinghouse to scrutinize employment of EDs and others in positions of trust is potentially a solution to the issue of bad actors landing employment in other PHAs. While many EDs are running their authorities well, the extent of damage inflicted by an incompetent ED and/or board or commission can be financially devastating to a community and to a PHA with limited resources and its impact can be widespread particularly to a population that is in great need of the services it provides.

Recommendations

The following are recommendations culled from a wide variety of work produced by this office over an extensive period of time and are offered to try to address some of the problems highlighted in this testimony. These include:

- Require a complete background check on EDs and on other positions of trust before employment and require applicants to sign a consent form to disclose publically available records including previous audits or investigations where the applicant had been employed.
- Require the implementation of a regulation that mandates EDs to have some combination of specific education, or direct and relevant experience, to manage a PHA before they can be hired.
- Require the Department establish a certification and accreditation system for key personnel in PHAs.
- Require PHA boards and EDs to meet minimum training requirements in the area of contracting and procurement.
- Require all PHA employees provide a signed statement on employment applications under penalty of perjury that they are not under investigation and have not been involved in financial crimes or crimes of moral turpitude prior to being hired. Require PHAs to have policies that allow them to deny or terminate employment if these conditions are disclosed or discovered later.

- Require all PHA employees sign a code of conduct/ethics agreement that specifically describes prohibited conduct such as the following: misuse of the credit card; misuse of the PHA's vehicles; leasing of luxury vehicles; unauthorized travel without justification; use of PHA's funds to pay personal bills, mortgages, or student loans; etc.
- Require PHAs to have in place anti-fraud policies and programs designed to address improper payments in order to mitigate abuse and to reduce the occurrence of tenant fraud.
- Enforce restrictions regarding the hiring or awarding of contracts to relatives.

Conclusion

The Department's role has greatly increased over the last decade as it has had to deal with unanticipated disasters and economic crises that, in addition to its other missions, have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. Because of the limited capability of the Department to provide direct oversight and of budget cuts throughout the federal government it is critically important more than ever that program participants and beneficiaries take responsibility for their proper administration and participation in these programs. My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently and effectively and as intended for the benefit of the American taxpayers now and into the future.

Our goal is to foster positive change that will improve the management of the nation's public and assisted housing and ultimately the lives of the people who benefit from these programs. This will be a continuing process that will require city, county and state authorities and the Department to put forth innovative solutions and the OIG stands ready to assist where needed. In addition, the PHAs themselves and the organizations that represent them must also play a critical and more active role in addressing many of these concerns. Working together, we can all help to solve many of these recurring and seemingly intractable problems.

Mr. MICA. Thank you for your testimony. We will go to questions after we have heard from the other witnesses.

Let me now recognize Cecil House, General Manager of the New York Housing Authority. Welcome. You are recognized.

STATEMENT OF CECIL HOUSE

Mr. HOUSE. Thank you, Chairman Mica, Ranking Member Connolly and members of the subcommittee.

I am Cecil House, General Manager, New York City Housing Authority or NYCHA, as we call it, the largest public housing agency in the United States.

NYCHA is committed to fulfilling its mandate under federal law to provide safe, decent and affordable housing to over 630,000 low and moderate income Americans. To provide a sense of scale, as Congresswoman Maloney indicated, if the population of NYCHA was a city unto itself, it would be the Nation's 23rd largest city, comparable in size to the City of Boston.

Our public housing program encompasses over 178,000 apartments in over 2,600 buildings located throughout New York City with more than 31,000 private landlords participating in our Housing Choice Voucher Program. The Authority also provides housing assistance to an additional 225,000 individuals.

I have been at the helm of the Authority's day to day operations for the past 20 months and can say our new administration under the leadership of Mayor Bill de Blasio and NYCHA Chair and CEO Shola Olatoye is determined to ensure that NYCHA is a successful practitioner of good management and a provider of quality services to the working families, elderly and disabled citizens and veterans who rely on our programs for their housing, assistance in entering the workforce, educational opportunities and the stability of our communities.

We are committed to preserving every unit of public housing in New York City, to strengthening our Housing Choice Voucher Program, and to ensuring that NYCHA is a responsible guardian of these public assets which will play an important role in the Mayor's new housing plan to build or preserve over 200,000 safe and affordable housing units in New York City.

We at NYCHA believe that ensuring public dollars are being well spent on providing housing assistance to the most vulnerable in our society is critical. We systematically review our operations to improve the quality of life of NYCHA residents and to increase the efficiency and productivity in the management of our programs.

NYCHA is restructuring operations, reducing administrative overhead, modernizing our business systems and implementing data driven managerial controls to better monitor the performance of essential functions. We are working hard to implement cost savings in order to return the best value to the taxpayers for every public dollar allocated.

At the managerial level, the Authority has implemented a hiring freeze and has reduced its total employee head count by over 16 percent since 2004. We are relying on constantly updated metrics to derive efficiencies from a wide spectrum of functions resulting in improved service levels, for apartment maintenance and repair rates, heat and hot water complaints, elevator up times, Section 8

recertification and inspection rates, rent collection and delinquency rates and apartment prep turnaround time, among other essential markers.

Our backlog, for open maintenance and repair work tickets in particular has been dramatically reduced. Our public housing assessment system and Section 8 management assessment program scores are trending upward.

Procurement is another area in which NYCHA is bringing best practices from the private sector to bear on our operations with a continued focus on reducing costs. Following a thorough review, NYCHA is streamlining and updating our inventory systems. We have consolidated 14 procurement offices into a single department resulting in better internal controls, improved reliability and greater leveraging of our expenditures.

No managerial objective is more critical than the fiscal responsibility and transparency the Authority owes to the public. NYCHA has implemented a rigorous, structured and thoughtful finance and budgeting process designed to deliver the greatest value for the limited resources that we have.

The Authority publishes our annual budget online and meets regularly with residents and stakeholders to discuss the allocation of resources. NYCHA also maintains an audit department to provide assessment of the efficiency of the Authority's operations, the adequacy of internal controls, the accuracy of financial data, and compliance with applicable laws, regulations and procedures.

Beyond NYCHA's own efforts, the City of New York maintains a robust anti-fraud, waste, theft and corruption infrastructure in the form of its Department of Investigations. Fundamental to ensuring that the highest standards are provided by NYCHA in the expenditure of public funds is the NYCHA Office of the Inspector General, a 50-member unit within the Department of Investigations working independently of the Housing Authority's leadership and reporting directly to the Department of Investigations Commissioner.

Specific IG teams are dedicated to monitoring the Authority's activities in regard to contracting, construction management, labor and other key areas.

The Authority faces great challenges in attempting to meet the need for affordable housing in New York City which far exceeds supply and is seeking to maintain a large portfolio of aging residential buildings in an era when federal commitment to public housing has dramatically receded and the Authority burden has grown.

Mr. CONNOLLY. Excuse me. We are over time and with the Chairman's permission, I am going to ask the gentleman to summarize because we have votes. We probably won't be coming back after the votes because there will be around eight votes. We want to have the chance to dialogue.

Mr. MICA. If you could begin to conclude, please.

Mr. HOUSE. I would be pleased to respond to any questions you have.

[Prepared statement of Mr. House follows:]

Written Testimony of
Cecil R. House, General Manager of the New York City Housing Authority
for a hearing with respect to
“Waste, Fraud, Abuse and Mismanagement of Taxpayer Funds by
Public Housing Authorities”
before the
United States House of Representatives
Subcommittee on Government Operations
Committee on Oversight and Government Reform
May 22, 2014

Chairman John Mica, Ranking Member Gerald Connolly and Members of the Subcommittee, thank you for this opportunity to testify before the subcommittee. The subcommittee has invited testimony concerning waste, fraud, abuse, and mismanagement of taxpayer funds by public housing authorities. Asking whether public funds are being well spent on providing housing assistance to the most vulnerable in our society is a legitimate and necessary inquiry, and one that we at the New York City Housing Authority (NYCHA) focused on, in the context of managerial decisions we make. We systematically and proactively review our operations to improve the quality of life of NYCHA residents, and to increase efficiency and productivity in the management of our programs.

Our new administration, under the leadership of Mayor Bill de Blasio and NYCHA Chair and CEO Shola Olatoye, supports these efforts with a renewed commitment of energy, emphasis and resources, in order to ensure that NYCHA is a successful practitioner of good management and a provider of quality services to the families that rely on public housing or NYCHA’s Housing Choice Voucher program. New York City considers public housing and the Housing Choice Voucher program to be assets that are vital to the local economy, and effective investments of federal dollars. Working families, elderly and disabled citizens, and veterans, all rely on these programs for housing, assistance in entering the workforce, educational opportunities and the stability of a community.

Therefore, there is a commitment to preserving every unit of public housing and every Housing Choice Voucher in New York City, and to ensuring that NYCHA is a responsible guardian of these public assets. NYCHA plays a critical role in the Mayor’s new housing plan to leverage public and private assets to protect neighborhoods by building and preserving over 200,000 safe and affordable housing units in New York City.

Achieving this goal will require strategic planning and intensive collaboration among City agencies and NYCHA with the State and Federal governments, in partnership with for-profit and not-for-profit developers and property owners, and financial institutions. The Plan relies upon the State and Federal governments to continue to fund affordable housing programs. It is a bold approach to increasing and protecting the supply of affordable housing needed for New York City to retain the diversity and vitality of its neighborhoods and its edge as the world's leading city for opportunity.

The New York City Housing Authority, now celebrating its 80th year, is the largest public housing authority and administrator of Housing Choice Vouchers in the United States, committed to fulfilling our mandate under the Housing Act of 1937 of providing safe, decent, and affordable housing to the over 630,000 low- and moderate-income New Yorkers receiving housing assistance. To provide you with a sense of the magnitude of our work, if the population served by NYCHA was a city unto itself, it would be the nation's 23rd largest, with a population comparable to Boston's, according to the most recent (2012) estimate by the United States Census Bureau. NYCHA's public housing program encompasses over 178,000 apartments in 334 developments located throughout New York City. With more than 31,430 private building owners participating in our Section 8/Housing Choice Voucher program, the Authority also provides housing assistance to an additional 225,000 families.

I. Enhanced Managerial Controls

Prior to sequestration, NYCHA was on a path to restructuring its operations, reducing administrative overhead, modernizing business systems by investing in information technology, and implementing data-driven managerial controls in order to better monitor the performance of essential functions. In the administration of the Section 8/Housing Choice Voucher program for example, the Authority launched initiatives designed to contain costs and reduce the overall size of the program while doing everything possible, after sequestration, to avoid terminating vouchers for families currently receiving housing assistance.

In other areas of operations, NYCHA is working hard to implement cost saving efficiencies in order to return the best value to the taxpayer for every public dollar allocated. Some of these initiatives are readily quantifiable. At the managerial level, for example, NYCHA has implemented a hiring freeze over the past year. The Authority has reduced its total employee headcount over the past ten years by 16.7%. At the same time, we have become a far more data-driven organization, one that relies on constantly updated metrics to determine our performance in---and derive efficiencies from---a wide spectrum of functions. This has resulted in significantly improved service levels for apartment maintenance and repair rates, heat and hot water complaints, elevator uptime rates, Section 8 recertification and inspection rates, rent collection and delinquency rates, apartment prepping time and unit turnaround times, among other essential markers. Our backlog for open maintenance and repair work tickets in particular, has been dramatically reduced.

We strongly believe that our enhanced reliance on metrics is showing positive results. For example, HUD utilizes the Public Housing Assessment System (PHAS) and Section 8 Management Assessment Program (SEMAP) to rate the performance of public housing authorities on a broad range of categories

relevant to the maintenance and management of developments. We believe that the metric-driven focus and consequent shift in resource deployment has improved NYCHA's PHAS and SEMAP scores, with both sets of scores trending upward.

Procurement is another key area in which NYCHA is bringing best practices from the private sector to bear on our operations, with a continuing focus on deriving greater efficiencies and extricating cost from our processes. In streamlining and updating our inventory and supply systems, NYCHA has consolidated fourteen procurement offices into a single department, resulting in better internal controls improved reliability, and greater leveraging of our expenditures. Following Federal, State and City procurement rules and guidelines, NYCHA is focused on procuring the right product for the least cost.

II. Fiscal Responsibility

The Authority considers its fiduciary responsibility to federal and municipal taxpayers to be a matter of paramount importance. In this era of enormous need for affordable housing, yet diminished resources to provide it, we simply cannot afford to do otherwise. In that regard, perhaps no managerial objective is more critical than fiscal responsibility and transparency. NYCHA has implemented a rigorous, structured and thoughtful finance and budgeting process designed to deliver the greatest value across our many complex operations and functions for the limited resources we have. The Authority publishes its annual budget on-line, and meets regularly with residents and other stakeholders to discuss the allocation of resources.

NYCHA also maintains an Audit Department providing independent assessments of the efficiency and effectiveness of the Authority's operations, the adequacy of internal controls, the accuracy of financial data and compliance with applicable laws, regulations and procedures. These objectives are accomplished by conducting operational/ financial, compliance and Information Technology (IT) audits selected as a result of a formal risk assessment process. To ensure the independence of the Audit Department, its personnel report only to the General Manager, with oversight from NYCHA's Audit Committee, comprised of two board members, and three independent non-affiliated volunteers. The Audit Committee members have extensive backgrounds in housing and finance, and individual areas of expertise in accounting, finance, development, quantitative data analysis and information technology and security.

The Authority has been recognized by leading professional institutions for the quality and transparency of its financial reporting and accounting. In each of the past ten years NYCHA has received a Citation of Merit from the Government Finance Officers Association of the United States and Canada (GFOA) for achieving the highest standards in government accounting and financial reporting by publishing an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR) that demonstrates a constructive "spirit of full disclosure."

III. Inspector General Function

Complementing the managerial practice and financial controls that NYCHA has in place, and fundamental to ensuring that the highest standards are abided by NYCHA's expenditure of public monies, is an independent and proactive Inspector General's (IG) office. The City of New York maintains a robust anti-fraud, waste, theft and corruption infrastructure in the form of its Department of Investigation (DOI). The DOI is one of the oldest law-enforcement agencies in the country and an international leader in the effort to combat corruption in public institutions. It serves the Mayor and the people of New York City as an independent and nonpartisan watchdog for the City government.

NYCHA's IG is a fifty-member unit within the DOI, working independently and autonomously of the housing authority and its leadership, and reporting directly to the Commissioner of the DOI. The IG investigates and proactively seeks to deter the occurrence of fraud, waste, corruption or theft across every aspect of the Authority's operations. Specific teams are dedicated to monitoring the Authority's activity in regard to contracting, construction-management, labor and other key areas. Particular areas of the Inspector General's focus include:

- Surveilling in-place construction to assess how construction work contracted for by the Authority compares to what was paid for.
- Investigating housing fraud, to ensure that the public resource which are NYCHA apartments, are leased only to individuals and families who've undergone required application and tenant selection process.
- Investigating whether prevailing wages are paid in instances where that is required, and whether projects are in-compliance with federal workforce development mandates.

IV. Conclusion

The City of New York considers the public housing and Housing Choice Voucher programs to be assets that are vital to our local and national infrastructure. At a time of a crisis-level shortage of affordable housing, NYCHA provides critical workforce housing to an estimated 80,000 residents working in health care, education, public safety and other sectors that are essential to the City's economic success. Despite these positives however, the Authority faces great challenges in attempting to meet a need for affordable housing in New York City which far exceeds supply, and in seeking to maintain a portfolio of 2,600 residential buildings, many of which are over 60-70 years old, and have major building and mechanical systems that are fast approaching the end of useful lifespans. These challenges are exacerbated by the fact that the federal commitment to public housing has dramatically receded in recent decades while the regulatory burden has grown. There remains much work to be done, but under our new leadership, the Authority is demonstrating measurable, verifiable, progress across critical areas of our operations, and is systematically seeking to improve efficiency and productivity in each. We appreciate the opportunity to appear before you today to renew our commitment to proactively and creatively meet the Authority's obligations to residents and taxpayers. I will be pleased to respond to such questions as you may have.

Mr. MICA. Thank you.

Our next witness is Mr. Kelvin Jeremiah, President and CEO of the Philadelphia Housing Authority. Welcome and you are recognized.

STATEMENT OF KELVIN JEREMIAH

Mr. JEREMIAH. Good morning, Chairman Mica, Ranking Member Connolly and members of the subcommittee.

I am Kelvin Jeremiah, the President and CEO of the Philadelphia Housing Authority.

PHA was established in 1937 as a municipal corporation organized under the statutes of the Commonwealth of Pennsylvania to provide safe and decent housing to low and moderate income individuals in the City of Philadelphia.

PHA is primarily funded and is accountable to the United States Department of Housing and Urban Development, its board of commissioners, the Mayor, the City Council and the citizens of the City of Philadelphia.

As such, PHA employees, residents and contractors hold a significant position of public trust. The public therefore has a right to expect PHA's employees, contractors and those doing business with PHA to perform their responsibilities honestly and with integrity.

Thank you for the opportunity to highlight my perspective on waste, fraud and abuse and mismanagement of housing authority programs and appropriations.

PHA is the fourth largest housing authority in the United States and the largest landlord in Pennsylvania. PHA is also one of a select group of housing authorities across the Country that has attained movement to work status. This designation allows PHA to spend its \$375 million annual budget in a more flexible manner, strategically allocating resources on housing and self sufficiency programs to residents that best fits the local environment.

Financial support for PHA's operations and capital needs comes primarily from rent payments and subsidies provided by HUD. More specifically, approximately 93 percent of PHA's revenues comes from the Federal Government in the form of subsidies for affordable housing. Only 6 percent of our revenue comes from tenant rents. The balance comes from grants from the city, the commonwealth and other sources.

Approximately 75 percent or three quarters of PHA's budget is dedicated to its core mission, funding the actual provision, protection, creation and maintenance of housing for low income individuals.

With a staff of 1,300 full time employees, PHA provides housing assistance to nearly 80,000 people in its two main housing programs, the Public Housing Program and the Housing Choice Voucher Program.

In the Public Housing Program, low income persons pay a set percentage below 30 percent of their income to PHA to rent PHA-owned units. As of the close of fiscal year 2014, PHA served over 13,000 households while maintaining a 93 percent occupancy rate. PHA has a public housing wait list of nearly 28,000 households. On average, PHA's public housing families have an average household income of \$10,645 and pay \$267 in monthly rent.

In the HCV Program, formerly known as Section 8, low income persons receive a voucher to subsidize their rent to private landlords in units of their choosing. There are also variations of the program such as the VASH Program which exclusively serves homeless veterans referred to the housing authority by the local Veterans Administration.

PHA is very proud of its efforts in this area and has set a model of efficiency in meeting the housing needs of this population, managing 460 VASH vouchers and is one of 25 cities nationally participating in the HUD, VA and U.S. Interagency Council on Homelessness collaborative effort to end chronic homelessness amongst veterans by 2018.

As of the close of fiscal year 2014, PHA managed 19,073 vouchers with a utilization rate of 84 percent. PHA's HCV waitlist is 34,000 households long. On average, PHA's families have an average household income of \$10,061 and pay a monthly rent of \$288.

It is widely known, Mr. Chairman, that wasteful spending is present throughout government institutions, including the one I am privileged to head. It is my understanding that you and the members of this subcommittee have raised valid questions and concerns regarding fraud, waste and corruption in public housing and have been strong advocates for rigorous oversight that safeguard public resources from waste and mismanagement.

I share your concerns and have spent my professional career bringing about positive changes in the integrity, efficiency and effectiveness of public housing programs. My experience over the past decade is one I am very proud of, Mr. Chairman. More importantly, I have been focused on building trust and restoring public confidence in public housing.

I have seen firsthand the deleterious impact of corruption, fraud and waste which undermine scarce resources from reaching the individuals who need them most. It limits the number of eligible tenants' ability to access limited funding and increases the cost of projects which in turn increases the cost to the agency.

It is for those reasons that my tenure at PHA has been focused on accountability, transparency and making data driven decisions.

I joined PHA in 2011 as the Director of the newly established Office of Audit and Compliance, a robust watchdog office focused on eliminating waste, fraud and abuse.

Mr. Chairman, over the last two years PHA with the Office of Audit and Compliance has established strong collaborative partnerships with several federal, State and local enforcement agencies in an effort to protect the integrity of PHA and to further hold individuals who commit fraud accountable.

We have conducted over 700 investigations, substantiated 299 cases and referred 32 for further criminal prosecution working with our OIG partners and other city, State and local officials.

Mr. Chairman, it is the consistent demand for affordable housing as evidenced by our waitlist of over 62,000 applicants, many of which wait on average ten years to be housed, reaffirms the critical importance of our mission, this demand, coupled with the shrinking federal resources, which makes it critical that public administrators take an active role in preventing and deterring corruption,

fraud and waste in addition to taking a more innovative approach to this improvement.

Mr. MICA. If you can conclude, Mr. Jeremiah.

Mr. JEREMIAH. Change and improvement in management operations, accountability and transparency will ultimately improve the lives of the people who benefit from the programs we administer.

I appreciate the opportunity to testify before the subcommittee today. I would be happy to answer your questions.

[Prepared statement of Mr. Jeremiah follows:]

**Testimony of
Kelvin A. Jeremiah
President & CEO, Philadelphia Housing Authority
Before the House Committee on Oversight and Government Reform
Subcommittee on Government Operations
May 22, 2014
9:00 a.m. Rayburn House Office Building, Room 2247**

Chairman Mica and distinguished members of the Subcommittee, I am Kelvin A. Jeremiah, President and CEO of the Philadelphia Housing Authority (PHA). PHA was established in 1937, as a municipal corporation organized under the statutes of the Commonwealth of Pennsylvania, to provide safe and decent housing to low and moderate-income individuals in the City of Philadelphia. PHA is primarily federally funded and is accountable to the U.S. Department of Housing and Urban Development (HUD), its Board of Commissioners, the Mayor, City Council, and citizens of the City of Philadelphia. As such, PHA employees, residents, and contractors hold a significant position of public trust. The public, therefore, has a right to expect PHA's employees, contractors, and those doing business with PHA to perform their responsibilities honestly and with integrity. Thank you for the opportunity to highlight my perspectives on waste, fraud, abuse, and mismanagement of housing authority programs and appropriations.

Background

A nine member Board of Commissioners, appointed by the Mayor and approved by the Philadelphia City Council, governs PHA. As the President and CEO, I am appointed by and report to the Board of Commissioners. The President and CEO has full responsibility for the leadership and management of all PHA operations.

PHA is the fourth largest public housing authority in the United States and the largest landlord in Pennsylvania. With an annual operating budget of approximately \$375 million and a staff of approximately 1,300 full-time employees, PHA provides housing assistance to nearly 79,000 people through its Public Housing and Housing Choice Voucher (HCV) programs. Financial support for PHA's operations and capital needs comes, primarily, from rent payments and subsidies provided by HUD. More specifically, approximately ninety-three percent (93%) of PHA's revenue comes from the federal government in the form of subsidies for affordable housing. Only six percent (6%) of our revenue comes from tenant rents and the remaining

Testimony of
 Kelvin A. Jeremiah
 President & CEO, Philadelphia Housing Authority
 Before the House Committee on Oversight and Government Reform
 Subcommittee on Government Operations
 May 22, 2014

balance comes from grants from the City, Commonwealth of Pennsylvania, and other sources. Approximately three quarters (75%) of PHA's budget is dedicated to its core mission – funding the actual provision, protection, creation, and maintenance of housing for low-income individuals. (See attached *FY2015 Operating / Capital Expense - Uses*.)

PHA's two main housing programs are Public Housing and HCV. In the Public Housing program, low-income persons pay a set percentage of their income to PHA to rent PHA-owned units. PHA's Public Housing rental portfolio is separated into two categories: PHA-owned properties and Low-Income Housing Tax Credit (LIHTC) properties. PHA-owned sites include conventional, multi-family, high-rise developments and scattered-site, row home properties.

PAPMC, or the Philadelphia Asset & Property Management Corporation, is a private service affiliate that manages all LIHTC properties. It is a nonprofit management entity that is separate from PHA. PHA also provides an operating subsidy for Alternately Managed Entities (AMEs), which provide privately managed public housing opportunities. These developments manage their own waitlist.

As of the close of FY2014, PHA served over 13,000 households, while maintaining a 93% occupancy rate. PHA has a Public Housing waitlist of nearly 28,000 households. On average, PHA's Public Housing families have an average household income of \$10,645 and pay \$267 in monthly rent.

In the HCV program (formerly known as Section 8), low-income persons receive a voucher to subsidize their rent to private landlords in units of their choosing. There are also variations to the program, such as the Veteran Administration Supportive Housing (VASH) program, which exclusively serves homeless veterans referred to the housing authority by the local veteran's administration. PHA is very proud of its efforts in this area, managing 460 VASH vouchers, and is one of 25 cities nationally, participating in the HUD, VA, and U.S. Interagency Council on Homelessness (USICH) collaborative effort to end chronic homelessness amongst veterans.

Testimony of
 Kelvin A. Jeremiah
 President & CEO, Philadelphia Housing Authority
 Before the House Committee on Oversight and Government Reform
 Subcommittee on Government Operations
 May 22, 2014

As of the close of FY2014, PHA managed 19,073 vouchers with a utilization rate of 84%. PHA's HCV waitlist is 34,000 households long. On average, PHA's HCV families have an average household income of \$10,061 and pay \$288 in monthly rent.

PHA's Moving to Work (MTW) Status

PHA is also one of a select group of housing authorities across the country that has attained Moving to Work (MTW) status. Participation in the MTW program provides PHA with a valuable set of tools and resources to address urgent local housing needs and priorities. While lack of sufficient operating and capital funding continues to pose the greatest challenge to PHA and other large housing authorities nationwide, the flexibility afforded by MTW has allowed us to make substantial progress in recent years, and remains a critically important component of our future strategy to revitalize, preserve and expand affordable housing resources for low-income families.

MTW participation has allowed PHA to increase the number of low-income families served from approximately 24,600 households, upon joining the program, to over 30,000 today. MTW funding flexibility has also been enormously important to PHA's efforts to revitalize deeply distressed public housing developments and their surrounding neighborhoods. More than 6,000 units have been newly constructed or rehabilitated over the course of PHA's participation in the program.

PHA is proud of its historic and enduring commitment to the long-term viability of affordable housing for current and future Philadelphia residents, including those with special needs, such as the homeless, victims of domestic violence, the elderly and disabled, and those who are either unemployed or under-employed.

Now celebrating our 77th anniversary, PHA has been and continues to be a powerful force for affordable housing and an economic engine for Philadelphians for over 7 decades. In addition to the infusion of dollars into the local economy through contracting, procurement, and wages, PHA is committed to developing meaningful employment opportunities for its

Testimony of
Kelvin A. Jeremiah
President & CEO, Philadelphia Housing Authority
Before the House Committee on Oversight and Government Reform
Subcommittee on Government Operations
May 22, 2014

residents. In order to enhance and expand economic opportunities for our residents, PHA provides around \$9 Million annually for education, job training, and employment opportunities to assist residents in attaining self-sufficiency. Mr. Chairman, the new PHA is not about giving handouts, we believe that public housing should not be a way of life but a stepping-stone to economic and social independence.

I have been invited here today to provide testimony on waste, fraud, and abuse in affordable housing, namely, the HCV program. It is widely known, and ostensibly widely accepted, that wasteful spending is present throughout government institutions, including the one I am privileged to head; and that government institutions should perform their functions more effectively and efficiently. Indeed, over the course of American political history, there have been many recommendations, plans, proposals, initiatives, et cetera, aimed at “reinventing” government – making government more effective, efficient, and less costly. Despite the best intentions of the executive branch, legislators, advocates, oversight entities, think tanks, and others to address waste and fraud in government, the problem still persists.

As an executive of a public institution, I have an expansive view of the impact waste and fraud has on government spending. My views are informed by my work in the public sector, spending about 5 years as the Inspector General for the New York City Housing Authority – the largest public housing authority in the country – and now as the chief executive of the fourth largest housing authority in the country. Simply defined, waste and fraud equate to misallocation of resources. It means government spending on projects, whose costs outweigh the generated benefit. The waste problem is not just that there are cost overruns and mismanagement in many government institutions, but there is pervasive fraud as well, fraud that sometimes goes undetected and unchecked, for years in some cases, which has adverse impact on our institutions and the people we serve. It results in funds being misappropriated and, thus, supporting people or services for which it was not intended.

Mr. Chairman, it is my understanding that you and the members of this subcommittee have raised valid questions and concerns regarding fraud, waste, and corruption in public housing and have been strong advocates for rigorous oversight and internal controls that

Testimony of
Kelvin A. Jeremiah
President & CEO, Philadelphia Housing Authority
Before the House Committee on Oversight and Government Reform
Subcommittee on Government Operations
May 22, 2014

safeguard public resources from waste and abuse. I share your concerns and have spent my professional career bringing about positive changes in the integrity, efficiency, and effectiveness of public social welfare programs.

As you may be aware, it has been a very eventful ride at PHA for the past few years. PHA was once seen as a model for how a public agency could rebuild distressed neighborhoods, transforming them into high-quality, safe, and desirable communities. That model and reputation came crashing down in 2010 in the wake of a personal scandal that exposed a lack of oversight of housing authority operations.

I joined PHA in August 2011, as its Director of the Office of Audit and Compliance, after having served as the Inspector General for the New York City Housing Authority. Over the course of my career, I have developed an expertise in public housing oversight and regulatory compliance. As Inspector General and Director of the Office of Audit and Compliance, I presided over investigations of public housing tenants, employees, and contractors, as well as Housing Choice Voucher participants and landlords, who engaged in fraud or other criminal conduct and wrongdoing. Based on that experience, I understand all too well the grounds for the members' concerns.

In June 2012, I was appointed as the Interim Executive Director and HUD-appointed Administrative Receiver, positions I held until my recent appointment in April 2013 as the President & CEO of PHA.

Since I arrived, we have worked very hard to carry out a recovery plan to undo mistakes of the past and build a structure of strong, ethical, and respectful business practices. My objectives since coming to PHA have been clear and consistent: to be a good steward of public funds and to restore public confidence in the agency. I have been unwavering in my dedication to these objectives.

Testimony of
Kelvin A. Jeremiah
President & CEO, Philadelphia Housing Authority
Before the House Committee on Oversight and Government Reform
Subcommittee on Government Operations
May 22, 2014

PHA's Recent History

In March 2011, PHA, HUD, and the City of Philadelphia entered into a Cooperative Endeavor Agreement under which HUD took control of PHA in an effort to expedite PHA's recovery following a breakdown in the management, policy, and procedural infrastructure of the organization. HUD, working with PHA, implemented a robust, 12-point Recovery Plan aimed at addressing the deficiencies in PHA's management, governance, policies, and procedures.

I am pleased to report that PHA has completed the tasks under its Recovery Plan, key highlights of which are listed below:

- Restructured PHA's senior management team to promote accountability and oversight of all operational areas
 - Hired highly-skilled senior management executives for key operational areas, including a new General Counsel to oversee the Office of General Counsel
 - Finalized and implemented an organizational restructuring
- Implemented new and rigorous standards to minimize PHA's use of outside attorneys and restructured and staffed PHA's new Office of the General Counsel
 - In August 2011, PHA hired Barbara Adams as its General Counsel
 - Working collaboratively with HUD, and under Ms. Adams leadership, PHA implemented enhanced policies and procedures governing its oversight and use of outside counsel
 - Staffed the Office of General Counsel in order to perform more legal services in-house
 - Significantly reduced PHA's reliance on outside counsel from approximately \$8.2 million in 2010 to approximately \$1.6 million in 2012

Testimony of
 Kelvin A. Jeremiah
 President & CEO, Philadelphia Housing Authority
 Before the House Committee on Oversight and Government Reform
 Subcommittee on Government Operations
 May 22, 2014

- Established rigorous policies and workplace standards in the areas of fraud, ethics and Equal Employment Opportunity; revised and implemented human resources policies and procedures and provided agency-wide training
 - Adopted and implemented new policies and procedures related to ethics, equal employment opportunity, sexual harassment, and standards of ethical conduct
 - Trained all staff on the new Human Resources Manual including sexual harassment, ethics, employee grievance policies and procedures
 - Appointed the General Counsel as the agency's Ethics Officer
 - Developed and distributed a new employee handbook to all employees
- Collaborated with HUD, the Mayor, and the City Council to return PHA to local governance
 - In anticipation of PHA's return to local governance, PHA worked collaboratively with HUD and the City to revise and adopt new by-laws that reflect best practices
 - Developed an extensive board orientation and training program, which was lacking under past administration
 - In November 2012, Mayor Nutter appointed 9 new Commissioners to serve on PHA's Board, all of whom were subsequently confirmed by the Philadelphia City Council and received comprehensive training by both PHA and HUD to best prepare them to govern agency operations
- Implemented a new procurement policy and related procedures that ensure appropriate cost controls and compliance with all federal, state, and local requirements

In addition to the above, completed tasks, PHA has made a concerted effort to address and resolve all findings from HUD OIG and other external reviewers. Today, all of the findings are closed or have been appropriately resolved by the Authority.

Testimony of
Kelvin A. Jeremiah
President & CEO, Philadelphia Housing Authority
Before the House Committee on Oversight and Government Reform
Subcommittee on Government Operations
May 22, 2014

Most importantly, although PHA reverted to local control on April 26, 2013, its recovery is continuing and positive. The culture of bad behavior and excessive spending that built up over more than a decade is unfortunately hard to reverse overnight. It will take additional time and ongoing effort to change that culture. However, over the last 2 years, I have seen first-hand the resilience of PHA staff and their willingness, even eagerness, to change – to take back PHA’s good name, ensure its future, and reclaim its legacy. We remain steadfast to that commitment, to restore the public’s confidence and trust, and fulfil our mission to serve low-income citizens of Philadelphia with decent, safe, and affordable housing.

Fraud, Waste and Mismanagement at PHA/Public Housing

Mr. Chairman, members of the Subcommittee, my experience over the past decade is one that I am very proud of but, more importantly, one that has focused on building trust and restoring public confidence in public housing. I have seen firsthand the deleterious impact of corruption, fraud, and waste, which undermines the ability of scarce public housing funds reaching the individuals and families that need them most. It limits the number of eligible tenants, who rely on it for support, ability to access limited funding and increases the costs of projects, which in turn increases the costs to the agency. It is for those very reasons that my tenure at PHA has been focused on accountability and transparency.

As previously mentioned, it is widely known that my agency has struggled with addressing corruption, fraud, and waste in the past. I joined PHA in 2011, as the Director of the newly established Office of Audit and Compliance (OAC), a robust watchdog office focused on eliminating waste, fraud, and abuse. With the support of HUD and PHA’s executive management team, I recruited a team of auditors, investigators, and compliance specialists, all with the end goal of eliminating fraud, waste, abuse, and corruption across the agency. Moreover, I began the important process of reestablishing and rebuilding relationships with key external law enforcement and oversight entities with whom the OAC could partner to achieve its objectives.

Testimony of
 Kelvin A. Jeremiah
 President & CEO, Philadelphia Housing Authority
 Before the House Committee on Oversight and Government Reform
 Subcommittee on Government Operations
 May 22, 2014

In my current role, my expectations have not changed: I continue to charge OAC and its partners with assisting PHA in restoring public trust by preventing and uncovering fraud, corruption, and unethical conduct by PHA employees, contractors, and others who receive PHA funds. OAC performs internal audits, conducts compliance reviews, examines ways to create efficiency and effectiveness in our operations, and investigates allegations of fraud, corruption, waste, and misconduct involving PHA residents, employees, and contractors.

Since its creation, OAC has had a remarkable impact on PHA. The following are just some of our successes to date:

1. **Collaborative Partnerships** – Established strong collaborative partnerships with several Federal, State and Local law enforcement agencies in an effort to protect PHA's integrity and to further hold individuals, who defraud the agency, accountable. These partnerships include: the U.S. Department of Housing and Urban Development Office of the Inspector General, Social Security Administration Office of the Inspector General, Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS), United States Attorney's Office, Philadelphia District Attorney's Office, Pennsylvania State Ethics Commission, and U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)
2. **Investigations** – For the period of April 1, 2012 to March 31, 2014, OAC received 1,449 complaints. Of those complaints, 763 were opened as active investigations, with 299 cases substantiated. Of the substantiated cases, 32 were referred for criminal prosecution. Thus far, of the 32 referred cases, 10 arrests have been made, and 5 are pending prosecution.
3. **Savings** – For the period of April 1, 2012 to March 31, 2014, the courts have ordered restitution to PHA in the amount of \$714,069.00; PHA entered into repayments agreements totaling \$70,342.40, saved \$5,029,486.86 from terminations and resignations, and uncovered \$756,570.82 as a result of fraud investigations. PHA has taken an aggressive stance when it comes to employee corruption and has been pursuing pension forfeitures for employees convicted of defrauding the agency. Since

Testimony of
Kelvin A. Jeremiah
President & CEO, Philadelphia Housing Authority
Before the House Committee on Oversight and Government Reform
Subcommittee on Government Operations
May 22, 2014

2012, PHA has saved approximately \$379,000 in pension contributions that would have otherwise been paid to convicted former employees.

4. **Theft of Benefits** – Following a joint investigation, OAC discovered a resident of PHA was stealing survivor benefits meant for the resident's deceased grandmother. The benefit payments, issued by Veteran's Affairs and Office of Personnel Management, went unreported to the Social Security Administration and the U.S. Department of Housing and Urban Development when the resident applied for government assistance. The resident was convicted and sentenced to 33 months in prison for conversion of government funds, wire fraud, and Social Security fraud. The resident was ordered to pay \$10,338 to PHA in restitution.
5. **Kick Backs** – An OAC investigation (continued by way of the former PHA Office of Inspector General) led to the arrest and conviction of a former manager of PHA's small construction contracts. The former employee abused the manager position by extorting kickbacks in exchange for PHA contracts. The former employee was sentenced to 50 months in federal prison, followed by 3 years of supervised release on extortion and obstruction charges, and ordered to pay \$25,000 in restitution to PHA.
6. **Unreported Income** – A joint investigation with federal and state law enforcement agencies found that a PHA resident was in receipt of approximately \$208,505.40 in government benefit payments the resident was not entitled to receive. To receive governmental assistance, the resident concealed marriage and work activity from PHA, the Social Security Administration, the United States Department of Agriculture, the United States Department of Health and Human Services, as well as, the Pennsylvania Department of Welfare. The resident was sentenced to 90 days in prison, 3 years of probation and fined \$208,506.40 in restitution, \$22,000 of which will be paid to PHA.
7. **Underreported Income** – Following an allegation of unreported income, OAC discovered that a PHA resident did not accurately report assets and income. The resident reported to PHA that \$300.00 to \$400.00 per month was earned as a self-employed hair stylist,

Testimony of
 Kelvin A. Jeremiah
 President & CEO, Philadelphia Housing Authority
 Before the House Committee on Oversight and Government Reform
 Subcommittee on Government Operations
 May 22, 2014

when in fact the resident was actually a full time employee at Jefferson Hospital earning between \$31,000.00 and \$60,000.00 per year. OAC's investigation determined that the resident underpaid rent in the amount of \$26,875.00. The investigation also discovered that the resident also failed to report the purchase of a house while living at a PHA unit. The resident was arrested and charged with defrauding PHA. The resident pled guilty to theft, false swearing and tampering with public records, and was ordered to pay \$26,875.00 to PHA in restitution.

8. **Prevailing Wage Violations (Underpayment)** – Most construction projects PHA undertakes are funded by federal funds, which require the payment of prevailing wages. PHA is tasked with ensuring that construction contractors and sub-contractors are abiding by all applicable prevailing wage laws and regulations while working on PHA construction projects. Maintaining compliance with prevailing wage laws and regulations is vital to ensuring that PHA is eligible for future funding from the federal government, and is necessary in order to avoid punitive fines from the federal government. The wage compliance enforcement for fiscal year 2013 Davis-Bacon and Related Acts projects resulted in 14 citations being issued to construction contractors for violations that totaled \$13,640.46 in restitution payments, to account for underpayment to individuals working on PHA projects.

Impediments to Effective Fraud Investigation, Prosecution, and Recovery

Though PHA has experienced success in curtailing fraud and abuse through its Office of Audit and Compliance (OAC), there remain numerous impediments to maintaining truly efficient oversight authority and I believe these issues are universal and not just limited to Philadelphia.

1. **Lack Of Interagency Cooperation** – Many government agencies operate in silos – with internal fraud units often unwilling to share information involving fraud cases, especially if the case did not originate in their offices. Public administrators are territorial and are often interested in protecting their turf rather than building cooperative, trusting

Testimony of
 Kelvin A. Jeremiah
 President & CEO, Philadelphia Housing Authority
 Before the House Committee on Oversight and Government Reform
 Subcommittee on Government Operations
 May 22, 2014

relationships with colleagues across the spectrum of the various need-based programs. The sharing of information in government program fraud investigations is critical since many program recipients receive benefits from multiple government agencies. For example, a typical public housing recipient not only receives housing assistance, but Medicaid, food stamps and other government-funded need-based assistance. Thus, my experience, when one program is defrauded, others are as well.

2. **Public Sector Employment** – Public employees’ salaries are generally not tied to high performance but instead to longevity, and it is difficult to discipline employees because of civil service and work rules. As a result, sometimes poor performing employees retain their jobs; giving them little or no incentive to be creative in containing or reducing costs.
3. **Restrictive Privacy or Confidentiality Regulations** – Restrictive federal, state, and local privacy regulations inhibit the sharing of information among agencies conducting fraud investigations. This is especially true as it relates to customer or client personal information (such as social security number, tax information, income documentation, household composition, et cetera). It is very difficult to identify who can share what with whom; every program has its own specific privacy regulations that inhibit the sharing of information.

However, there is one very strong National deterrent to tenant fraud and abuse, called the Enterprise Income Verification (EIV) system, which does provide for the sharing of such information. EIV is a web-based, third party income verification system that shares income data from other federal databases with public housing authorities to improve the income verification and rent determination process. Beginning January 31, 2010, all housing authorities were required to use the EIV system. The system allows users to verify annual income and benefit information and use that in making accurate rental housing subsidy determinations. Through effective use of EIV, PHA, itself, avoided \$17,328 in potential payments to ineligible or deceased tenants during FY2013. EIV ultimately helps housing authorities ensure that their limited resources are targeted to

Testimony of
Kelvin A. Jeremiah
President & CEO, Philadelphia Housing Authority
Before the House Committee on Oversight and Government Reform
Subcommittee on Government Operations
May 22, 2014

the right persons. The system is instrumental and has been a great example of how collaboration and sharing of data can help eliminate fraud and abuse. It is my hope that our Federal partners will continue to develop and implement programs, like EIV, that will further reduce improper payment of HUD subsidy.

4. **Limitations in Prosecution** – According to the HUD OIG website, there has been only one OIG Report regarding the Section 8 Program in Pennsylvania over the past 2 years and that was concerning a Housing Authority, who was ultimately found to have followed HUD’s Housing Choice Voucher Program regulations. In Philadelphia, specifically, cases of fraud valued under \$50,000 are generally not prosecuted due to limited resources – exceptions, of course, for those cases of a special nature such as the elderly or related to sexual violence and abuse. More aggressive prosecution and getting away from the need to “sell” cases of tenant fraud to the prosecutors will go a long way in eliminating abuse and corruption.

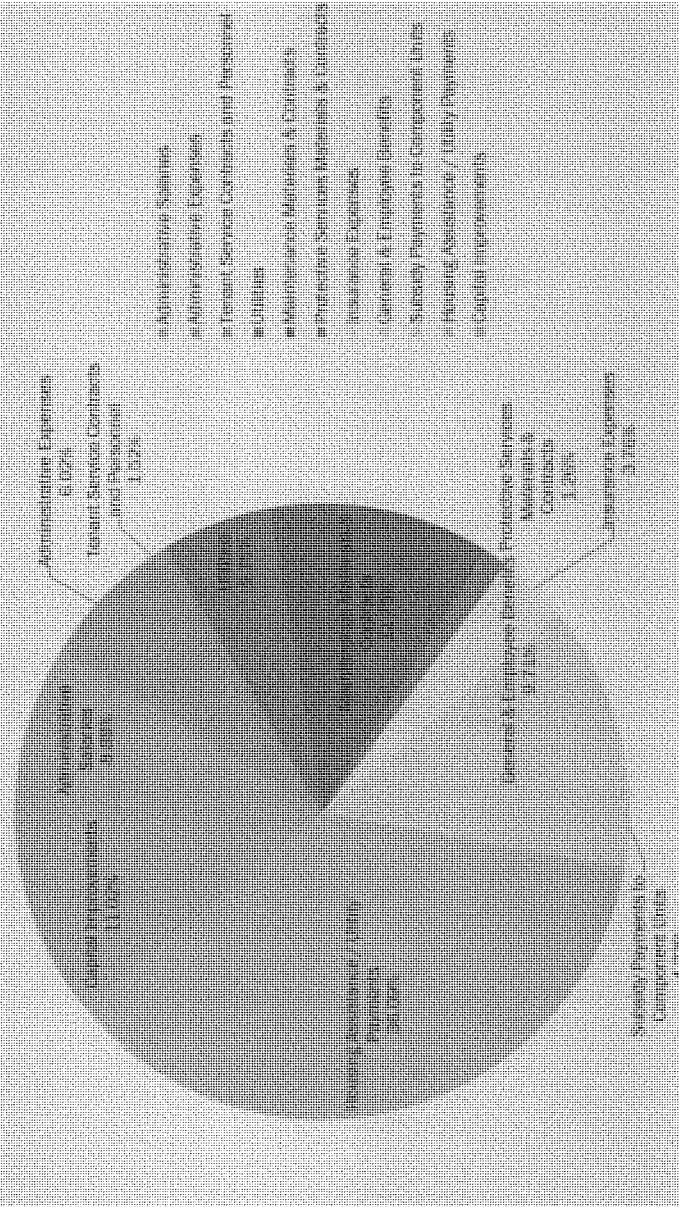
Conclusion

In conclusion, the consistent demand of affordable housing – as evidenced by our wait list of over 62,000 applicants, many of whom wait an average of 10 years before they are housed – reaffirms the critical importance of our mission. This demand, coupled with shrinking federal resources, makes it critical that public administrators take an active role in preventing and deterring corruption, fraud, and waste, in addition to taking a more innovative approach to business to improve efficiency. Fostering change that improves management operations, accountability, and transparency will, ultimately, improve the lives of the people who benefit from the programs we administer.

I appreciate the opportunity to testify before the subcommittee today and would be happy to answer any questions at this time.

Thank you.

FY2015 OPERATING / CAPITAL EXPENSE - USES



Mr. MICA. Thank you. We will get right to questions.

First of all, Mr. Montoya, we appreciate your work. How many people do you have working under your Inspector General operation for HUD?

Mr. MONTTOYA. Currently our staffing is about 615, that is the entire office.

Mr. MICA. Is that adequate?

Mr. MONTTOYA. I would be remiss if I said—it is never going to be adequate. We are about 100 people down over the last two and a half years with budget cuts.

Mr. MICA. With budget cuts?

Mr. MONTTOYA. Yes.

Mr. MICA. First, I think we need to make certain you have the resources to do the job to conduct the oversight. HUD gave us HUD by the Numbers. It says, Public Housing by the Numbers under the HUD publication, where the money goes, 29 percent for administration. That to me seems very, very high and 33 percent for maintenance. You have a lot of old structures. I can see that.

I have been in the rental business and I never pay more than 10 percent to manage anything. Have you looked at these figures for administration within HUD? The money going out, I guess this is both operation of HUD and money for public housing authorities? Would you know if that is correct?

Mr. MONTTOYA. I don't know that. Is that 33 percent within HUD that goes to administration?

Mr. MICA. Thirty-three percent, that is where the money goes overall that HUD is spending. I believe 29 percent for administration. Most of HUD in Washington is administration which is probably very high. How many people are there in HUD in Washington?

Mr. MONTTOYA. I couldn't tell you in Washington, 1,000 total, quite a few nationwide, quite a few in D.C. I don't know the exact number.

Mr. MICA. Again, it is a high number. If we could turn this over to private sector, I am sure management companies would chomp at the bit to get 29 percent of billions of dollars going out. That is a lot of money for administration.

Mr. MONTTOYA. What I would add is that yes, the administration portion of public housing authorities is quite high. The administration of public housing authorities is quite high. They recently established this Cost Office Center to manage the overall administration of these housing authorities.

They are allowed to take a percentage of certain projects, so they are taking federal money, taking a certain percentage of that on certain projects as an administrative fee to cover their overhead.

HUD gave them a blanket pass on about 10 percent of their capital fund. They can take 10 percent of their capital funds and make it administrative fees. Once these fees are earned, per se, they become non-federalized.

We think de-federalizing these administrative funds doesn't appear to be reasonable, especially in light of the fact that they are fully supported by grants and subsidies, a direct grant to begin with.

When these funds become de-federalized, they can virtually use these funds for anything they want. That then goes to the issue of high salaries. They can actually use de-federalized funds to pay some of these high salaries we have seen because it doesn't fall into the category of reporting what federal money you spent on a salary.

Mr. MICA. They are wasted to reduce this. If I was looking at this from a business standpoint, first, I would pass a law that did away with the administrative staff, re-contract this out with a limit and the cost of administration. There are hundreds of thousands of management real estate folks who could properly manage this.

We haven't talked about salaries of some of these. I know there are some caps put on the executive positions within the housing authorities. Isn't there a federal cap currently of \$155,000?

Mr. MONTROYA. It is a little over with the increase in salaries that the Administration approved but it is not \$155,000.

Mr. MICA. Mr. House, what is your salary?

Mr. HOUSE. My salary is \$195,000.

Mr. MICA. Mr. Jeremiah, what is your salary?

Mr. JEREMIAH. My salary is \$225,000.

Mr. MICA. Sounds like you are getting screwed, Mr. House, but that isn't the question at hand. The question at hand is how do they get to that number and we have a cap? Aren't they subject to that cap?

Mr. MONTROYA. I tell you, they both make more than I do, Mr. Chairman. Having said that, I would say there is a way around that cap.

Mr. MICA. They both make more than we do too. They are not Mickey Mouse operations. Those are huge operations and maybe to find the right talent, you have to pay more. I have advocated for the Federal Government to pay to get the best expertise we can to operate systems and manage operations, attract them and reward people who do a good job.

We have a law. How do they get around that?

Mr. MONTROYA. The law says that only \$155,000 of Federal money can be paid. We have an initiative that we will be talking to Congress and the department about with regards to the definition of salary. Salary doesn't include such things as bonuses, PHA vehicles, benefits like retirement, life and medical insurance. These things aren't covered.

Mr. MICA. You two are relatively new in your positions, is that correct? Mr. House, how long?

Mr. HOUSE. Twenty-two months and two days.

Mr. MICA. You have been eligible for a bonus. Do you get a bonus?

Mr. HOUSE. Absolutely not.

Mr. MICA. You need to talk to some folks there. Of course it depends on your performance, that should be the criteria.

Mr. Jeremiah?

Mr. JEREMIAH. I am coming up in two years.

Mr. MICA. Have you gotten a bonus?

Mr. JEREMIAH. Yes, I have.

Mr. MICA. How much was that?

Mr. JEREMIAH. Ten thousand dollars.

Mr. MICA. Not a king's ransom but significant. Not to pick on you two, we appreciate your coming to testify because you have two of the largest housing authorities in the Country.

Every time I try to get some decision made, Mr. Montoya, on moving forward with some alternatives, for example, I don't want to replace a ghetto with a ghetto, all I get is HUD will not permit this or HUD will not permit that.

Have you any recommendations, for example, on replacement of some of these units? The worst place you would want to put an investment for real estate would be back into some public housing authority. Unfortunately, too our public housing authorities, where the public housing location is, if you talk to the sheriffs, the police chiefs and other law enforcement people, sort of the center of all kinds of difficult community crime issues.

Do we have enough alternatives? I don't like just replacing units with units. Do we have enough alternatives to allow variations, for example, bringing in the private sector to produce housing, come in with replacement projects?

I have done Hope 6, or whatever we had, projects and other replacement projects for public housing? Have you looked at this at all, Mr. Montoya?

Mr. MONTTOYA. No, sir, we have not. While I couldn't speak to that, I think from what we have seen, certainly not speaking with regards to the two gentlemen beside me because they seem to have a very good background and experience, we consistently see in these PHAs executive directors and boards or commissions who really don't have the background and experience to run these PHAs. Some are running multimillion dollar programs.

We feel that accreditation, certification or something on that order of these directors and boards would help.

Mr. MICA. The one we got from HUD—I did everything I could after we had that taken over by HUD and another Congressman called me and said the guy they are sending over there is horrible. I could not get them to not employ him. These are people HUD is sometimes recommending. It was so offensive. Within seven or eight years, he ran it into the ground and ran off with money.

The other thing too is you do criminal referrals?

Mr. MONTTOYA. Yes, sir, we do.

Mr. MICA. I have been trying to find out what a criminal referral is. If I went in with a gun and a mask and robbed people of a fraction of this money, I would be in the slammer. I have written you all. Is it public knowledge when you do a criminal referral or do you have to keep it confidential?

Mr. MONTTOYA. Generally, we don't speak to it.

Mr. MICA. If a member of Congress asks you, I have a specific case?

Mr. MONTTOYA. Yes, sir.

Mr. MICA. You call the Department of Justice and they won't say anything. I can see that because of the proceedings they are involved in. Do you know anything about it?

Mr. MONTTOYA. In your case, we had criminal referrals to the Department of Justice. They were declined.

Mr. MICA. They were declined by the Department of Justice?

Mr. MONTTOYA. Yes, sir, they were.

Mr. MICA. I did not know that. That just burns me. That is unbelievable. I want staff to look at that. I would like to see what the basis is or what they have to do. Do they have to use a gun or knife? The previous executive director stole a fortune and did all kinds of abusive things and got probation.

People who do violate federal law can still be subject to prosecution under State law, is that right, in these cases?

Mr. MONTROYA. Yes, sir.

Mr. MICA. I may pursue that too.

We have case after case of problems. I want to give credit because you have good operations. Mr. Connolly cited one. I have five or six great operations, but there are some consistently poor performers.

Why has the East St. Louis Housing Authority been under government receivership for almost 30 years? Any idea what is going on there?

Mr. MONTROYA. The last we had done with regard to that was I think HUD's failure to properly plan for the management of that program.

Mr. MICA. In the past, I wrote a letter with one specific housing authority I thought should be taken over. Can a member of Congress request that of any of these operations?

Mr. MONTROYA. I wouldn't see why not, sir.

Mr. MICA. If I do my own review, I might be giving you a list. I have a lot to do. It is amazing. You can see poor performers one or twice. Of course, some of them, like Sanford, have gone on for two decades. Here we have St. Louis for 30 years.

Mr. MONTROYA. In regard to your situation, sir, I couldn't agree with you more that this gentleman should never have been allowed in your housing authority. He had previously been fired from one and asked to resign or face firing from two others. We consistently see this.

We consistently see bad actors who either were under investigation or had questionable activity, moved from PHA to PHA and it exacerbates these problems we continue to see. When you say you see a lot of the same actors.

Mr. MICA. Is there a suggestion today on a certification or some type of validation? Staff, let's see if we can't come up with something. Maybe you would join me, Mr. Connolly? We need to put some measures in place to bring some of this to a halt.

I don't want to take all the time. I tried to but I can't. I must yield now to our Ranking Member, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman. I would be glad to join with you because I think you have put your finger on something. I guess I am dismayed, the most mild word I could use to describe, at the lack of professional criteria for running huge enterprises in some cases.

The fact that you have someone who is a repeatedly bad actor, who somehow nonetheless gets hired—I have hired a lot of executives in local government. You have to check references, you have to Google them, you have to look up their record, and you have to check around for their reputations in the localities in which they worked. That is just part of your due diligence. It is shocking to me

Let me ask you, Mr. Montoya, let's refer to someone as a bad actor or someone with a very spotty record that is clear, by innuendo the record is clear, does HUD have the ability to tell a PHA we won't reimburse you for any part of that salary if you hire that person?

Mr. MONTOKA. HUD has quite a lot of latitude with regard to this, so I don't know about that specifically but I would imagine the latitude they have in providing funding, they could do that. I don't know.

I would like to say thank you to Congress. It wasn't until the recent appropriations that Congress mandated HUD to work with my office to incorporate some training on fraud awareness and the problems we have consistently seen.

It has only been recently within the last month that we have been contacted by the assistant secretary for a PIH and some of the associations for these housing authorities in order to do that. I don't believe it would have happened without Congress' support. I appreciate that. We hope to take that further and time will tell.

Mr. CONNOLLY. It seems to me, Mr. Chairman, that in addition to the whole certification thing, which I think is long overdue, there ought to be a training and certification program for managers and boards that oversee these enterprises. That is not a new concept; it is done in many other fields and is long overdue here.

It seems to me we ought to also explore what authorities HUD has and can and should be using since it pays up to \$150,000 per your previous question—I think you said \$150,000?

Mr. MONTOKA. Yes, \$155,000, that is what we will pay in Federal funds.

Mr. CONNOLLY. I know but if you get a bad actor with a bad history, presumably you have the power to say to a local PHA, you can hire that person but we are not going to reimburse you. It is on your watch, because they are on our list and have three strikes and they are out.

When was HUD founded, Mr. Montoya?

Mr. MONTOKA. I couldn't tell you off the top of my head.

Mr. CONNOLLY. Roughly in 1965, so it is coming up to its 50th anniversary.

I am reading your testimony and you said in your testimony that the department ought to develop a physical inspection system for the HCV program. The HCV Program is the?

Mr. MONTOKA. The Housing Choice Option Program.

Mr. CONNOLLY. How long has the HCV Program been in existence?

Mr. MONTOKA. You mean the program or housing quality standards?

Mr. CONNOLLY. I am reading your testimony. You refer to the HCV Program. What do you mean by the HCV Program and how old is it?

Mr. MONTOKA. The Housing Choice Option Program is really Section 8 housing. It has been around probably as long as HUD.

Mr. CONNOLLY. We are just now talking about a physical inspection program at HUD?

Mr. MONTOKA. We are talking about a physical inspection program with regards to the housing quality standards. If you were

paying housing choice vouchers for units, units that should be inspected for housing quality, it has been about six years that we recommended to HUD that they institute a better mechanism to do these inspections and they have yet to complete that.

Mr. CONNOLLY. When did we adopt common standards at HUD for Section 8—here are the standards you really ought to be meeting?

Mr. MONTOYA. With regard to Section 8, it has been around as long as the program, I believe. With regard to their inspections of these things, not quite sure.

Mr. CONNOLLY. Standards first. The standards are not new is my point?

Mr. MONTOYA. That is correct, sir.

Mr. CONNOLLY. We are just now talking about maybe we should inspect some of them after 50 years? Then when HUD has inspected, reading again from your testimony, of the 119 units inspected, 99 didn't meet the standards?

Mr. MONTOYA. That is correct.

Mr. CONNOLLY. That is just a sample. So 99 out of 119 sounds close to 90 percent.

Mr. MONTOYA. Out of about 12,000 I think the universe is made up.

Mr. CONNOLLY. Twenty-four of the 99 that didn't meet the standards were in material noncompliance.

Mr. MONTOYA. Those have been longstanding issues that should have been corrected some time before.

Mr. CONNOLLY. I find that astounding. We have been in existence for 50 years, our mission is not new, the apparatus is not new, the bureaucracy is not new. This isn't rocket science, it is housing. Standards of quality for clients who live in this housing, hopefully we are not in the tenements of the Bowery in 1900, we have higher standards in 2014 and one, HUD isn't even inspecting them and we are still talking about maybe we ought to physically inspect.

Does HUD delegate that responsibility to local PHAs like Mr. House and Mr. Jeremiah?

Mr. MONTOYA. Yes, sir. In the case of NYCHA, yes, it is delegated.

Mr. CONNOLLY. How good a job do they do?

Mr. MONTOYA. Part of our report suggested there is no consistency in how those inspections are conducted.

Mr. CONNOLLY. That tells me HUD doesn't manage it.

Mr. MONTOYA. The other concern we saw in the report was a requirement—I think it is a performance issue—a requirement that 25 be inspected a day. We think this high level of measure is really driving bad behavior.

Our inspectors could, at best, get to five or six a day and that was doing a full inspection to include driving between the boroughs. I think a performance measure of 25 is driving some bad behavior there.

Mr. CONNOLLY. Good point. And it is a double standard. We don't hold ourselves to that but we ask them to do it.

Mr. MONTOYA. Correct.

Mr. CONNOLLY. You are absolutely right, that is bound to get someone to say check because I don't want to look bad. I got to 18

but I couldn't get to 25, so the other 7 are roughly okay and maybe they are not. Yes, we have to look at that.

I think there are some real fairly obvious, low-hanging fruit management improvements HUD could make itself that would have a positive impact on local housing authorities. After 50 years, it is inexplicable why they haven't been adopted. To me, it is inexplicable.

I have run a large government and I would never tolerate what you just described. That is the tip of the iceberg; there are all kinds of other aspects we could look at. I think HUD is going to have to clean up its act if we are going to have a positive impact on local PHAs and a whole bunch of standards.

Mr. Jeremiah, you talked about 700-plus investigations for malfeasance, corruptions, mismanagement and the like, correct?

Mr. JEREMIAH. That is correct.

Mr. CONNOLLY. You said 299 were referred for criminal prosecution?

Mr. JEREMIAH. Two hundred ninety-nine cases were substantiated; 32 were referred for criminal prosecution.

Mr. CONNOLLY. By the way, why only 32?

Mr. JEREMIAH. Two hundred ninety-nine were substantiated. A lot of these cases, quite frankly, are cases that are under \$50,000 and there is reluctance on the part of prosecutors to prosecute those cases. We often have to enter into repayment agreements with them.

Mr. CONNOLLY. How often does that happen?

Mr. JEREMIAH. Quite often.

Mr. CONNOLLY. That would be buried in the 299?

Mr. JEREMIAH. That would be buried in the 299.

Mr. CONNOLLY. Do you have any idea how many of the 299 involves settlements, payback settlements?

Mr. JEREMIAH. I don't have that specific number with me.

Mr. CONNOLLY. So 32 were referred for prosecution or for further action by the prosecutor?

Mr. JEREMIAH. Yes, for prosecution.

Mr. CONNOLLY. How many of the 32 were in fact prosecuted?

Mr. JEREMIAH. Of the 32 cases that were referred, we have had 10 arrests thus far and 5 are pending. The rest have not yet been acted upon.

Mr. CONNOLLY. Any trials?

Mr. JEREMIAH. Generally, no; they are usually pleas.

Mr. CONNOLLY. The Chairman made reference to a housing authority in his district where we have had consecutive executive directors who apparently absconded with money. You would think having been burned once, you would be real careful about who you hired to replace that person.

I guess what troubles me about these statistics is I understand we are always going to narrow down and we certainly want to be fair to everyone but if you want to deter theft and corruption, one good way to do it is to prosecute and incarcerate.

Mr. JEREMIAH. I agree with you entirely.

Mr. CONNOLLY. In fact, I would argue that white collar crime is precisely the crime you want to have jail time because them's the folks that will really get the message—I don't want to do that. They are often the ones exempted, unfortunately.

People who may be tempted or yield to temptation are going to calculate, what chance have I got of: one, getting caught; two, anything happening even if I am; and three, ever going to trial or even plea bargaining with some kind of serious consequence. Obviously the odds are pretty good if my intent is not a good one.

I think we have to ramp up—as the Chairman suggested—more referrals both at the local level and the federal level, get tough about it and get the Justice Department and our local prosecutors to get tough about it.

I understand the standard of \$50,000 but I am not sure that is a good message either. It is not okay to be pilfering even sort of modest amounts relative to grand larceny. That can create a culture that undermines the mission and the faith of the public in the mission of the agency—it is all corrupt, they are all on the take and nobody does anything about it.

You don't want that reputation, you don't want that perception. I think this is a very serious part of what we are doing to sort of get ourselves, where we have had problems, back on track in trying to win back the confidence of the public in our mission, what we do.

Mr. JEREMIAH. Mr. Connolly, there is a perception that the crimes that are committed as it relates to fraud and corruption are sometimes victimless crime. I attend every sentencing in a case involving the PHA. I had the opportunity to deliver a victim impact statement which are often taken into account by the judge.

There are those occasions when the judge does not take that into account. I can tell you that we have had some incredible successes working with our local and federal partners to hold people accountable but there have been a number of cases where folks got off on probation, where they only got six months.

For example, one case involving the theft of construction materials, well over \$400,000 in construction materials, one of the defendants got six months in jail. There are kickback cases where we saw a very good result where that defendant got 50 months in jail. It does run the gamut.

I believe that it is important in terms of deterring fraud and corruption that we hold those folks accountable but I will add that even when the system does not, PHA has taken a very aggressive stance in holding them accountable. We do that by forfeiting their pensions.

Mr. CONNOLLY. Good. I would just say to you, as someone who spent 14 years in local government, the key to success is you have the public with you. They have confidence in the organization, in the machinery, in the people and the leadership.

If they don't, your mission is in trouble. The notion of victimless crime, fair enough, it is not someone who has been violent and has physically hurt someone else but if you are responsible for eroding confidence in such an important subject area, affordable housing, so the public no longer has any confidence at all in what you are doing, so resources decline, fewer families are assisted, they are victims, through no fault of their own, because of some venality or mendacity by an employee, or a contractor or whoever it may be.

That needs to be taken into account because the erosion of confidence is not a trivial matter.

Look at Mr. House of New York, you came from the Bloomberg administration but you are now in the de Blasio administration. Mayor de Blasio set a breathtaking, to me, goal of 200,000 affordable housing units in New York City. That is astounding.

My jurisdiction is about one-eighth the size and we couldn't believe we would have 2,400 units in four years. Multiply by eight, maybe you could do 17,000 but 200,000 is going to be an extraordinary feat if it can be accomplished.

If the public has no confidence in you to begin, you are never going to reach it. You are not even going to get a fraction of it. It is critical that if we are all going to get behind that goal in New York, we have to have confidence in you, Mr. House, and in the people who run that organization that they can get it done.

That is what is so insidious about corruption, even petty corruption. I think we have to weed it out and we need HUD to double down on it because it is insidious.

Mr. House, I want to give you an opportunity to respond and then I am done, Mr. Chairman. Thank you for your indulgence.

Mr. HOUSE. I think the Mayor's housing plan as you have recognized is a very ambitious goal but there is a very critical and necessary need in New York City. Housing costs have gone up significantly and there is a need to have this additional affordable housing across our city.

If you look at the individuals that live in public housing, a good portion of them work with our Department of Education, with our health and hospital industries. Those are critical human resources to make our city work as we move forward. We need to provide housing similar to what you have done in Fairfax County and we need to do that in New York City.

It is just a matter of scale. New York City is so much larger and the need is, as a result, so much greater.

Mr. MICA. Thank you, Mr. Connolly.

I didn't put this up before but I just want to show you, Mr. Montoya. The Sanford Housing Authority is not in my district and has never been in my district. It is adjacent to my district. This is part of my file on this little housing authority that has gone wild and the problems we have had.

That brings to mind the expenditure cited by the Inspector General on legal costs for the Philadelphia Housing Authority. Thirty million over three years is ten million a year. Was some of this money spent going after people and if so, how much? I read there were 15 law firms that were employed. How do you incur that kind of legal bill?

Mr. JEREMIAH. Let me first say that was before Kelvin Jeremiah came to town, for the record. The report is about three years old. Since then we have cut our legal expenditures significantly. Last year alone, it was about \$900,000 down from that \$10-million plus a year.

I couldn't begin to justify what was done in the past but why there would be such an incredible need for what I would consider—I do share the IG's comments that it is excessive.

Mr. MICA. You investigated that but you couldn't get documentation on what justified that \$10 million a year average?

Mr. MONTROYA. We looked at a portion of it, sir. Out of the \$30 million, we looked at a representative sample of that, a little over \$4.5 million. You are correct, of the amount we looked at, there was no real justification for the expenditure.

Mr. MICA. The problem is there is \$30 million over three years. He has gone to \$900,000 and they were spending \$10 million for 15 firms, so it is money just gone.

Mr. MONTROYA. Right. We basically extrapolated the entire \$30 million being questioned and out of all of that, \$1.1 million was specifically spent to obstruct our audits. Again, this was not under the purview of Mr. Jeremiah.

They did things like having three attorneys with each of our folks when we did interviews. They had to look at every record before they turned it over to us. These are the things that, as the IG, we have a right and responsibility to oversee.

Mr. CONNOLLY. Mr. Chairman, can I interject on that?

Mr. MICA. Yes.

Mr. CONNOLLY. Aren't there laws against that? Were they using federal money?

Mr. MONTROYA. Yes, sir, it was federal money.

Mr. MICA. They were using Federal money.

Mr. CONNOLLY. Don't you have some redress, both criminal and civil?

Mr. MONTROYA. We ended up getting what we needed.

Mr. CONNOLLY. That is not my question. Listen, if someone is investigating and you even lie to the FBI, it is a crime. To actually spend money from legal resources to deliberately obstruct and IG report involving federal money—adding insult to injury—using Federal money to obstruct, that has to be a crime and prosecutable. What happened?

Mr. MONTROYA. What I would say is we are not done. If I can just leave it at that, we are not done.

Mr. MICA. I just discussed with staff making certain that you have the resources to pursue some of this. What I have read and what I have heard is just astounding. Again, when you come to obstruction of your work and using taxpayer monies to obstruct, we are reaching about the limits. Somehow we have to drill down on this and go after these folks.

We will see what we can do to give you the resources.

Mr. MONTROYA. We appreciate your support.

Mr. MICA. Unfortunately in my community, central Florida, about 25 percent of the homeless are veterans. Mr. House, was it you who said you had 460 homeless veterans?

Mr. JEREMIAH. That was me.

Mr. MICA. Mr. Jeremiah. How many total units do you have for your whole housing authority?

Mr. JEREMIAH. We have approximately 13,000.

Mr. MICA. Thirteen thousand does not sound like a big number.

Mr. JEREMIAH. It does not.

Mr. MICA. Is there a limit on the program or is that a limit on your effort or what?

Mr. JEREMIAH. There have been some structural issues with our housing authority making units available.

Mr. MICA. Do veterans get a preference for housing when they are homeless?

Mr. JEREMIAH. They do.

Mr. MICA. They would naturally come to the top of the list. You have a waiting list?

Mr. JEREMIAH. Yes, we do. The waiting list generally wouldn't apply to homeless vets.

Mr. MICA. How big is your waiting list?

Mr. JEREMIAH. It is about 60,000.

Mr. MICA. A good number of those would be veterans. They don't get a preference in being first up?

Mr. JEREMIAH. A good number of those would not be veterans.

Mr. MICA. The ones that are identified, they apply and they list they are a veteran, do they do that?

Mr. JEREMIAH. They do but they would be redirected into the VASH Program.

Mr. MICA. I know but 460 is small and 13,000 units?

Mr. JEREMIAH. We do.

Mr. MICA. You have 60,000 plus. It would be my preference to give those who served the Country an opportunity to have the first show at whatever is available. Is that the way you are doing it?

Mr. JEREMIAH. Yes, they do. Once they have indicated they are a veteran, they would be removed from the 60,000 plus.

Mr. MICA. And given first preference?

Mr. JEREMIAH. They would be given first preference.

Mr. MICA. What is the acronym for the program?

Mr. JEREMIAH. The Veterans Administration.

Mr. MICA. VASH?

Mr. JEREMIAH. Yes.

Mr. MICA. Are you only assisting those to the limits of that program funding availability or are you going beyond that and prioritizing those folks so they get first up?

Mr. JEREMIAH. We are doing both.

Mr. MICA. That was my question.

Mr. CONNOLLY. Just to be fair, Mr. Chairman, just real quick I want to get some stuff in the record.

Mr. MICA. Go right ahead.

Mr. CONNOLLY. If one only heard our previous exchange, one might think we are still in the middle of this so I want to be fair. Obviously the events we were describing in terms of the obstruction of the IG's investigation was not on your watch, Mr. Jeremiah, is that correct?

Mr. JEREMIAH. That is absolutely correct. I would also remind the members that prior to coming to the Philadelphia Housing Authority, I was an IG so I understand all too well.

Mr. CONNOLLY. You are a recovering IG.

It is also important to get in the record, correct me if I am wrong, your predecessor was debarred in part because of his attempts to obstruct the IG report, is that correct?

Mr. JEREMIAH. That is not quite correct. The debarment related to the failure to file certain lobbying disclosures.

Mr. MONTOYA. That is correct. We also found they had been using federal money to lobby.

Mr. CONNOLLY. Which is illegal.

Mr. MONTOYA. Right.

Mr. CONNOLLY. In March 2011, the entire board of the Philadelphia Housing Authority resigned?

Mr. JEREMIAH. That is correct.

Mr. CONNOLLY. So you have a new board?

Mr. JEREMIAH. We do.

Mr. CONNOLLY. You went into receivership at that time under HUD control. Are you still under receivership?

Mr. JEREMIAH. No, we are one year out of receivership.

Mr. CONNOLLY. Have you closed all of the recommendations made by the HUD IG?

Mr. JEREMIAH. We have, including a reimbursement to the program of about \$8.2 million for the legal services that we collectively determined were not necessary or appropriate.

Mr. CONNOLLY. Thank you. I want to be fair and not leaving it hanging because that is not the case. There is a new guy in town, a new board and hopefully we can make sure we try to learn from the terrible mistakes of the past.

Thank you, Mr. Chairman.

Mr. MICA. Those are very good points. We appreciate the cooperation of both of you. Both of you are fairly new.

Mr. House, after you learned how much the guy next to you is making and how many more units he has, you can have a little talk. You have a lot of important responsibilities.

This is a very important subject. I don't know of too many hearings that have gone into this depth, at least from our investigative standpoint. We would like to follow up because you do have a lot of people who need housing assistance and affordable housing and we need to make certain we have the alternatives.

We have to take a real look at the administrative costs overall and see what we can do to bring that down. I don't mind paying to help people who need housing help but 29 percent premium on administration seems over the top. We will look at that further.

I want to thank the New York and Philadelphia directors for being here. I salute you, Mr. Montoya on your work and the information you brought to the committee and Congress today.

We will leave the record open for a period of seven days, without objection. We may have additional questions we didn't have time to get into because votes have been called.

We thank you so much for being with us and participating in this enlightening hearing. We thank Mr. Connolly and Mrs. Maloney who are gone. We will continue to get the facts and hopefully improve the expenditure of public funds. It is such an important area.

There being no further business before the subcommittee, this hearing is adjourned.

[Whereupon, at 10:33 a.m., the subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Sanford Housing Authority Timeline

- 1988 - Elliott Smith, Director SHA was fired due to incompetence
- 1995 - SHA Executive Director Phyllis Richardson is suspended for allegations she abused her authority
- 1996 - Phyllis Richardson is sentenced to two years of probation, including four months home confinement and will have to pay \$4,500 in restitution for selling a SHA vehicle under fair market price to a family member
- 2001 - HUD lists SHA as a "Troubled" agency
- 2001 - Sanford City Commission convenes special meeting to consider removing SHA board on grounds of inefficiency and neglect. Commission reaches agreement that calls for four SHA board members to resign
- 2003 - Congressman Mica writes to HUD Secretary Martinez requesting HUD to take over control of SHA
- 2003 - HUD moves to place SHA into administrative receivership
- 2005 - Congressman Mica writes to HUD questioning the wisdom of hiring Mr. Tua due to his previous work troubles
- 2005 - Angel Tua hired as new Executive Director of SHA despite being fired by Pinellas County Housing Authority and resigning under pressure from St. Petersburg and Chicago
- 2006 - After 29 months in receivership, HUD moves control of SHA back to local governance.
- 2006 - January - June 2009 none of the Authority's six projects sustained standard level ratings for physical conditions
- 2010 - HUD completes a financial audit of SHA and finds that SHA is financially insolvent, physical conditions of public housing units are extremely poor and current management has not shown capacity to operate SHA successfully

