

Memorandum



Date: May 20, 2008

Supplement to
Agenda item No. 14(B)1

To: Honorable Chairman Bruno A. Barreiro
and Members, Board of County Commissioners

From: George M. Burgess
County Manager

Subject: Second Status Report on US HUD/County Work Plan

The following supplemental report is in response to the US Housing and Urban Development Oversight Administrator's (US HUD OA's) narrative to the Section Quarter US HUD/County Work Plan.

It should be noted that although the US HUD OA provided the County with the Second Quarterly Work Plan, and it was discussed at several meetings between County staff and US HUD, the County was not given an opportunity to review the accompanying narrative before it was distributed by the US HUD OA. Many of the issues raised in the US HUD OA's narrative are well known and efforts to address many of them were in place prior to the temporary possession.

Contract Support

It is my understanding from discussions with both the US HUD OA and other US HUD officials that Deloitte and Touche has returned to MDHA to provide assistance to address the department's financial challenges. Since Deloitte and Touche conducted a forensic review of MDHA during the last quarter of 2006, we believe that they should be able to expeditiously resolve the financial issues of MDHA.

The US HUD OA also indicates a contractor has been brought in to assist the Section 8 Program. The Board should be reminded that funds were allocated to pay for two firms in the last fiscal year to provide training to staff concerning the Section 8 Program as well as management oversight training to complete specific tasks necessary for the successful operation of the program. While training is always important, it appears that the same efforts are being duplicated. Additionally, on more than a few occasions, we have recommended to US HUD that outsourcing be considered as a management alternative for the Section 8 Program.

With regard to US HUD's accomplishments, the US HUD OA states "Prior to US HUD's possession, MDHA Section 8HCV Program experienced a number of serious management issues, late payments, incorrect payments, missing records, incomplete voucher transactions, and not being responsive to legitimate customer complaints." This statement gives a false impression that steps were not taken by the County to identify or address these issues. In fact, issues involving Section 8 files, payments, etc. have been well documented for a number of years and were being addressed aggressively prior to US HUD's temporary possession of MDHA.

Development and Coordination of Voucher Issuance

Initially, the US HUD OA advised the Board in his February 2008 report that the Section 8 Program would achieve a 100 percent utilization rate by the summer. However, the US HUD OA now notes that it may not happen until the end of the calendar year. This is beyond the period of the temporary possession and we have not been apprised of the factors that have caused this delay.

Concerns and Issues

In many meetings with the US HUD OA and other US HUD officials, the County's Budget Director has discussed and verified that MDHA never had a \$14 million deficit. Yet, the US HUD OA continues to

publicly state that there was such a deficit. This only causes confusion and is not positive or constructive to our working relationship.

A balanced budget was approved by the Board of County Commissioners for FY 2007-2008. I encourage the US HUD OA to continue to work with OSBM to address any budget issues that may arise.

Impact of Fiscal Year 2006 Re-Audit

With regard to the under and overpayment issues that have been raised, this issue has been well documented by US HUD dating back to 2002. As to the files having errors, US HUD documented this in 56 audits and reviews since 2002, of which 25 focused on Public Housing and Section 8 programs. Some of these audits from 2006 and early 2007 focused directly on severe file issues and data/calculation errors.

Although steps were being taken to address these issues by the newly hired permanent County management team prior to US HUD's takeover, it is the US HUD OA's responsibility to ensure these issues are resolved.

With regard to technology issues, previous and current statements by the US HUD OA suggest that the previous administration poorly executed the conversion system to a new data system. However, the conversion took over a year of planning and was tested through 15 data iterations for the preparation of correcting data for conversion. In fact, US HUD was well aware and has already assumed temporary possession when the conversion occurred.

Key Staff Vacancies

It is unproductive for the US HUD OA to continue to blame the County for staffing changes. In two different meetings earlier this year, the County offered the services of the former Chief Financial Officer (CFO) and others including the hiring of temps to assist the US HUD OA. The US HUD OA agreed but did not follow up on this offer of assistance. Additionally, the US HUD OA requested and the County approved the US HUD OA's request to advertise and hire a new CFO and Controller which we understand has been partially completed.

Ward Towers Assisted Living Facility

Ward Towers ALF is an elderly-only public housing project that hosts 100-ACC units and is not owned by MDHA or the County. Upon the former CFO's arrival, corrections to the books were made. It is accounted for in the same manner as other HOPE VI projects in other cities around the country. The allegations that MDHA booked this incorrectly or did not realize that it was not owned by the County are misleading.

Additionally, if the operating subsidy is to be at 95 percent for Ward Towers, then this oversight can be easily corrected by adjusting the next payment and documenting it through a journal entry.

As to some of the other transactions not completed, MDHA Development Corporation (MDHADC) was to procure a private management firm when the construction was completed and when they commenced the lease up of the units. This did not happen for various reasons and MDHA became the de facto management agent for the project. The former Director was moving toward procuring a private firm to manage the project prior to US HUD's arrival.

Transfer of Housing Programs to the County

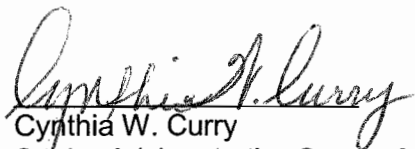
Pursuant to the Agreement with US HUD, the parties agreed that certain County projects would be transferred from MDHA to other County departments. These programs include the Infill Housing Initiative Program, Section 8 New Construction and other programs. The US HUD OA disputed whether the

County had the authority to make these transfers. There has been extensive written communication between the US HUD OA and the County on this issue. Notwithstanding the statements made by the US HUD OA, US HUD agreed that these transfers were permissible under its Agreement with the County.

General Ledger Issues

Again, the financial troubles of MDHA are well known. Prior management was aggressively addressing these issues. However, insufficient time was provided to make the necessary improvements before US HUD took temporary possession of MDHA. With the assistance of Deloitte and Touche, we would expect that the next report will be one that shows substantial progress with these issues.

In closing, the County wants to partner with US HUD to resolve outstanding issues in order to ensure MDHA becomes a well operated, highly respected housing agency.



Cynthia W. Curry
Senior Advisor to the County Manager