

**Performance Audit**  
**of the**  
**San Francisco Housing**  
**Authority**

**Prepared for the**  
**Board of Supervisors**  
**of the City and County of San Francisco**

**by the**  
**San Francisco Budget and Legislative Analyst**

**June 3, 2013**

# BOARD OF SUPERVISORS

## BUDGET AND LEGISLATIVE ANALYST

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June 3, 2013

Honorable David Campos  
and Members of the Board of Supervisors  
City and County of San Francisco  
Room 244, City Hall  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4689

Dear Supervisor Campos and Members of the Board of Supervisors:

The Budget and Legislative Analyst is pleased to submit this *Performance Audit of the San Francisco Housing Authority*. In response to a motion adopted by the Board of Supervisors on February 5, 2013 (Motion No. M13-023), the Budget and Legislative Analyst conducted this performance audit, pursuant to the Board of Supervisors powers of inquiry as defined in Charter Section 16.114 and in accordance with U.S. Government Accountability Office (GAO) standards, as detailed in the Introduction to the report.

The purpose of the performance audit was to evaluate the economy, efficiency and effectiveness of the San Francisco Housing Authority's (SFHA) financial, operational and program management.

The performance audit contains nine findings and 45 recommendations, of which 43 recommendations are directed to the SFHA Acting Executive Director or the SFHA Commission, one recommendation is directed to the Board of Supervisors and one recommendation is directed to the Mayor. The SFHA Acting Executive Director and the SFHA Commission agree or partially agree with 43 of our 43 recommendations or 100%.

After submission of our draft report to the SFHA Acting Executive Director and SFHA Commission on April 26, 2013, the SFHA Commission implemented 3 audit recommendations, contained in this report, including:

- Reducing the number of Section 8 eligibility workers
- Reinstating the maintenance collection policy for tenant-caused damage
- Approving a policy to enforce late fee payments for delinquent rent

The proper implementation of our recommendations would result in an estimated net annual savings of \$1,652,900 and one-time savings of up to \$6,850,000. Net annual savings consist of (a) increased revenues, including improved collection of tenant rents

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and reinstating maintenance fee charges to tenants for tenant-caused damage, and (b) reduced expenditures, including recommended savings in contracts and reduction in positions, offset by recommended increases in expenditures to hire necessary staff positions and increase property maintenance. One-time savings are due to (a) termination of an agreement with the City's Department of Public Works to provide an apprenticeship program, which should be provided directly by SFHA instead, and (b) sale of SFHA's vacant commercial property at 440 Turk Street.

The SFHA's written response to our audit is attached to the audit report beginning on page 117.

We would like to thank the SFHA Acting Executive Director and SFHA staff, members of the SFHA Commission, tenant representatives, and the U.S. Housing and Urban Development (HUD) staff for their assistance with this audit.

Respectfully submitted,



Harvey M. Rose  
Budget and Legislative Analyst

cc: President Chiu	Mayor Lee
Supervisor Avalos	City Administrator
Supervisor Breed	Clerk of the Board
Supervisor Cohen	Jon Givner
Supervisor Farrell	Kate Howard
Supervisor Kim	Controller
Supervisor Mar	SFHA Acting Executive Director
Supervisor Tang	President, SFHA Commission
Supervisor Wiener	
Supervisor Yee	

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# Executive Summary

The Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a performance audit of the San Francisco Housing Authority, through a motion (M13-023) approved on February 5, 2013. The performance audit evaluated the economy, efficiency and effectiveness of SFHA's financial, operational, and program management.

## Recent Changes at SFHA

Since the fieldwork and analysis for this performance audit began, the San Francisco Housing Authority (SFHA) has initiated important efforts to address the financial, operational and program management deficiencies detailed in this report. In February 2013, the former seven-member SFHA Commission resigned, with the exception of one Commissioner representing tenants. Mayor Lee replaced the six outgoing members with City department staff. This new Commission has worked quickly to identify organizational weaknesses and increase the Commission's oversight function by requiring detailed financial updates and regular program reports from SFHA staff.

Some of the recent efforts by the Commission have included: (1) seeking technical assistance from U.S. Department of Housing and Urban Development (HUD); (2) requiring the threshold for prospective contract award approvals by the Commission be lowered from \$100,000 to \$30,000 and lowered to \$10,000 for retrospective ratification; (3) establishing newly created Finance/Personnel and Diversity subcommittees of the Commission; and (4) seeking temporary assistance from the former Director of Procurement. The Budget and Legislative Analyst believes that the potential impact of these recent Commission actions, and other Commission actions that have recently been proposed, should have a positive impact on the performance of the authority.

While HUD has reduced funding to SFHA over the past several years, resulting in shortfalls in funding for public housing operations and maintenance, SFHA has not sufficiently managed its existing resources. The findings in this performance audit report have disclosed critical operational areas that require immediate actions not only to improve management and oversight, but also to improve comprehensive strategic vision and planning.

As discussed in the Financial Condition section below, SFHA is expected to have no remaining cash to pay its bills sometime between May and July of 2013. In order to ensure that SFHA recovers from its potential insolvency and to prepare SFHA for longer term stability and success, the recommendations made by the Budget and Legislative Analyst, as contained in this report, should be immediately implemented and monitored.

## Introduction

Founded in 1938, the San Francisco Housing Authority administers public housing and voucher programs that currently serve over 31,000 San Francisco residents, including:

- 12,691 residents living in 6,054 public housing units; and
- 19,110 residents living in 8,954 privately owned housing units subsidized by Section 8 vouchers.

Given the City's shortage of affordable housing stock, these programs represent significant opportunities for San Francisco's low-income population.

SFHA was the first public housing authority established in California, and remains the 17<sup>th</sup> largest housing authority in the country. Although technically separate from the governance of the City and County of San Francisco, and funded almost entirely from federal monies provided by HUD, the San Francisco Housing Authority is a local public agency, governed by a seven-member Board of Commissioners that is appointed by the Mayor.

The original SFHA budget for the federal fiscal year from October 1, 2012 through September 30, 2013, is \$210,575,514, as shown in Table 1 below. SFHA had nine departments and 289 full time equivalent (FTE) positions in the original budget.

**Table 1: SFHA Annual Revenue and Expenditure Budget  
FY 2010-11 through FY 2012-13**

Year Ending:	Actual Revenues and Expenditures		Budget	Percent Increase/ (Decrease)
	October 1, 2010 through September 30, 2011 Audited	October 1, 2011 through September 30, 2012 Unaudited	October 1, 2012 through September 30, 2013	
<b>Revenues</b>				
Rental Income	\$17,379,092	\$17,390,041	\$18,088,665	4%
HUD Operating Subsidies and Grants	33,761,855	39,229,621	32,833,167	-3%
HOPE VI Operating Subsidies	4,296,179	3,758,523	4,263,336	-1%
HUD & Other Capital Grants	5,000,675	8,428,391		-100%
Housing Voucher Program (Section 8)	135,717,540	136,176,197	136,685,145	1%
Gain or Loss on Sale of Assets	1,958,043			-100%
Other Government Grants	8,894,175	3,355,494	3,229,902	-64%
Net Other Fees and Other Income	\$18,940,204	\$18,280,118	\$15,416,289	-19%
<b>Total Revenues</b>	<b>\$225,947,763</b>	<b>\$226,618,385</b>	<b>\$210,516,504</b>	<b>-7%</b>
<b>Expenditures</b>				
Salaries	\$20,383,569	\$19,598,088	\$19,465,964	-5%
Benefits	13,041,648	11,877,473	12,766,327	-2%
Other Admin	4,018,353	3,941,502	3,379,963	-16%
Tenant Services	789,460	637,922	623,110	-21%
Utilities	12,939,525	12,852,567	10,281,198	-21%
Debt Service	0	0	3,050,202	
Maintenance Materials	2,165,319	2,905,932	2,484,301	15%
Maintenance Contracts	6,645,089	5,456,777	5,904,469	-11%
Fee for Service	4,713,805	6,906,767	3,386,669	-28%
Protective Services	3,252,942	2,811,685	2,857,522	-12%
Transfer to Non Profit Corporations	3,708,657	3,758,523	4,263,336	15%
Insurance	2,300,947	2,103,813	1,877,074	-18%
Bad Debt	1,781,056	837,187	598,454	-66%
Other Expenses	2,568,713	5,914,654	459,581	-82%
Non Operating Fees	9,328,068	8,804,931	8,501,840	-9%
Depreciation	7,820,317	9,878,084		
Housing Voucher Program	132,603,407	128,269,023	130,675,504	-1%
<b>Total Expenditures</b>	<b>\$228,060,875</b>	<b>\$226,554,928</b>	<b>\$210,575,514</b>	<b>(8%)</b>
<b>Net Revenue</b>	<b>(\$2,113,112)</b>	<b>\$63,457</b>	<b>(\$59,010)</b>	<b>-97%</b>

Source: SFHA Financial Statements and Budget Documents

SFHA has three major programs: (1) the public housing program operated by SFHA; (2) the Housing Opportunities for People Everywhere (HOPE) VI low-income housing operated by non-profit corporations selected by SFHA, and (3) the housing voucher (Section 8) program. For the fiscal year ending September 30, 2013, operating subsidies and revenues supporting SFHA's public housing and other programs are 38% of the budget (\$79.9 million of the \$210.6 million budget) and the housing voucher program is 62% (\$130.7 million of the \$210.6 million budget).

### National Public Housing Trends

As originally conceived and constructed, public housing was not intended to become permanent housing. The buildings, many of which were built in the 1940s, have suffered significant damage from ongoing wear-and-tear, and the high costs to modernize and maintain the housing units exceed current available funding levels. To address these concerns, over the past few decades there have been significant improvements in public housing management in the United States, allowing more management flexibility to high-performing public housing authorities. However, since San Francisco's housing authority has faced major financial and operational challenges over those years, SFHA has not been able to take advantage of these improved management innovations, which include greater flexibility in spending Federal funds.

On December 13, 2012, HUD notified the San Francisco Housing Authority that it has been declared "Troubled" – its lowest classification prior to placing an agency under Federal receivership – under the Public Housing Assessment System for the fiscal year ending September 30, 2011.

## **Financial Condition**

Because SFHA is largely dependent on HUD resources, SFHA has faced significant financial challenges in recent years due to the reduction of federal funding for public housing. In the fiscal years ending September 30, 2011 and 2012, SFHA's public housing program experienced a budget shortfall of \$4.0 million and \$2.6 million, respectively. In the first five months of the fiscal year ending September 30, 2013, the shortfall has already exceeded \$1.7 million. SFHA currently has no cash reserves to cover the shortfall, and according to HUD's March 26, 2013 status report, SFHA is expected to run out of cash sometime between May 2013 and July 2013.

Although the reduction in federal funds has contributed to this potential financial insolvency, SFHA's poor and inadequate financial management practices have exacerbated the situation. For example, in 2011 SFHA used \$2.2 million in one-time property sales proceeds to balance the budget for ongoing expenditures, thereby resulting in SFHA delaying restructuring the public housing program and depriving the authority of a source of revenues for much-needed capital repairs and improvements to public housing. The reduction in federal funding has impacted every public housing authority in the country, but many of the other housing authorities have been able to make necessary organizational adjustments in order to protect and preserve the viability of their housing for low-income families and individuals.

SFHA has not controlled expenditures or implemented effective revenue solutions to address funding reductions. For example, SFHA will lose an estimated \$1.5 million in the current fiscal

year (fiscal year ending September 30, 2013) by not collecting delinquent tenant rents, and will lose an estimated \$800,000 by not renting vacant housing units in a timely manner.

Since 2009, SFHA has not hired a chief financial officer and has not developed a long-term financial plan, leaving major financial and budgeting administration in the hands of one accounting manager. By implementing the recommendations of the Budget and Legislative Analyst to achieve savings, sufficient funding will be available for SFHA to take immediate steps to hire a chief financial officer and designate a budget manager to oversee and monitor the budget.

## **Governance and Oversight**

Responsibility for fiscal and operational oversight lies primarily with the SFHA Commission. For at least the past two years, the Commission has provided inadequate oversight of SFHA's finances, and has insufficiently addressed the establishment of proper policies and governance of SFHA. Important Commission subcommittees, such as the Finance subcommittee, were allowed to lapse, while, at the same time, the authority of the Executive Director was expanded. During the past two years, the Commission failed to identify and remedy significant performance deficiencies, such as collecting rents and renting out vacant units, which has contributed directly to the budgeting shortfalls of SFHA. As discussed below, as of March 19, 2013, delinquent rents total \$451,051. Additionally, approximately 5.1 percent of SFHA housing units, or 276 housing units, are vacant. In order to maintain sufficient oversight in the future, the Commission should ensure that the subcommittees that were reestablished in March 2013 remain active and meet at least monthly.

The Commission's oversight role is further limited because Commission meetings are not sufficiently recorded, and the Board of Supervisors cannot take an active role in SFHA matters due to limits imposed on the Board's role by State law. Commission meeting minutes do not offer full transcripts of discussions, and currently no actual recording of meetings is readily available to the public. Commission members are appointed by the Mayor, and State law limits participation by the San Francisco Board of Supervisors, despite the general national standard that executive and legislative bodies in a public housing authority's jurisdiction share such responsibility.

The San Francisco Board of Supervisors should request a change in State law and submit the needed legislation to require Board of Supervisors' confirmation of SFHA Commission appointees. Further, the SFHA Commission should relocate its meetings to City Hall in order to ensure transparency through public access and archived audio and video recordings.

## **Procurement**

Due to a number of factors including a lack of emphasis by executive management, high staff turnover, and the lack of an adequate management structure in the SFHA Finance Department, SFHA has not had sound procurement practices for at least the last 3 years. SFHA has not sufficiently evaluated contract proposals. Further, SFHA changed contracts' scope of work without justification.

Five different individuals have been responsible for management of the SFHA procurement function in the past three years, including staff from the Office of the General Counsel. Further, SFHA has not had a staff member classified as a Procurement/Contracts Analyst or similar position since at least 2009. As a result, SFHA has failed to exercise consistent or effective oversight, documentation, or controls over procurement of goods and services contracts. For example, SFHA does not formally manage its relationship with Recology, the sole provider of trash collection services in San Francisco. Although SFHA paid Recology approximately \$2.8 million for such services in 2012, SFHA has not pursued a formal agreement or Memorandum of Understanding with the company. As a result, Recology charges have varied significantly from site to site with some housing projects receiving weekly pick-ups and others receiving twice weekly pick-ups without formal assessments to justify the differences. Further, SFHA staff have verified that one housing project was charged for 156 bins, but only has 111 to 115 occupied units at any given time.

Although the SFHA Procurement Policy and Procedures Manual states that the SFHA “maintains a centralized procurement process,” in fact, contracting is not planned, monitored, or documented on a centralized basis. Annual procurement planning does not occur and contract monitoring is decentralized and is very inconsistent. These inadequate controls and insufficient oversight increase the risk to SFHA of unnecessary contract costs and improperly awarded contracts.

SFHA has several agreements with City departments to provide services but does not evaluate or monitor performance to ensure that these agreements provide the most cost effective services at the specified levels. As a result, SFHA has been paying for services it does not need. For example, SFHA has a Memorandum of Understanding (MOU) with the San Francisco Police Department, in which the Police Department assigns dedicated police officers to eight SFHA housing sites. The police officers are assigned to 12-hour shifts, of which 10 hours are regular time, paid by the Police Department as part of its annual budget, and 2 hours are overtime pay, paid by SFHA. The 2013 cost to SFHA for these services is \$1,300,000 which includes approximately \$1,100,000 to reimburse the Police Department for overtime costs and approximately \$200,000 to pay for a police commander’s salary. However, SFHA does not monitor performance of the MOU nor document the number of hours of police presence during the scheduled 12-hour shift, and cannot show that the 2 hours of overtime pay are necessary.

In addition, SFHA has entered into an MOU with the Department of Public Works (DPW) for a 27-month (May 2012 through July 2014) apprenticeship program, in which the apprentices provide weekend trash and landscaping services for an amount not to exceed \$1,814,190. Under the MOU, DPW employs and supervises six full-time, benefited apprentices to provide landscaping and trash pickup at five SFHA housing sites from Thursday through Monday. However, since SFHA must pay DPW’s overhead rates, SFHA is paying an estimated \$600,000 more to DPW than if SFHA provided the program through the Laborer’s Union.

SFHA should initiate centralized annual procurement planning and documentation, including the development of contract administration plans and guidelines for their use, in order for SFHA to achieve more efficient and effective procurement practices.

## **Staffing**

SFHA has not performed a comprehensive staffing analysis. As a result, the SFHA's precise organizational needs and the appropriate levels of staffing across departments within SFHA are unknown. This has led to insufficient management of many SFHA functions, insufficient number of maintenance, finance and purchasing staff, and surplus staff in the Section 8 program. Over at least the past four years, SFHA staff have been frequently reassigned, and key senior staff have performed essential duties in an "acting" capacity for extended periods of time, preventing the leadership and stability necessary to address the SFHA's ongoing performance deficiencies. For example, the Deputy Executive Director for Public Housing Operations, who is responsible for one of SFHA's largest programs, has been in an acting capacity since May 2012, and the Director of the Section 8 Department, which manages more than \$130 million in housing vouchers, has been in an acting capacity since 2009. In addition, vacancies in key positions, including the chief financial officer and the director of procurement which have been vacant since at least 2009, have diminished the SFHA's ability to perform some of its most important functions, particularly with regard to financial management, procurement, and overall operational oversight. Senior staff should all be placed into permanent positions, and important vacant positions should be filled, which can be done if the Budget and Legislative Analyst's recommendations contained in this report are properly implemented.

### Delay in Implementing New Maintenance Mechanic Position

In 2007, HUD required all public housing authorities, including SFHA, to implement an asset management program in which budgets and operations are to be managed by property managers at each public housing site. In order to implement asset management, HUD required the creation of a maintenance mechanic classification to perform general maintenance and repair work, allowing for increased flexibility and lower costs rather than having such work performed by skilled craft workers.

SFHA has not yet implemented this maintenance mechanic classification, resulting in lost HUD subsidies of \$7.5 million from 2008 through 2012. SFHA is presently negotiating with the respective unions to implement the maintenance mechanic classification, with the assistance of other City staff.

SFHA reduced skilled craft positions by 40% from 68 positions in 2010 to 41 positions as of March 2013. Additionally, 11 positions were laid off in May 2013, despite SFHA's significant maintenance backlog. By properly implementing the Budget and Legislative Analyst's recommendations, SFHA could hire at least an additional 15 maintenance positions, including the proposed maintenance mechanic positions, to more closely match the maintenance staffing levels of high-performing public housing authorities, including the Denver (Colorado) Housing Authority and Charlotte (North Carolina) Housing Authority.

## **Program Management**

The management and operational weaknesses described above have had a direct impact on the performance of programs and services at SFHA. Both of SFHA's housing programs – Section 8

and Public Housing – have encountered major challenges in recent years, as documented by low assessment scores from HUD.

## Section 8

### Waiting Lists

The SFHA Section 8 Department manages the waiting lists and initial eligibility certification for both the Section 8 and Public Housing programs. Despite HUD guidelines to update program waiting lists annually, SFHA has not updated the Section 8 or Public Housing waiting lists since 2001 and 2008, respectively. There are currently 8,974 San Francisco households on the Section 8 waiting list, and 26,070 San Francisco households on the Public Housing waiting list.

Failure to update waiting lists more frequently places an unnecessary burden on the eligibility process. For example, when public housing units become available, SFHA typically has to complete the intake process for 80 applicants in order to find one viable candidate that is still eligible and still seeking housing. This process wastes both staff time and income for the housing authority, since the housing units remain vacant longer than necessary.

### Staff Performance

Over the past 10 years, HUD assessments have revealed consistently poor performance of the SFHA Section 8 Department. Yet, even during active Corrective Action processes with HUD, SFHA has failed to demonstrate significant improvements. For example, a key measure of performance for Section 8 programs is the rate of annual income re-examinations of the tenants. During the department’s most recent corrective action process in 2011, eligibility staff processed an average of only one re-examination per day, as compared to 6.9 re-examinations per day conducted by Housing Quality Standards (HQS) inspectors, who must verify the safety of units funded through SFHA, as shown in Table 2 below.

**Table 2: Section 8 Staff Performance,  
As Tracked During 2011 Corrective Action Process**

Average completion rate	Eligibility Worker Performance	HQS Inspector Performance
Total Average # of re-exams per month	697.0	1241.0
Monthly Average per Staff	19.9	138.0
Daily Average per Staff	1.0*	6.9**

Source: SFHA Commission Reports, 2011

\*Reexamination of tenant incomes

\*\*Reexamination of unit safety

Despite these documented inadequacies, there had been no major staffing changes in the Section 8 Department at the time of our audit.

With an average completion rate of 1.0 reexamination per day, the Eligibility Workers are not working up to capacity, and in fact, fewer Eligibility Workers working to their full capacity would be able to manage the full workload. Therefore, the Budget and Legislative Analyst

recommends that SFHA reduce the number of Eligibility Workers assigned to Section 8 reexaminations by 10 from 24 to 14, and recommends that staff performance evaluations be completed in a timely manner. On May 17, 2013, after we submitted our final draft to SFHA, SFHA announced the reduction of seven Section 8 eligibility worker positions. SFHA should also initiate annual purging of the waiting lists to ease the administrative burden created by outdated lists and ensure that eligible families can move into housing units as quickly as possible.

## Public Housing

As noted above, in 2008, HUD began requiring public housing authorities to transition to an asset management model, in which budgets and costs are managed at the property (or asset management project) level by property managers in conformance to industry standards. To date, SFHA has been unable to make this transition. A major challenge facing SFHA has been its inability to transfer maintenance functions from a centralized maintenance unit to the individual housing sites. To transfer these maintenance functions, SFHA should create a maintenance mechanic position to perform routine maintenance work at a lower cost than the specialized crafts, such as plumber, electricians, carpenters and other trades, as noted above.

Reductions in annual maintenance budgets have had a severe impact on maintenance operations. Table 3 below shows that actual maintenance expenditures have exceeded budget by 39 percent and 35 percent for maintenance costs in the fiscal years ending September 30, 2011 and September 30, 2012.

**Table 3: Maintenance Budget Shortfall**  
**Fiscal Years Ending September 30, 2011 and September 30, 2012**

	Fiscal Year Ending September 30, 2011	Fiscal Year Ending September 30, 2012
Budgeted Maintenance Expenditures	\$4,346,400	\$5,439,522
Actual Maintenance Expenditures	6,037,563	7,367,628
Over budget	(\$1,691,163)	(\$1,928,106)
Percent	(39%)	(35%)

Source: SFHA Budget Presentation to Housing Authority Commission

As a result of not providing adequate budgeted funds for maintenance, SFHA has had to use other budgeted expenditures to perform maintenance work, and now faces a significant backlog of maintenance repair requests. As of April 4, 2013, there were 2,853 outstanding requests for repairs, due to inefficient management and inadequate staffing levels for maintenance and craft workers. Yet, despite the urgent need for resources to address ongoing maintenance issues, SFHA has not collected maintenance fees for tenant-caused damage to public housing units since 2009. An analysis of repairs requested via 311 (outside of regular working hours) suggests that a significant percentage of repairs would be considered “tenant-caused”.

This report includes a recommendation that SFHA update and reinstate a Schedule of Maintenance Charges for tenant-caused damages similar to other housing authorities, and actively enforce payment of those charges, in order for SFHA to have sufficient revenue

resources to complete more repairs and sustain the proper operation of its public housing sites. After we submitted our draft audit to SFHA on April 26, 2013, on May 23, 2013, the Commission presented a resolution to adopt a Schedule of Maintenance Charges and to reinstate charging maintenance fees for tenant-caused maintenance damage, which remains under consideration as of May 24, 2013. SFHA should assess the reasonableness of maintenance costs, and take immediate steps to address the backlog of repair work orders.

### Rent Collection

Like charges for tenant-caused maintenance damage, tenant rent collection is one of the few opportunities for SFHA to generate revenue. These rental revenues typically represent approximately 33% of the authority's annual public housing program budget. Failure to collect tenant rent means that other important agency activities, such as ongoing maintenance and repairs, cannot be adequately provided. Historically, and despite repeated agency commitments to enforcing lease agreements and payment policies, SFHA public housing tenants have been delinquent in rent payments. Since 2010, the average number of delinquent SFHA tenants per month is 1,876. As of February 2013, of the 5,372 public housing tenants, a total of 2,572, or 47.9%, were delinquent on rent.

Despite failure to make timely rent payments or establish payment plans, these tenants have been allowed to remain in their units. In accordance with HUD guidelines, SFHA is required to "write off" the amount of tenant rent deemed uncollectible every year. As shown on Table 4 below, the average amount of tenant rent that SFHA fails to collect is over \$1.5 million annually.

**Table 4: Uncollectible Tenant Rent Write-Offs**

<b>Year</b>	<b>Uncollectible Rent</b>
2007	\$1,080,574
2008	\$342,504
2009	\$729,772
2010	\$1,031,954
2011	\$4,443,170
2012	\$1,483,680
<b>Total Annual Write-Offs</b>	<b>\$9,111,654</b>
<i>Average Annual Write-Offs</i>	<i>\$1,518,609</i>

Source: SFHA Delinquent Accounts Reports

SFHA is currently enforcing inconsistent tenant standards, allowing tenants who fail to comply with lease terms the ability to remain in their public housing units, while other tenants make timely payments each month, and while 26,070 families remain on the waiting list for public housing.

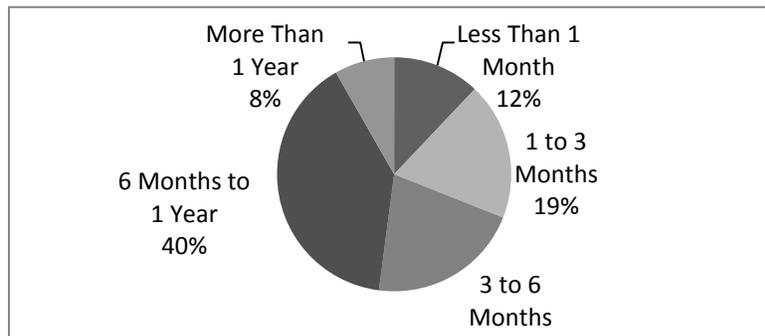
SFHA should begin actively and aggressively enforcing tenant rent collection policies and late fee payments. Roundtable discussions with property managers should be convened in order to share resources and identify rent collection best practices.

## Vacant Units

Occupancy rate is a key indicator used by HUD to measure the effectiveness of public housing management. As of February 2011, the HUD standard for occupancy in public housing is 98%. At the time of the last assessment, the SFHA occupancy rate was 93%. According to HUD's scoring scale, this translates to a score of 25% (or 4 out of 16 points).

Not only does SFHA have a high number of vacant units, but those units have remained vacant for extended and unacceptable periods of time. As of March 2013, there were 276 vacant public housing units in San Francisco. These units have been vacant for an average of 195.5 days, or six and a half months, although HUD standards provide that public housing units should not be vacant for more than 30 days. The exhibit below shows how long the 276 vacant units have been unoccupied.

**Exhibit: Length of Vacancy for Current Unoccupied Units**



Source: SFHA Report

A major factor contributing to the high vacancy rate is the high cost of preparing vacant units for occupancy (or, "turning over vacant units"). The cost of turning over vacant units varies significantly between senior/disabled units and family units, with respective average costs of \$7,306 and \$14,779. In the most extreme examples, SFHA spent nearly \$200,000 to turn over three units three times each over the past five years. The cost of these repairs included replacing refrigerators and stoves (at an average cost of \$1,219 and \$1,019, respectively) and painting (at an average cost of \$1,993) for each turnover. Two of the units received new appliances twice in less than six months in 2009. While these examples are not the norm, they illustrate the risks involved in poor oversight and controls, and reinforce the need for the collection of maintenance fees for tenant-caused damage.

Although there are costs to preparing vacant units for occupancy, there are also costs to not preparing such units for occupancy. SFHA not only loses HUD subsidies for vacant units, but also loses tenant rent, as long as the units remain vacant. As shown in Table 5 below, since 2009, SFHA has lost \$6,285,961 in revenue as the result of failure to collect rent.

**Table 5: Lost Rent Collection Revenue Due to Ongoing Vacancies, 2009-2013**

Year	Rent Collection Loss
2009 (actual)	\$814,245
2010 (actual)	\$1,484,194
2011 (actual)	\$1,612,406
2012 (actual)	\$1,483,009
2013 (budgeted)	\$892,107
<b>Total</b>	<b>\$6,285,961</b>

Source: SFHA Reports, Operating vs. Actual Budgets, 2009-2012

As previously noted, currently over 26,000 low-income families in San Francisco are on the waiting list for public housing, at the same time that SFHA has nearly 300 vacant public housing units, despite the urgent need to house low-income households in San Francisco. SFHA should therefore review the costs of turning over vacant units to ensure that only necessary work is being completed and that savings opportunities are utilized. A schedule for completing these turnovers should be consistently maintained, and SFHA should establish policies and practices to complete vacant unit turnovers within 30 days.

### Public Safety

In addition, SFHA incurs increased security costs related to protecting the safety of the vacant units and keeping them free from squatters and vandalism. Beyond issues related to vacant units, public safety remains a top concern facing public housing residents in San Francisco. For the 13 out of 48 public housing properties with the highest security needs, an average of 1,190 criminal offenses was recorded annually at these properties from 2008 through 2012.

In order to address security concerns at its properties, SFHA has engaged in three primary efforts: enhanced police services, private security guards, and in-house SFHA security officers. However, to date, SFHA has not monitored the performance of the private security contracts and programs, nor has it performed a thorough needs assessment to determine the appropriate level of service needed at each property. SFHA's oversight of public safety programs is inadequate, and costs are significantly higher than comparable housing authorities. For example, San Francisco's cost for security services in 2012 was \$490.10 per housing unit, as compared to an average cost of \$210.98 per unit for other comparable metropolitan housing authorities.

SFHA should immediately terminate its agreement with the San Francisco Police Department to pay for police overtime at select housing sites for 2 hours per day per assigned officer. The Police Department could continue providing police services using regular work shifts, as it currently does for the 6<sup>th</sup> Street Corridor. SFHA should also designate a staff person to oversee public safety and conduct a comprehensive needs assessment and analysis of current security programs.

# Introduction

The Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a performance audit of the San Francisco Housing Authority, through a motion (M13-023) approved on February 5, 2013.

## Scope

The performance audit evaluated the economy, efficiency and effectiveness of SFHA financial, operational, and program management, including a review of SFHA's: (a) compliance with all applicable federal, state and local laws; (b) governance effectiveness; (c) financial oversight and controls, including the status of implementation of prior recommendations by financial and U.S. Housing and Urban Development auditors and other oversight entities; (d) management of public housing resources, including housing provided by Section 8 vouchers, SFHA managed public housing, and housing managed by nonprofit corporations; (e) management of staff and other resources, and (f) performance and finances as compared with other housing authorities throughout the U.S.

## Methodology

The performance audit was conducted in accordance with Government Auditing Standards, 2011 Revision, issued by the Comptroller General of the United States, U.S. Government Accountability Office. In accordance with these requirements and standard performance audit practices, we performed the following performance audit procedures:

- Conducted interviews with executive, management and other staff at the San Francisco Housing Authority.
- Interviewed representatives from non-profit property management companies in San Francisco who operate HOPE VI developments.
- Reviewed reports and studies regarding Section 8 and public housing management.
- Reviewed federal regulations, San Francisco Administrative Code provisions, policies, procedures, memoranda, and other guidelines governing the management of Section 8 and public housing programs.
- Conducted site visits to 14 public housing properties.
- Surveyed public housing property managers.
- Surveyed SFHA clients, including public housing residents, voucher holders, and applicants to programs.

- Completed a survey of select housing authorities throughout the United States to compare management and performance standards.
- Conducted reviews of (a) staffing plans; (b) contracts; (c) job descriptions; (d) policies and procedures; (e) financial reports; (f) HUD assessments; (g) program reports; and (h) other data pertinent to the audit objectives.
- Submitted a draft report, with findings and recommendations, to the San Francisco Housing Authority on April 26, 2013; and conducted an exit conference with the Acting Executive Director and SFHA Commission leadership on May 10, 2013.
- Submitted the final draft report, incorporating comments and information provided in the exit conference, to the San Francisco Housing Authority on May 14, 2013.

## **History and Mission**

In 1937, the United States Congress passed the Housing Act of 1937, in order to provide financial assistance to states and cities for public works projects, slum clearance and the development of affordable housing developments for low-income residents – primarily in response to post-war economic conditions.

One year later, the San Francisco Housing Authority (SFHA) was established in 1938 by the San Francisco Board of Supervisors.

The initial programs created through the Housing Act funded the development of subsidized housing units that were not intended to become permanent housing, and were self-sustaining for decades. In 1969, the federal government created an operating subsidy for the public housing program for the first time.

Since 1937, the US Congress has passed other legislation to expand federal housing programs, including the Housing and Community Development (HCD) Acts of 1974 and 1987 which created the Section 8 voucher program, allowing eligible families to select housing in the private rental market and receive assistance in that housing unit.

SFHA was the first housing authority in California, and remains the 17<sup>th</sup> largest housing authority in the country. The mission of the San Francisco Housing Authority is to deliver safe and decent housing for low-income households and integrate economic opportunity for residents.

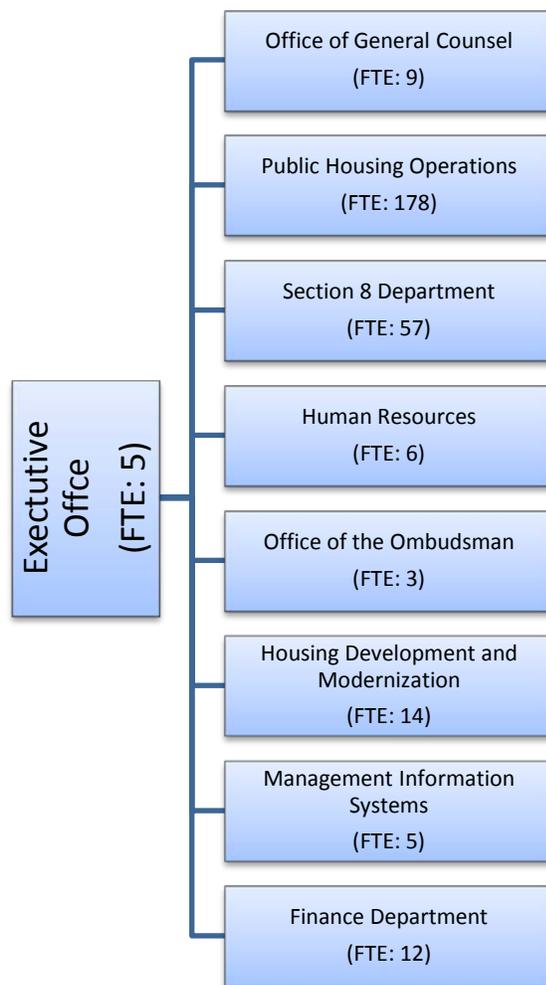
## **Organizational Structure**

Although technically independent of the City and County of San Francisco, the San Francisco Housing Authority is a local public agency, governed by a seven-member Board of Commissioners that is appointed by the Mayor. In accordance with HUD guidelines, the Board of Commissioners establishes SFHA business policies and ensures that these policies are

followed by SHFA staff. The Commissioners are responsible for “preserving and expanding the agency’s resources and assuring the agency’s continued viability and success.”

Importantly, the Board of Commissioners is also tasked with selecting and hiring the SFHA Executive Director, who oversees day-to-day operations of the authority and is directly responsible for carrying out the policies established by the Commissioners. SFHA primarily operates two housing programs: public housing and Section 8 vouchers.

In the original budget for Federal fiscal year ending September 30, 2013, SFHA had nine departments, a budget of \$210,575,514, and 289 FTE positions, as shown in the organization chart below.



Under the current structure, every department reports directly to the Executive Director, although it should be noted that there is a proposal to reorganize the authority, following the hire of a Deputy Director of Finance and Administration.

## **Federal and Local Governing Documents**

### **HUD CFR**

As the governing authority over the San Francisco Housing Authority, HUD establishes many of the rules and regulations that apply to SFHA programs. These regulations are codified within Title 24 of the Code of Federal Regulations.

### **SFHA Housing Program Policy Documents**

#### Admissions and Continued Occupancy Policy (ACOP)

SFHA's ACOP outlines all policies and procedures related to the public housing program. These include waiting lists, eligibility certifications, annual income re-certifications, lease requirements, and unit inspections. This policy document is updated on an annual basis.

#### Housing Choice Voucher (HCV) Administrative Plan

The HCV Administrative Plan outlines policies and procedures related to the HCV (or, Section 8) program. Similarly, these include waiting lists, annual income and subsidy determinations, income verifications, and housing quality standards (HQS) and rent reasonableness determinations, and leasing policies. The HCV Administrative Plan is updated annually.

### **SFHA Internal Policy Documents**

#### Capital Fund Plans

The San Francisco Housing Authority publishes two documents related to its Capital Fund: an annual statement and a 5-Year Plan. The annual statement reports on expenditures, project performance and timelines. The Capital Fund 5-Year Action Plan details planned projects and their associated estimated costs.

#### Annual Plan

SFHA's Annual Plan summarizes the authority's goals for the year, across all of its programs (Public Housing, HOPE VI, and Housing Choice Vouchers), as well as plans for capital improvements. Like the documents listed above, this document is required by HUD and reviewed by the HUD Regional Office.

#### Strategic Plan

SFHA published a Strategic Plan in 2011, at the request of the SFHA Commission. This document broadly outlines organization goals for a five-year period. This document is not updated annually.

## Financial Resources

The San Francisco Housing Authority has an annual budget exceeding \$200 million. For the fiscal year ending September 30, 2013, operating subsidies and revenues supporting SFHA's public housing and other programs are 38% of the budget (\$79.9 million of the \$210.6 million budget) and housing assistance payments are 62% (\$130.7 million of the \$210.6 million budget).

**Table 1**  
**SFHA Annual Revenue and Expenditure Budget**  
**FY 2010-11 through FY 2012-13**

Year Ending:	Actual Revenues and Expenditures		Budget	Percent Increase/ (Decrease)
	September 30, 2011 Audited	September 30, 2012 Unaudited	September 30, 2013	
<b>Revenues</b>				
Rental Income	\$17,379,092	\$17,390,041	\$18,088,665	4%
HUD Operating Subsidies and Grants	33,761,855	39,229,621	32,833,167	-3%
Hope VI Operating Subsidies	4,296,179	3,758,523	4,263,336	-1%
HUD & Other Capital Grants	5,000,675	8,428,391		-100%
HUD Section 8 Subsidy	135,717,540	136,176,197	136,685,145	1%
Gain or Loss on Sale of Assets	1,958,043			-100%
Other Government Grants	8,894,175	3,355,494	3,229,902	-64%
Net Other Fees and Other Income	\$18,940,204	\$18,280,118	\$15,416,289	-19%
<b>Total Revenues</b>	<b>\$225,947,763</b>	<b>\$226,618,385</b>	<b>\$210,516,504</b>	<b>-7%</b>
<b>Expenditures</b>				
Salaries	\$20,383,569	\$19,598,088	\$19,465,964	-5%
Benefits	13,041,648	11,877,473	12,766,327	-2%
Other Admin	4,018,353	3,941,502	3,379,963	-16%
Tenant Services	789,460	637,922	623,110	-21%
Utilities	12,939,525	12,852,567	10,281,198	-21%
Debt Service	0	0	3,050,202	
Maintenance Materials	2,165,319	2,905,932	2,484,301	15%
Maintenance Contracts	6,645,089	5,456,777	5,904,469	-11%
Fee for Service	4,713,805	6,906,767	3,386,669	-28%
Protective Services	3,252,942	2,811,685	2,857,522	-12%
Transfer to Non Profit Corporations	3,708,657	3,758,523	4,263,336	15%
Insurance	2,300,947	2,103,813	1,877,074	-18%
Bad Debt	1,781,056	837,187	598,454	-66%
Other Expenses	2,568,713	5,914,654	459,581	-82%
Non Operating Fees	9,328,068	8,804,931	8,501,840	-9%
Depreciation	7,820,317	9,878,084		
Housing Assistance Payments	132,603,407	128,269,023	130,675,504	-1%
<b>Total Expenditures</b>	<b>\$228,060,875</b>	<b>\$226,554,928</b>	<b>\$210,575,514</b>	<b>(8%)</b>
<b>Net Revenue</b>	<b>(\$2,113,112)</b>	<b>\$63,457</b>	<b>(\$59,010)</b>	<b>-97%</b>

Source: SFHA Financial Statements and Budget Documents

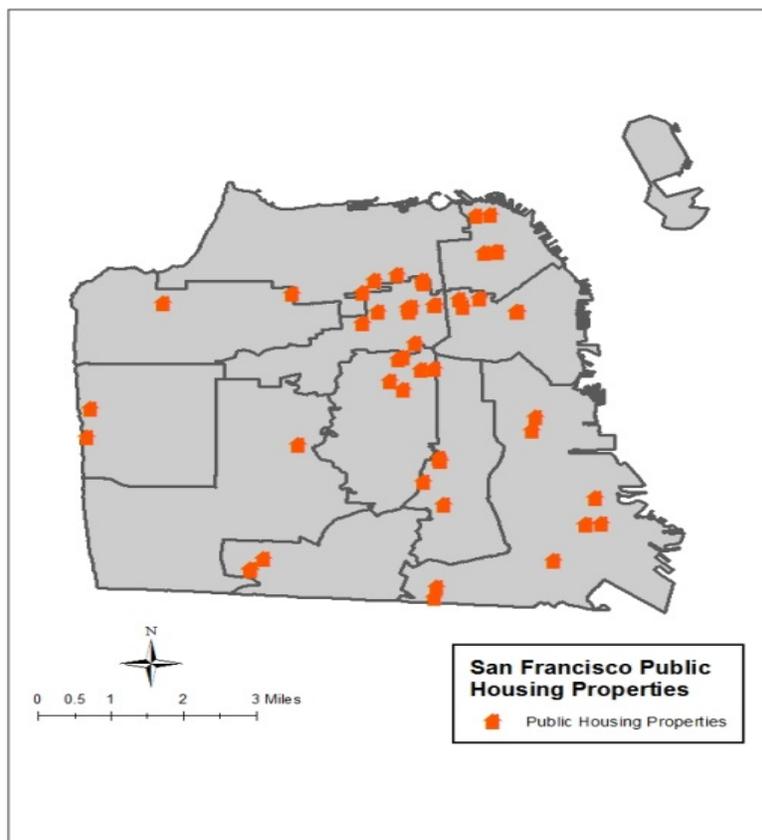
The SFHA budget is made up of four main cost centers:

- Public Housing and HOPE VI housing
- Housing Vouchers and Housing Assistance Payments
- Central Office Cost Center
- Local Programs

### Public Housing

SFHA owns and operates 6,259 public housing units for more than 12,000 residents at 48 properties throughout the City. Public housing is funded primarily by annual U.S. Housing and Urban Development (HUD) operating subsidies, as well tenant rent contributions.

**Exhibit 1: Map of SFHA Public Housing Properties**



In 2007, HUD began requiring public housing authorities to convert to an asset management program, consisting of project-based accounting, budgeting, management, and reporting (discussed in more detail below). According to the Public Housing Operating Fund Program Section 990.270, asset management responsibilities are above and beyond property management activities and include long-term capital planning and allocation, review of financial information, and evaluation of long-term viability of properties and property replacement strategies.

Beginning in 2008, public housing budgets and financial statements are presented as 29 separate “asset management projects”. These 29 asset management projects are rolled up into one public housing financial statement, and include the HOPE VI properties (described below).

### HOPE VI

HUD implemented the Housing Opportunities for People Everywhere (HOPE) VI program in 1992 to fund redevelopment of severely distressed public housing. From 1993 to 1997, SFHA received \$115.3 million in HOPE VI funds to redevelop six housing projects: (1) Bernal Housing, (2) Plaza East, (3) Hayes Valley North, (4) Hayes Valley South, (5) North Beach, and (6) Valencia Gardens.

SFHA has four limited partnerships that own and operate affordable housing: (1) Bernal Housing Associates, LP; (2) Plaza East Associates LP; (3) Hayes Valley Apartments LP; and (4) Hayes Valley Apartments II LP. SFHA, which owns the land, has long-term ground leases with each limited partnership. Each limited partnership is separate from SFHA, and files separate audited financial statements, which are also included in SFHA’s audited financial statements.

SFHA also has long-term ground leases with North Beach Housing Associates and Valencia Gardens Housing Limited Partnership, who operate the respective housing developments. Rent to SFHA includes annual base rent, adjusted by residual receipts.

### Housing Vouchers and Housing Assistance Payments

HUD provides housing assistance payments to landlords (private, nonprofit or public) through housing vouchers to pay a portion of the rent costs for low-income individuals and families. There are two main types of housing vouchers available to eligible San Francisco residents through SFHA: Section 8 (or “Housing Choice Vouchers”) for low-income individuals and families and Veterans Affairs Supportive Housing (VASH) vouchers for US Veterans and their families. SFHA currently has nearly 9,000 vouchers under lease, serving more than 19,000 residents.

Some housing assistance payments are diverted to “project-based vouchers”, in which the funds are used to construct or renovate low-income housing units. These vouchers differ from “tenant-based vouchers”, in that the subsidy is attached to the actual unit – whereas tenant-based

vouchers are attached to the tenant, who must then find a suitable unit and landlord to accept the voucher.

### Central Office Cost Center

The Central Office Cost Center was established in 2008 as part of the asset management program. Previously, administrative costs were allocated through the cost allocation plan. The Central Office Cost Center charges fees to the asset management projects for bookkeeping, property management and asset management. The Central Office Cost Center also charges a fee-for-service to the asset management projects for maintenance services.

### Local Programs

Local programs consist of: (1) HOPE SF, in which the Mayor's Office of Housing, in partnership with SFHA and non-profit partners, will revitalize 8 severely distressed public housing developments, beginning with Hunters View; and (2) other grant programs, such as the ROSS grant, which funds social service staff for SFHA Senior/Disabled units.

## **SFHA Client Demographics**

According to the last demographic analysis completed by SFHA in 2011, the agency serves nearly 30,000 residents<sup>1</sup> of San Francisco. As shown in the table below, over 95 percent of SFHA clients are minorities.

**Table 2**  
**SFHA Client Demographics, 2011**

Ethnicity	San Francisco County		Public Housing		SFHA - Section 8		SFHA - Total	
	Count	%	Count	%	Count	%	Count	%
<b>White</b>	337,393	41.9%	1,142	11.8%	256	1.3%	1,398	4.8%
<b>African-American</b>	46,704	5.8%	4,112	42.7%	6,094	31.2%	10,206	35.0%
<b>Asian</b>	265,728	33.0%	2,281	23.7%	7,355	37.7%	9,636	33.1%
<b>Hispanic</b>	121,590	15.1%	1,508	15.6%	5,351	27.4%	6,859	23.5%
<b>Other</b>	33,820	4.2%	598	6.2%	445	2.3%	1,043	3.6%
<b>Total</b>	805,235	100.0%	9,641	100.0%	19,501	100.0%	29,142	100.0%

Source: SFHA Report, 2011

<sup>1</sup> According to SFHA, the current total number of residents served by its housing programs is 31,801. This includes 19,110 residents living in units leased under Section 8, and 12,691 residents living in public housing units. The table reflects the most recent demographic analysis available.

## **National Trends in Public Housing Management**

Over the past few decades, there have been significant changes in public housing management in the United States. Unfortunately, some of these opportunities have only been made available to high-performing public housing authorities. Since San Francisco's housing authority has faced major financial and operational challenges over those years, SFHA has not been able to take advantage of these innovations.

### **Moving to Work**

By the mid-1990s, there were widespread concerns about the sustainability of public housing in the United States. Both at HUD and at local public housing authorities, there was growing frustration regarding the extensive regulations of federal housing programs. In addition, social policy discussions began to focus on the importance of promoting self-sufficiency and employment opportunities for public assistance recipients. In response, HUD designed and launched the Moving to Work (MTW) demonstration project to allow selected housing authorities more flexibility in their expenditures and programs and to enable experimentation with new ways to enhance resident self-sufficiency.

Following Congressional authorization, HUD solicited applications to the program, from which 24 public housing authorities were initially selected for the first demonstration effort in 1996. As of 2010, there were a total of 36 participants. Early analysis has demonstrated the overall success of the initiative, which has allowed these select housing authorities to meet community needs through innovative programs while aligning with national housing and performance goals.

To date, as a result of poor performance assessments, San Francisco Housing Authority has not been selected to participate in MTW.

### **Asset Management**

A study commissioned by HUD was conducted by the Harvard School of Design in 2003 ("Public Housing Operating Cost Study"), and its findings resulted in dramatic policy changes with regard to public housing. The report found that financial and operational practices in public housing management should closely reflect the practices of the private real estate market, which requires property-based budgeting, accounting and management. Public housing in the United States had relied too heavily on HUD's performance measures rather than actual consumer preference and market value. As a result of the Harvard report's findings, HUD required that housing developments be managed independently, rather than through a central administrative office, as had been previous practice. This transition became known as "asset management".

HUD began requiring compliance with asset management in 2007, and allowed housing authorities the opportunity to phase in the changes, which would be challenging for many of the older, larger organizations. While many housing authorities initially struggled with the process,

which required a complete restructuring of operations, most were able to complete the process successfully.

An example of a housing authority that completed this transition well is the Charlotte (NC) Housing Authority, whose transformation can be observed by its new mission statement:

*The ultimate goal of the Charlotte Housing Authority (CHA) is to be a financially viable real estate company offering affordable housing that is competitive with or exceeds housing offered by other affordable housing providers. The organization is best described as a developer partner, asset manager, contract negotiator and contract monitor with a social purpose.*

Despite efforts, the San Francisco Housing Authority was not able to transition to the asset management model.

## **HUD Annual Assessments**

As the primary funding source, HUD conducts assessments of public housing authorities using two key tools: the Public Housing Assessment System (PHAS) and the Section Eight Management Assessment System (SEMAP). Respectively, these tools evaluate public housing and Section 8 voucher operations.

### Public Housing Assessment System (PHAS)

The Public Housing Assessment System (PHAS) is designed to serve as an oversight tool that effectively measures the performance of public housing agencies, using objective and uniform standards. HUD has structured PHAS to evaluate four major areas:

- Physical Inspection
- Financial Condition
- Management Operations
- Capital Fund

### Section Eight Management Assessment Program (SEMAP)

The Section Eight Management Assessment Program (SEMAP) measures the performance of the public housing authorities that administer the Housing Choice Voucher program in 14 key areas. SEMAP helps HUD target monitoring and assistance to public housing authority programs that need the most improvement. Those major indicators include:

- Waiting List Selection and Management
- Eligibility and Rent Reasonableness Determinations
- HQS Quality Control Inspections
- Voucher Lease-Up Rates

## **SFHA Performance**

As noted above, the San Francisco Housing Authority has missed important funding opportunities in recent years – such as the Moving to Work program – as a result of weak performance. PHAS and SEMAP scores over the past ten years indicate major and ongoing challenges in organizational management.

### Corrective Action Plans

In an effort to resolve the programmatic weaknesses identified through the assessments, HUD has placed SFHA on Corrective Action throughout the past decade. Corrective Action Plans typically identify core areas for improvement, as well as action steps and deadlines. SFHA has not been reporting on the Corrective Action Plans to HUD regarding progress and those plans technically remain open.

### Current Status

On December 13, 2012, HUD notified the Housing Authority that it has been declared “Troubled” – its lowest classification prior to placing an agency under federal receivership – under the Public Housing Assessment System for the fiscal year ending September 30, 2011.

As a result of this assessment, HUD will work with the Housing Authority to develop a Recovery Agreement and Action Plan, as well as a Sustainability Plan, to address and correct these deficiencies.

## **City Resources and Engagement**

The City of San Francisco has worked with the San Francisco Housing Authority in several ways over the years.

Commission Appointments: As noted above, the Mayor’s authority to appoint the SFHA Board of Commissioners represents a significant opportunity for the City to ensure the adequate and efficient operation of the authority.

Community Development Block Grants: In addition, as the Mayor’s Office of Housing (MOH) oversees the City’s Community Development Block Grant, the City has another occasion to collaborate with SFHA to provide valuable resources to support innovative programs that cannot be funded through SFHA’s operating subsidies.

HOPE SF: Recently, MOH has partnered with SFHA to launch the HOPE SF project, which will revitalize 8 housing developments in San Francisco.

Supportive Services: Additionally, the City funds various supportive services through the Department of Public Health and the Human Services Agencies which reach SFHA

clients. While some of these services will soon be collocated at actual housing sites under HOPE SF, SFHA clients currently access them on their own. Examples of the programs and services that SFHA clients are accessing from these departments include:

**Table 3**  
**City-funded Supportive Services Available to SFHA Residents**

<b>Department</b>	<b>Service</b>	<b>Location</b>	<b>Site</b>	<b>Status</b>
DPH	Community Health Programs for Youth	Onsite	Sunnydale	Existing
	Health Centers	Nearby	Potrero	Existing
	Peer Health Workers	Onsite	HOPE SF	Planned
	RN Care Coordinators	Onsite	HOPE SF	Planned
MOH	Community Builders & Service Connectors	Onsite	Alice Griffith	Existing
	Community Builders & Service Connectors	Onsite	Hunters View	Existing
	Community Builders & Service Connectors	Onsite	Potrero	Existing <sup>2</sup>
	Community Builders & Service Connectors	Onsite	Sunnydale	Existing
Human Services	Service Coordinators (7)	Onsite	14 senior sites	Existing

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<sup>2</sup> Service Connectors will begin working at Potrero Terrace in July 2013.

# 1. Governance, Oversight and Organization of the San Francisco Housing Authority

- Over the past several years, the Commission provided inadequate oversight of SFHA’s finances and operation. The Commission allowed subcommittees focused on these issues to lapse and enabled the Executive Director to have excessive contracting authority. The Mayor accepted the resignation of the prior Commission in February 2013, with the exception of the Commissioner representing tenants, and appointed a new Commission, consisting of City department staff. Currently, there are no members on the Commission with expertise in housing or real estate.
- The SFHA Commission is appointed by the Mayor, with no statutory participation by the San Francisco Board of Supervisors. Typically, the executive and legislative bodies in a housing authority’s jurisdiction share the responsibility for appointing the housing authority commission. To ensure sufficient public oversight of SFHA activities, the Board of Supervisors should either confirm Mayoral appointees to the Commission, or have the authority to appoint a certain number of members.
- Commission meetings are currently neither transcribed nor recorded on video. Instead, meeting minutes are taken, which mostly reflect summaries of discussions, rather than detailed accounts – and while audio recordings are made, they are not readily available to the public. To ensure transparency and accountability, Commission meetings should be relocated to City Hall, providing the opportunity for video recording of meetings, and all audio recordings should be posted on the SFHA website.
- SFHA has not performed a comprehensive staffing analysis to determine organizational needs and establish appropriate staffing levels across departments. This has led to insufficient management and limited operational capacity. Over at least the past several years, SFHA has experienced general disorganization with frequent staff reassignment. Key senior staff have performed essential duties in an “acting” capacity for extended periods of time, preventing the necessary leadership and stability to address the authority’s ongoing performance deficiencies. In addition, vacancies in key positions have diminished SFHA’s ability to perform some of its most important functions, particularly with regard to financial management and overall operational oversight.
- Most SFHA managers do not complete regular performance evaluations of employees, despite written policies. As such, SFHA cannot ensure the fairness of staff promotions, reassignments and layoffs.

## **The Commission Provided Inadequate Oversight of SFHA's Finances and Performance**

Over the past several years, the SFHA Board of Commissioners allowed the financial condition of the authority to reach a critical point, largely as the result of its own inadequate oversight. The Commission did not direct SFHA to appoint a Chief Financial Officer or Procurement Director since at least 2009. The Commission did not review SFHA's financial statements in the 17-month period from October 2011 through February 2013, and did not address financial risks highlighted by the financial statements (see Section 2). Nor did the Commission ensure proper controls of contracting, resulting in insufficient controls over the procurement process that give the appearance of questionable practices (see Section 4). In February 2013, the Mayor accepted the resignation of the prior Commission, with the exception of the Commissioner representing tenants, and appointed a new Commission, consisting of City department staff.

### **Key Commission Subcommittees are Essential to Ensuring Oversight**

Although the Commission had subcommittees in the past, those subcommittees were disbanded or simply ceased to meet over the past few years. Given the complex challenges that the authority faces, particularly as federal funding for programs disappears, these subcommittees provide critical opportunities for the leadership to engage in detailed discussion and review, in order to provide the strongest direction for the organization. As of March 2013, the newly appointed Commission re-established two key subcommittees: Finance and Personnel, and Diversity. It is essential to the financial health and stability of the organization that these bodies continue to operate.

### **The Commission Provided Insufficient Oversight of SFHA Operations and Administration**

The Commission showed insufficient engagement in SFHA programs and operations.

#### Reorganization and Staffing

Despite having never completed a comprehensive strategic planning process, SFHA has nonetheless undergone several reorganizations and staff changes over the last several years. These reorganizations and staff changes have not been clearly linked to specific strategies for improving operations or finance (other than staff reductions to reduce costs). For example, SFHA reduced specialized craft maintenance worker positions necessary to reduce the public housing maintenance backlog and the length of time housing units remain vacant between tenants (see Section 3). As discussed further below, SFHA's organizational structure has been inconsistent, without proper evaluation or oversight, as many key senior personnel have held temporary roles for extended periods of time.

Program Performance

The Commission also did not require SFHA to complete the transition to asset management, as mandated by the federal Department of Housing and Urban Development (see Sections 3 and 5), resulting in the loss of \$7.5 million in HUD operating subsidies from 2008 through 2012.

The Commission also did not sufficiently address SFHA’s inability to collect tenant rents or reduce public housing vacancy rates, both rated by HUD as underperforming. With regard to rent collection, in particular, the meeting minutes reveal several discussions in 2011 and 2012 regarding the need to improve collection performance. The Commissioners identified the connection between the financial health of the authority and the failure to collect rent, but over the course of the last two years, the Commission did not provide strong leadership to lead staff to successful solutions.

**Commission Appointments and Composition**

The California Health and Safety Code Section 34270 and San Francisco’s Administrative Code Chapter 12 authorize the Mayor to appoint all members of the San Francisco Housing Commission without Board of Supervisors involvement. In other jurisdictions reviewed as part of this audit, commission members are typically appointed by the mayor and confirmed or approved by a legislative body as shown in Table 1.1 below. Confirmation by a legislative body encourages public oversight of commission policy development and citizen participation.

**Table 1.1  
Comparison of Commission Appointment Methods**

	Appointed by Mayor, no confirmation	Appointed by City Council/BOS, no confirmation	Appointed by Mayor; Confirmed by Council/BOS	Shared Appointments by Mayor and Council/BOS
Portland			X	
San Diego			X	
Oakland			X	
Seattle			X	
Atlanta			X	
Baltimore	X			
Charlotte				X
Columbus				X
Milwaukee			X	
Minneapolis				X
Denver			X	
Chicago			X	

Additionally, in many jurisdictions, at least one commission member has housing, real estate or property management experience, as shown below in Table 1.2.

**Table 1.2**  
**Housing and Real Estate Background Comparison by Authority**

	Building Construction	Real Estate	Affordable Housing	Property Management
San Diego	x	x		
Oakland			x	
Atlanta		x		x
Denver		x	x	
Chicago		x		
New York		x	x	

In the jurisdictions<sup>1</sup> reviewed during this audit, auditors found no cases of public housing authority commissions made up entirely of city employees, as is currently the case with the SFHA Board of Commissioners.

### **No Formal Record of Commission Meetings**

Although meeting agendas and minutes are posted on the SFHA website, and most Commission meetings are open to the public, there are no official and complete records of SFHA Commission meetings. Minutes from the meetings reflect summaries of discussions and it is clear from a review of these minutes that many details do not get recorded. While SFHA reports that audio recordings are made of Commission meetings, these recordings are not readily available to the public.

As such, and in keeping with the practice of most other City Commissions, the SFHA Commission should immediately relocate its meetings to City Hall, where the public can participate and where SFGOV TV can videotape the discussions to ensure a complete, archived record. In addition, audio recordings should be posted on the SFHA website. Although there will be an additional cost for these changes, those costs can be offset by savings achieved through implementing the recommendations in this report.

### **Insufficient Evaluation of Staffing Needs and Employee Performance**

Because SFHA has never completed a staffing analysis to determine appropriate staffing levels within the authority, departments do not currently have the necessary number of employees, at the appropriate classification, to perform tasks sufficiently.

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<sup>1</sup> Auditors selected a judgmental sample of housing authorities for comparison. These jurisdictions were selected based upon the size of the jurisdiction, number of housing units/vouchers and performance level.

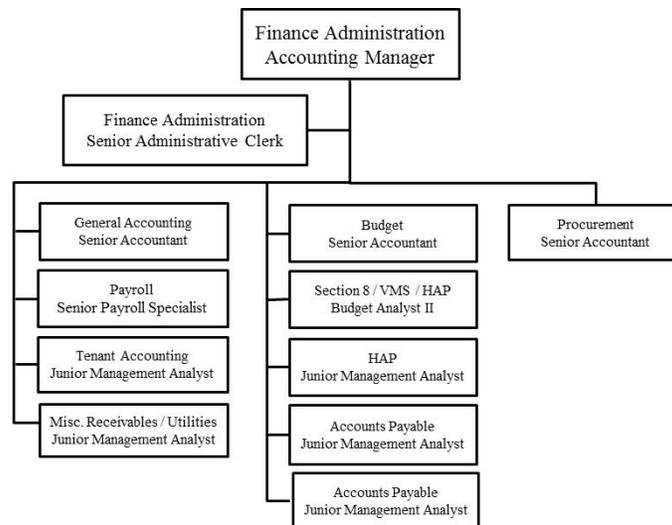
## Finance Department Lacks Management Structure

The Finance Department is not structured to enable a functional procurement operation. The Department has lacked a chief financial officer for at least four years; lacks managerial capacity; and several department staff have improper job classifications.

The San Francisco Housing Authority has not had a dedicated chief financial officer since at least 2009, resulting in a lack of consistent departmental leadership. In the absence of a chief financial officer, the department has been overseen by the Accounting Manager.

The Finance Department has minimal managerial capacity and may be overstaffed with junior workers. As seen in Exhibit 1.1 below, the Finance Department has seven junior staff members including five Junior Management Analysts, a Senior Payroll Specialist (a position that is lateral to a Junior Management Analyst), and a Senior Administrative Clerk (classified as a level below Junior Management Analyst). In addition to the seven junior staff members, the department has three Senior Accountant positions, which exercise no supervision over staff. Therefore, all departmental staff, including those managing procurement, contracting and budgeting, are supervised by the Accounting Manager.

**Exhibit 1.1**  
**Finance Department Organizational Chart**



Source: SFHA organizational chart, as of March 29, 2013

### Finance Department Staff are Improperly Classified

Most staff members in the Finance Department have improper job classifications. While the Senior Accountants, which are senior level staff, are represented by the Service Employees International Union (SEIU), most junior staff members, including the Junior Management Analysts and the Budget Analyst II are represented by the Municipal

Executives' Association (MEA). The Junior Management Analysts and Budget Analyst II receive management-level benefits, including 80 hours of management time off per year, at an additional cost to SFHA of \$24,500 per year.

The Senior Accountant positions should be in supervisory roles but as members of SEIU cannot supervise the Junior Management Analysts and Budget Analyst II. SFHA needs to meet and confer with the respective unions to transfer these non-management positions to SEIU. SFHA also needs to reclassify the Senior Accountant positions to Supervising Accountant, which are represented by MEA and have supervisory responsibilities. However, because the pay scale for Supervising Accountants is less than Senior Accountants, SFHA needs to meet and confer with MEA to set the Supervising Accountant pay scale equivalent to Senior Accountants.

As noted in Section 2, SFHA eliminated the Senior Accountant position that served as the budget manager. In order to efficiently staff the budget function, SFHA should hire a Supervising Accountant (in lieu of the Senior Accountant) to serve as budget manager (see Recommendation 2.2), and eliminate one Junior Management Analyst position. This recommendation, as shown in Table 1.3 below, would retain sufficient budget staff but would increase supervisory capacity.

**Table 1.3  
Recommended Finance Department Staff**

	<b>SFHA Finance Staff as of March 2013</b>	<b>Recommended Staff</b>	<b>Increase/ (Decrease)</b>
Chief Financial Officer	0	1	1
Administrative Assistant	1	1	0
<b>Subtotal, Administrative</b>	<b>1</b>	<b>2</b>	<b>1</b>
<b>Accounting</b>			
Accounting Manager	1	1	0
Supervising Accountant	0	1	1
Senior Accountant	1	0	(1)
Payroll Supervisor	0	0	0
Senior Payroll Specialist	1	1	0
Junior Management Analyst	2	2	0
<b>Subtotal, Accounting</b>	<b>5</b>	<b>5</b>	<b>0</b>
<b>Budget</b>			
Supervising Accountant	0	1	1
Senior Accountant	0	0	0
Budget Analyst II	1	1	0
Junior Management Analyst	3	2	(1)
<b>Subtotal, Budget</b>	<b>4</b>	<b>4</b>	<b>0</b>
<b>Procurement</b>			
Supervising Accountant	0	1	1
Senior Accountant	1	0	(1)
<b>Subtotal, Procurement</b>	<b>1</b>	<b>1</b>	<b>0</b>
<b>Total</b>	<b>11</b>	<b>12</b>	<b>1</b>

## **Staffing Level Concerns in other SFHA Departments**

As discussed in Sections 3 and 9 of this report, it is also clear that SFHA needs to make staffing changes in the Central Services (maintenance and craft workers) and Section 8 (eligibility workers) departments. An analysis of the respective workloads of these departments indicates the need to make immediate adjustments in order to address ongoing performance issues at the authority.

## **SFHA Fails to Evaluate Employee Performance Regularly**

The authority does not abide by the annual performance evaluation requirement established in SFHA's Personnel Policy and Procedures. For at least the last two calendar years, most managers failed to conduct annual performance evaluations for each employee. In 2011, SFHA supervisors produced performance evaluations for 98 employees, or only 26% of the authority's 379 employees, despite specific instructions from the SFHA Human Resources Department Manager to managerial and supervisory staff to conduct performance evaluations for all employees. There were no performance evaluations at SFHA in 2012 when the authority had 385 staff.

Without regular performance evaluations, identification of poorly performing employees or organizational units and constructive discipline for underperformance are impossible.

## **Senior SFHA Staff in Long-Term "Acting" Capacity**

A significant number of senior employees at SFHA have worked for several years in an acting capacity. In February 2013, thirteen senior managers and department heads were working in an acting capacity as seen in Table 1.4. In only two instances were positions filled in an acting capacity due to an incumbent's leave of absence.

**Table 1.4  
Department Heads, Senior Staff and Maintenance Supervisors in Acting Capacity**

Department / Office	Position	“Acting” Assignment Start Date <sup>2</sup>
Executive Office	Deputy Executive Director	May 14, 2012
Executive Office	Special Assistant	February 15, 2010
Office of the General Counsel	General Counsel	January 4, 2010
Office of the General Counsel	Assistant General Counsel	October 9, 2012
Public Housing Operations	Deputy Executive Director	May 5, 2012
Public Housing Operations	Family Development Director	
Housing Development and Modernization	Administrator	May 21, 2012
Housing Development and Modernization	Development and Modernization Manager	May 21, 2012
Public Housing Operations	Manager Vacates and Housing and Quality Standards	October 22, 2012
Section 8 Department	Director	October 13, 2009
Office of Ombudsman	Manager	September 27, 2012
Human Resources Department	Director	May 1, 2012
Central Services	Maintenance Superintendent	July 20, 2009

Source: SFHA Human Resources

The instability of these key leadership positions has contributed to the ongoing performance deficiencies of the authority.

### **Vacancies in Key Positions**

As referenced throughout this report, SFHA has also maintained over the years a large number of vacant positions, some of which are budgeted but unfilled, including the Deputy Director, Finance Administrator, Procurement Manager and Contract / Procurement Specialists positions. As a result of these vacancies, the organization has not been able to maintain sufficient controls over financial operations or address the operational deficiencies of its programs.

### **Conclusion**

For at least the past two years, the SFHA Commission has not engaged sufficiently in the policy setting and governance of the authority. This lapse has been characterized by a pattern of insufficient oversight of SFHA’s financial condition, unanimous approval of items brought forward for approval as noted by HUD in their March 26, 2013 memorandum, and failure to identify and remedy significant performance deficiencies, all of which contributed directly to the authority’s current critical financial situation. Further, the authority’s failure to evaluate departmental staffing needs – and failure to evaluate individual staff performance - has created inefficiencies in several key departments, exacerbating programmatic weaknesses and poor conditions for residents.

<sup>2</sup> Indicates the most recent assignment date. Incumbents may have been assigned repeatedly to the same position in an acting capacity.

With many senior staff in ongoing temporary acting roles, SFHA lacks sufficient leadership to address urgent operational deficiencies.

## **Recommendations**

The Board of Supervisors should:

- 1.1 Seek an amendment to the State's Health and Safety Code, and amend the City's Administrative Code, to require that the Board of Supervisors either confirm Mayoral appointees to the SFHA Commission or appoint a certain number of SFHA Commission members.

The Mayor should:

- 1.2 Appoint at least one member to the SFHA Commission with experience in development finance, low-income housing development, property management, or real estate law.

The SFHA Board of Commissioners President should:

- 1.3 Make the recently reestablished Commission committees permanent and ensure that they meet at least once a month.
- 1.4 Relocate Commission meetings to City Hall and ensure that audio and video recordings are archived on the SFHA website.

The SFHA Executive Director should:

- 1.5 Authorize a comprehensive staffing analysis of the entire organization, no later than July 31, 2013, and take immediate steps to achieve appropriate staffing levels in all departments.
- 1.6 Fill key vacant positions and ensure that all senior staff are in permanent positions.
- 1.7 Reorganize the Finance Department to:
  - (1) Reassign the Junior Management Analyst and Budget Analyst II positions from the MEA bargaining unit to the SEIU bargaining unit, subject to meeting and conferring with the respective unions;
  - (2) Reclassify the three Senior Accountant positions to Supervising Accountant positions, and increase the pay schedule of the Supervising Accountant positions to the Senior Accountant pay schedule, subject to meeting and conferring with the respective unions;
  - (3) Assign the Supervising Accountant positions responsibility for accounting, budget management, and procurement respectively; and
  - (4) Delete one Junior Management Analyst position.

- 1.8 Ensure the timely completion of annual employee performance evaluations and require a monthly report from the Human Resources Department on monthly completion rate.

## **Costs and Benefits**

SFHA would incur net annual salary and benefit costs to reorganize the Finance Department of \$17,641, including (1) increased costs of \$146,658 to reclassify three Senior Accountants to Supervising Accountants due to the 80 hours of management time off provided to Supervising Accountants (\$15,399), and fill the vacant reclassified Supervising Accountant position (\$131,259); offset by (2) cost savings of \$129,017 to reassign Junior Management Analyst and Budget Analyst positions to SEIU, eliminating 80 hours of management time off for these positions (\$24,519), and deleting one Junior Management Analyst position (\$104,498).

While there would also be an additional cost for the video recording of Commission meetings, this could be offset by other savings found in this audit, and would ensure accountability and transparency.

The implementation of all of these recommendations would allow the Commission to engage more fully in the governance of the SFHA in order to identify and address its performance deficiencies and enable SFHA management to more effectively lead the organization and ensure high performance from its departments and staff.

## **2. Impact of the Public Housing Program's Financial Condition on the San Francisco Housing Authority**

- **The SFHA's public housing program had a budget shortfall in FY 2011 of \$4.0 million and in FY 2012 of \$2.6 million. In the first five months of FY 2013, the shortfall exceeded \$1.7 million. SFHA has no cash reserves to cover the shortfall, and according to HUD's March 26, 2013 status report, will run out of cash sometime between May 2013 and July 2013.**
- **Although HUD has reduced the operating subsidy to SFHA in response to federal budget reductions, SFHA has not managed its finances, contributing to the budget shortfall. SFHA does not have a long-term financial plan and has been without a chief financial officer since 2009. In the absence of a chief financial officer, the accounting manager has been responsible for SFHA's financial and budget reporting.**
- **SFHA has not implemented revenue solutions to address the budget shortfall. Despite repeated warnings from HUD, SFHA does not consistently collect rent from existing tenants or rent vacant units in a timely manner, resulting in an estimated \$2.0 million in rent or operating subsidy loss for the fiscal year ending September 30, 2013. SFHA has also not reduced unnecessary costs, such as reducing the costs of turning over vacant units, even if these cost reductions would not result in service reductions.**
- **The Commission has not consistently monitored or directed SFHA's financial performance. For example, the Commission did not review SFHA's financial statements in the 17-month period from October 2011 through February 2013, and has not addressed financial risks highlighted by the financial statements. These risks include the 18% increase in SFHA's unfunded retiree health liability from \$12 million in 2008 to \$14 million in 2010; and SFHA's failure from 1997 through 2012 to request a waiver from the Board of Supervisors for their payment in lieu of taxes, as required by the 1965 cooperative agreement between SFHA and the City, for which SFHA owes the City \$11.5 million as of 2012.**
- **The Commission has also not adopted financial policies to protect SFHA's finances, such as restricting one-time sources of funds to one-time uses. SFHA used one-time funds of \$2.2 million from the sale of vacant property in 2011 to close the operating budget shortfall, allowing SFHA to postpone necessary budget adjustments and depriving SFHA of funds that could have been better used for one-time capital repairs. SFHA should sell its office building at 440 Turk Street, for an estimated sale value of \$5 million to \$6 million. Prior to any sale, the Commission should adopt a policy, requiring that one-time revenues be used exclusively for capital repairs and renovations to public housing.**

## Operating Budget Shortfall

SFHA's public housing program had a budget shortfall in the fiscal years ending September 30, 2011 and 2012, as shown in Table 2.1 below. The budget shortfall in the fiscal year ending September 30, 2011 was \$4.0 million and in the fiscal year ending September 30, 2012 was \$2.6 million, as shown in Table 2.1 below.

**Table 2.1**  
**Public Housing Program's Operating Budget Shortfall**

	Fiscal Year Ending		
	September 30, 2011 Audited	September 30, 2012 Unaudited	September 30, 2013 Budget
REVENUE			
Tenant Rental Income	\$17,379,092	\$17,390,041	\$18,088,665
HUD Operating Subsidy and Grants	33,761,855	34,733,429	32,833,167
HUD HOPE VI Operating Grants	4,296,179	4,496,192	4,263,336
HUD & Other Government Capital Grants	5,000,675	8,428,391	
Gain or Loss on Sale of Capital Assets	1,958,043		
Net Other Fees and Other Income	2,635,554	1,792,596	1,044,557
<b>Total Revenue</b>	<b>\$65,031,398</b>	<b>\$66,840,649</b>	<b>\$56,229,725</b>
EXPENSES			
Salaries	\$9,398,543	\$8,849,486	\$8,321,398
Fringe Benefits	6,065,350	5,716,711	5,276,856
Other Administrative	862,755	728,571	953,769
Tenant Services	785,228	635,579	847,458
Utilities	12,678,057	12,590,238	9,992,898
Debt Service			3,050,202
Maintenance - Materials	1,943,797	2,619,149	2,260,051
Maintenance - Contracts	6,335,225	5,132,076	6,172,819
Fee for Service	4,713,805	7,010,069	3,811,861
Protective Services	3,099,439	2,686,081	2,701,056
Insurance Premiums	2,133,816	1,886,195	1,500,720
Bad Debt	1,781,056	837,187	598,454
Transfer to Non-Profit Corporations	3,708,657	3,758,523	4,263,336
Other General Expenses	1,183,691	1,209,344	396,580
Non Operating Fees	6,610,687	6,080,319	5,908,013
Depreciation & Interest on Bonds	7,770,912	9,686,290	
<b>Total Expenses</b>	<b>\$69,071,018</b>	<b>\$69,425,818</b>	<b>\$56,055,471</b>
<b>Net Revenue</b>	<b>(\$4,039,620)</b>	<b>(\$2,585,169)</b>	<b>\$174,254</b>

Source: SFHA

In the first five months of the fiscal year ending September 30, 2013 (October 1, 2012 through February 28, 2013), SFHA had an agency-wide budget shortfall of \$1,126,947, of which \$1,766,713 was in the public housing program, offset by surpluses in other programs. Public housing revenues were less than budget due to vacant units and reduced tenant rent. Public housing expenditures were higher than budget due to increases in salaries, utilities, elevator repairs, and maintenance costs.

According to the March 26, 2013 HUD memorandum, SFHA will run out of cash between May and July 2013.

### **SFHA does not manage finances strategically**

SFHA has not sufficiently responded to the ongoing budget shortfalls. Although HUD has reduced the operating subsidy to SFHA in response to federal budget reductions, SFHA has not managed its finances, worsening its financial situation.

SFHA does not have a long-term financial plan and has been without a chief financial officer since 2009. SFHA's 2011-2016 Strategic Plan includes strategies that impact the financial position of SFHA, such as applying for additional rental vouchers, reducing vacancies, improving energy conservation and negotiating better utility rates, and SFHA's 2012-13 Agency Plan, which contains SFHA's five-year plan, has similar goals to the Strategic Plan, but neither plan specifically address SFHA's financial strategies.

### No reserves to cover the public housing program's budget shortfall

The public housing program has no reserves to cover the budget shortfall. In the absence of reserves, SFHA has had to make reductions in staff and other expenditures in the fiscal year ending September 30, 2013 to offset the budget shortfall, including the lay-off of 12 staff in March 2013 and 30 staff in May 2013. SFHA, however, has not determined the best staffing levels or mix of staff, maximized other sources of operating revenues, or sufficiently evaluated and reduced operating expenditures to eliminate the budget shortfall.

### Insufficient budget, finance, and maintenance staffing

SFHA does not have the finance and budget positions necessary to plan for and manage SFHA's finances and budget. SFHA has lacked a chief financial officer since at least 2009, which Standard and Poors cited as a weakness in its December 27, 2012 rating report. In the absence of a chief financial officer, the accounting manager and budget manager have each reported separately to the executive director.

The budget manager position became vacant in 2012 and the replacement position was terminated in March 2013 as part of the agency-wide reduction in staff. The accounting manager, who had no prior budget development experience, was responsible for developing the FY 2013 budget. The most recent organization chart has assigned the accounting manager responsibility for all finance and budget functions. Further, as noted in Section 1, SFHA has not assigned the appropriate job classifications to the finance and procurement functions.

In order to reduce operating costs, SFHA has reduced specialized craft positions<sup>1</sup> by 40% over the past four years, from 68 craft workers in 2010 to 41 as of March 2013. Additionally, 11 positions were laid off in May 2013. At the same time, SFHA considers

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<sup>1</sup> Specialized craft positions consist of the skilled trades, including electricians, plumbers, carpenters, painters, glaziers, tile layers.

the current number of specialized craft workers to be insufficient to address the maintenance backlog or turn over vacant units, resulting in revenue loss, as discussed further below.

Delays in implementing revenue solutions

In response to the budget shortfall, SFHA proposed to the Commission measures to address long-term problems in generating revenues or containing costs, including reducing public housing vacancy rates.

The SFHA's five-year strategic plan and 2012 annual plan both address the need to lease vacant units more quickly, but SFHA has been slow to address the issue. SFHA budgeted 5% rent loss due to vacant units in FY 2011 but actual rent loss due to vacant units was 8% of total rents in FY 2011 and FY 2012, as shown in Table 2.2 below.

**Table 2.2**  
**Loss of Rent Revenue Due to Vacant Units**  
**Fiscal Years Ending September 30, 2011 through September 30, 2013**

Year Ending:	Actual		Budget
	September 30, 2011	September 30, 2012	September 30, 2013
Potential Rent	\$18,991,680	\$18,873,049	\$18,980,972
Rent Loss due to Vacant Units	\$1,612,406	\$1,483,009	\$892,107
Percent Loss	8%	8%	5%

Source: SFHA Budget Presentation to Housing Authority Commission

As of March 31, 2013 (the first six months of the fiscal year ending September 30, 2013), SFHA has already lost rent of \$516,822, or 58% of the budget of \$892,107 with more than half of the fiscal year remaining. If rent loss due to vacant units continues at the current rate through the fiscal year, SFHA will lose an additional \$516,822 in rent revenues, or an estimated \$1.0 million in FY 2013.

SFHA also loses HUD operating subsidies when units are vacant, with estimated losses of \$427 per month per vacant unit or at least an estimated \$800,000 based on the number of vacant units as of March 26, 2013<sup>2</sup>. Therefore, the combined revenue loss to SFHA due to lost rent collection and HUD operating subsidy is an estimated \$1.8 million in the fiscal year ending September 30, 2013.

When HUD designated SFHA as “substandard management” in their September 2012 assessment of SFHA, they stated that “generally, when a public housing authority becomes management substandard, it has failed to maintain an acceptable occupancy level in its developments”. At the time of HUD’s assessment of SFHA in September 2012, SFHA’s public housing occupancy rate was 93%, compared to HUD’s requirement of 98%.

<sup>2</sup> SFHA does not track the HUD subsidy loss due to vacant units. The Budget and Legislative Analyst’s estimate was based on one point in time; the actual subsidy loss most likely exceeds \$800,000 over the duration of the year.

In response to HUD's designation, SFHA proposed corrective actions to reduce the number of vacant units. SFHA stated that they would need sufficient funding to hire specialized craft workers, whose positions had been reduced over the past four years by 40 percent, from 68 positions to 41 positions, to renovate units for occupancy.

Insufficient oversight of financial risks

Neither SFHA management nor the Commission has addressed issues raised in the annual financial statement. The Commission did not review the audited financial statement between October 27, 2011, when the financial statement for the year ending September 30, 2010 was calendared, and February 28, 2013, when the financial statement for the year ending September 30, 2011 was calendared. While SFHA management has presented monthly and quarterly budget updates to the Commission during this period, the audited financial statements address issues not contained in the budget updates.

*Pension and retiree health liability*

According to the audited financial statements, SFHA's liability for PERS retirement costs has increased compared to the value of its assets to cover this liability (funded ratio) from the fiscal year ending September 30, 2008 through September 30, 2011. While SFHA's funded ratio of 93.7% significantly exceeds PERS average of 74.3%, SFHA's funded ratio has decreased by 3 percentage points over the past four years, from 96.8% in the fiscal year ending September 30, 2008 to 93.7% in the fiscal year ending September 30, 2011, and should be reviewed by the Commission each year as part of the review of the audited financial statements.

SFHA pays for retiree health benefits for retirees under the collective bargaining agreements with MEA and SEIU through the PERS Public Employees' Health Care Fund. Employees must have worked for SFHA for five years to receive lifetime benefits. SFHA pays for retiree health benefits on a pay-as-you-go basis, which was \$578,725 in FY 2011.

SFHA does not prefund its retiree healthcare liability, which increased by 18% in the 27-month period from June 30, 2008 through September 30, 2010 (the most recent available information).

**Table 2.3**  
**Unfunded Retiree Healthcare Liability, as of September 30, 2010<sup>3</sup>**

Unfunded Liability:	
As of September 30, 2010	\$14,182,116
As of June 30, 2008	<u>12,022,086</u>
Increase	\$2,160,030
<b>Percent Increase</b>	<b>18%</b>

Source: 2011 Audited Financial Statement

<sup>3</sup> According to the 2011 Financial Statement, the actuarial valuation of SFHA's retiree health liability assumes that SFHA will continue to fund the liability on a pay-as-you-go basis at the FY 2011 level (\$578,725) and retirees will pay the difference. Under the collective bargaining agreements between SFHA, MEA and SEIU, SFHA pays 80% of retiree health premiums and therefore, will make increased annual payments as premium costs increase.

## 2. Impact of the Public Housing Program's Financial Condition on the San Francisco Housing Authority

The Housing Authority Commission has not addressed the growing retiree health care liability, including whether to pre-fund a portion of the liability through increased annual contributions in the same manner as recently enacted charter amendments by the City and County of San Francisco.

### *Payments in lieu of taxes*

SFHA does not pay property taxes but under a 1965 cooperative agreement with the City should make annual payments in lieu of taxes. Prior to 1991, the Board of Supervisors waived the payments in lieu of taxes, and from 1991 through 1996, did not act on the SFHA's request for a waiver. From 1997 through 2012, SFHA has neither made the payments in lieu of taxes nor requested a waiver, with \$11.5 million owed to the City from 1991 through 2012.

According to the 2011 financial statement, "the Authority has been making payments to the City and County of San Francisco that management considers a tax or assessment for police services that would offset this contingent liability". However, according to the pending Memorandum of Understanding (MOU) between SFHA and the City, SFHA only pays for supplemental police services that exceed basic police services provided to all residents of San Francisco.

### *Surplus housing assistance payments*

The Housing Choice Voucher program has accumulated reserves, in which the HUD subsidy to SFHA has exceeded payments. As of September 30, 2011, the program reserves were \$12.7 million. HUD has reduced funding to public housing authorities based on the level of reserves, requiring the authorities to utilize their excess reserves for their programs. In the fiscal year ending September 30, 2011, HUD reduced the housing assistance payment subsidy to SFHA by \$1.6 million, instructing SFHA to use their Housing Assistance Payment program restricted net assets<sup>4</sup> to make up the difference. According to the 2011 financial statement, the balance of SFHA's reserves are at risk of recapture by HUD.

### Lack of foresight in the operating budget

SFHA has reacted in the short term to shortfalls in the annual operating budget without looking ahead to what the authority needs. SFHA has not consistently responded to unnecessarily high costs or considered the best use of funds.

### *Use of property sales proceeds to pay for operating budget shortfall*

In 2011 SFHA sold a vacant lot at 2698 California Street for \$2,208,935 and used the proceeds to balance the budget for the fiscal year. Despite the one-time revenues, the public housing program's year-end budget shortfall was \$1.5 million, offset by surpluses in other programs. The use of the one-time revenues not only allowed SFHA to continue

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<sup>4</sup> SFHA's restricted net assets are surplus housing assistance payments for which HUD restricts the use. As of September 30, 2012, SFHA had \$13,910,186 in restricted net assets in the housing assistance payment program.

to delay restructuring the housing program, but deprived the authority of a source of revenues for much-needed capital repairs and improvements in public housing.

The Commission needs to adopt a policy that one-time revenues should be used for one-time purposes. For example, SFHA should sell their commercial property at 430-440 Turk Street, which consists of residential and commercial property, for which the commercial property is currently vacant and used only for Commission meetings. If the property were subdivided, separating the commercial from the residential, the SFHA could sell the commercial property, for an estimated \$5 million to \$6.25 million.<sup>5</sup> The Commission should approve the sale of 440 Turk Street with the sales proceeds designated for capital repairs and renovations only.

#### *Need to reduce operating expenditures*

SFHA could reduce certain operating expenditures without reducing service to tenants or housing assistance payment recipients. For example, SFHA should reduce the costs of turning over vacant units (see Section 7) and unnecessary eligibility worker positions (see Section 9), and terminate the MOUs with SFPD for police services (see Section 8) and DPW for the apprentice program (see Section 4). Reduction in these costs would reduce the annual operating budget shortfall as well as allow SFHA to hire necessary positions, such as the chief financial officer and maintenance positions (see Sections 1 and 3) to more effectively manage the authority.

## **Conclusions**

SFHA has not effectively managed its financial resources. It lacks a chief financial officer and long-term financial plan, and has delayed implementing revenue and expenditure solutions to the ongoing operating budget shortfall.

## **Recommendations**

The SFHA Executive Director should:

- 2.1 Immediately recruit and hire a chief financial officer.
- 2.2 Once the chief financial officer is hired, designate a qualified budget manager, either through a new hire or reassignment of existing positions, with sole responsibility for developing and monitoring the budget. This position should be classified as a supervisory position.
- 2.3 Submit to the Board of Supervisors the request for a waiver of the payment in lieu of taxes from 1991 through 2013, no later than May 31, 2013.

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<sup>5</sup> Based on 25,000 square feet (per Planning Department records) at a sales price per square foot ranging from \$200 to \$250.

The Commission should:

- 2.4 Direct the Executive Director to develop a five-year financial plan, subject to Commission approval, to be updated annually. The five-year financial plan should address the SFHA's pension and retiree health liability and offer solutions, such as prefunding a portion of the retiree health liability.
- 2.5 Schedule annual review of the audited financial statement, including detailed discussion in the Commission's finance subcommittee of the financial risks identified in the financial statement.
- 2.6 Adopt a policy requiring that one-time sources of funds can only be used for one-time uses, especially capital repairs and renovations.
- 2.7 Authorize the sale of 440 Turk Street, contingent on adopting a policy that the sale proceeds must be designated for capital repairs and renovations of public housing.

## **Costs and Benefits**

Estimated costs to hire the chief financial officer are \$231,000, based on a 2009 compensation survey, including salary, fringe benefits, and SFHA's practice to pay 7.5% of the employee's PERS contribution. This new staff cost can be paid for by new revenues or expenditure savings recommended in this report.

Sale of 440 Turk Street will result in an estimated \$5 million to \$6.25 million in one-time revenues.

### **3. Financial Cost of Not Implementing Asset Management**

- **In 2007, HUD began requiring public housing authorities to transition to asset management, in which budgets and costs are managed at the property (or asset management project) level by property managers in conformance to industry standards. SFHA has not fully implemented asset management, and as a consequence, has forfeited \$7.5 million in HUD operating subsidies from 2008 through 2012 (or \$1.5 million per year).**
- **A major reason that SFHA has not implemented asset management is the authority's inability to transfer maintenance functions from a centralized maintenance unit to the individual housing properties. In order to transfer maintenance functions, SFHA needs to create a maintenance mechanic position to perform routine maintenance work at a lower cost than the specialized crafts, such as plumber, electricians, carpenters and other trades. SFHA initially moved specialized craft, laborer, and custodian positions from Central Services (the centralized maintenance unit) to the individual housing properties in 2010 but because of inadequate specialized craft positions to staff the individual housing properties, moved the specialized craft positions back to Central Services in 2012. Only laborer and custodian positions remain in the individual housing properties.**
- **Creation of the maintenance mechanic position requires successful negotiations with the craft unions, in which routine craft work may be performed by the maintenance mechanic rather than the specialized craft worker. Despite three years of discussions with the unions, SFHA has not yet created this classification although the SFHA HOPE VI properties managed by private companies, such as Valencia Gardens or Bernal Dwellings, have created a maintenance technician classification and the City has a utility worker classification that meet this requirement.**
- **SFHA will need to implement the maintenance mechanic position and increase the number of maintenance positions in order to comply with HUD's requirement to transfer maintenance functions to the individual housing projects as part of the implementation of asset management. SFHA's ratio of maintenance staff (specialized craft, laborer, and custodian staff) to housing units is less than two high-performing housing authorities: Charlotte Housing Authority and Denver Housing Authority. SFHA currently has one maintenance staff for every 46 housing units and would have to hire 15 additional maintenance staff to be consistent with Denver Housing Authority's ratio of one maintenance staff for every 41 housing units.**

## **SFHA has not fully implemented asset management, resulting in lost HUD revenues and inefficient budget management**

Prior to implementation of asset management, public housing authorities maintained budget and financial information at the authority level rather than the property level. Harvard University's School of Design 2003 report, *Public Housing Operating Cost Study*, found this approach to be contrary to conventional real estate standards, and recommended that HUD require property-based budgeting, accounting and management, consistent with private industry.

In response to Harvard University's report, HUD implemented the public housing asset management program, which requires SFHA to maintain budget and accounting systems that allow for revenue and expenditure analysis by property. Budgets are to report property-specific income, including tenant rents and HUD operating subsidies, and property-specific expenses, including administrative, maintenance, security and other expenses.

### **Inability to meet HUD's stop-loss program criteria**

HUD introduced a new operating formula under the asset management program that resulted in a reduction in funding to SFHA. The amount of the reduction could be mitigated by the asset management stop-loss program, in which SFHA was to show successful conversion to the asset management program.

SFHA did not meet the stop-loss program criteria for 2008, 2009, and 2010, resulting in an operating subsidy loss of \$7.5 million from the implementation of the asset management program in 2008 through 2012 (or an average loss of \$1.5 million per year).

According to the August 16, 2011 letter from HUD to the SFHA, SFHA failed to meet several stop-loss program criteria including:

- SFHA does not identify and respond to large budget variances, such as explaining why one asset management project that budgeted for rental income of \$1.5 million collected only \$400,000;
- SFHA's Central Office Cost Center charges fees to the asset management projects that are higher than allowed by HUD, including charging fees to asset management projects that had no cash reserves to support the fees, in contradiction to HUD's policy;
- SFHA does not have an effective program to ensure proper rent collections,; and
- SFHA does not manage maintenance costs at the asset management project level.

### **Centralized rather than project-based maintenance services**

HUD questioned whether SFHA's continued centralization of maintenance services, rather than transferring responsibility for maintenance services to the asset management

projects, was effective. SFHA had initially moved specialized craft, laborer, and custodian positions from Central Services (maintenance services) to the asset management projects in 2010 but moved the craft positions back to Central Services in 2012. Only laborer and custodian positions remain in the asset management projects.

Public housing agencies considered by HUD to have successfully implemented asset management have assigned maintenance staff to asset management projects to be overseen by property managers. For example:

- The Akron (Ohio) Metropolitan Housing Authority assigned most maintenance workers to specific properties but continued to centrally manage a small group of skilled electricians and plumbers.
- The Charlotte (North Carolina) Housing Authority has also decentralized maintenance functions, with property managers handling work order requests and directing maintenance staff assigned to the project site. The site-based maintenance workers handle grounds, preventive and routine maintenance, tenant work requests, and routine unit turnovers. In the event of a high turnover rate, the site manager contracts with outside maintenance contracts to meet the work load demands. The Charlotte Housing Authority maintains five central maintenance staff.

SFHA cannot effectively decentralize maintenance functions without implementing a new maintenance mechanic classification (see below) and without more maintenance staff.

SFHA’s ratio of maintenance staff (specialized craft, laborer, and custodian staff) to housing units is less than two high-performing housing authorities, Charlotte Housing Authority and Denver Housing Authority. For example, SFHA would have to hire 15 additional maintenance staff to meet Denver Housing Authority’s ratio of one maintenance staff for every 41 housing units.

**Table 3.1**  
**Ratio of SFHA, Charlotte Housing Authority, and Denver Housing Authority**  
**Public Housing Units per Maintenance Staff**

	San Francisco	Charlotte	Denver
Public housing units <sup>1</sup>	5,373	2,174	3,832
Maintenance staff <sup>2</sup>	112	50	94
<b>Ratio public housing units per maintenance staff</b>	<b>46</b>	<b>43</b>	<b>41</b>

Source: SFHA, Charlotte Housing Authority, Denver Housing Authority

<sup>1</sup> Includes only housing units directly managed by the housing authority

<sup>2</sup> Includes all craft and other maintenance (laborer, custodian, maintenance) staff

SFHA does not have the correct mix of staff to meet the maintenance needs. Both the Denver Housing Authority and the Charlotte Housing Authority have implemented

maintenance technician positions that can perform more skilled work than SFHA’s laborer and custodian classifications.

Delays in implementing the maintenance mechanic position

HUD requires the creation of a maintenance mechanic position (also referred to as a maintenance generalist or maintenance technician) as part of asset management implementation. In response, SFHA adopted Maintenance Generalist I and Maintenance Generalist II job descriptions in September 2011, after two years of meeting with the respective unions representing laborers and custodians. These job descriptions combine responsibilities previously assigned separately to custodians and laborers, with the Maintenance Generalist I position retaining custodian functions for the interior of buildings and units as well as new duties for maintaining building exterior and grounds, and the Maintenance Generalist II position assuming more advanced duties for building exteriors and grounds. Neither job description includes routine repair functions of housing units (minor plumbing, carpentry, etc.) found in the job descriptions for the Hope VI properties’ maintenance technician or the City’s utility worker classification, as shown in Table 3.2.

**Table 3.2  
Comparison of the SFHA Maintenance Generalist Positions to the City’s Utility Worker and HOPE VI’s Maintenance Technician**

<b>Utility Worker City Position/SEIU</b>	<b>Maintenance Technician HOPE VI</b>	<b>Maintenance Generalist I SFHA</b>	<b>Maintenance Generalist II SFHA</b>
Minor maintenance and repair activities on housing units	Maintain units, common areas and grounds	Entry level/flexibly staffed Maintenance Generalist II	Journey level/flexibly staffed with Maintenance Generalist I
Debris removal from buildings and grounds		Various custodial duties for cleaning of buildings and units; removes debris	Removes and cleans up debris
Operates motor vehicle for pick up and delivery of equipment, furniture, donations		Operates a variety of light vehicles and equipment	Operates and maintains a variety of motor vehicles and equipment
Minor plumbing repairs (such as garbage disposals); minor carpentry; minor automotive repairs; other functions, such as installation of hardware	Performs plumbing (unclog drains, install fixtures); electrical (install smoke detectors, outlets and switches); general (maintain locks, hang doors, repair cracked concrete, paint, etc.)	Minor construction, maintenance, repair activities of exterior structures; maintains exterior drainage	More advanced maintenance and repair of exterior structures
General maintenance and labor, such as emergency cleaning and replacing light bulbs		Prepares grounds for and assists in maintenance of landscaping	Cuts, trims and removes brush
Assists engineering and electrician staff, including assistance with Heating, Ventilation, and HVAC		Assists a variety of craft workers	Assists a variety of craft workers

Source: SFHA, Hope VI, and City job descriptions

In contrast, the Denver Housing Authority created a three-tier Maintenance Technician classification, with the:

- (1) Maintenance Technician I position performing minor repairs and routine custodial and grounds work;
- (2) Maintenance Technician II position performs routine custodial and grounds work, as well as more complex repairs that do not require special training or licensing; and
- (3) Maintenance Technician III position, which can repair appliances, replace hot water heaters, work with furnaces, and perform other routine plumbing, carpentry, and electrical work not requiring specialized skills.

Reclassifying laborer and custodian positions into a maintenance mechanic position with responsibilities comparable to the City’s utility worker or HOPE VI’s maintenance technician positions would increase SFHA’s capacity for performing routine maintenance and repairs, free-up specialized craft workers for more complex functions, and address HUD’s requirement to create the maintenance mechanic classification. Because the unions share SFHA’s interest in maintaining SFHA’s financial stability and increasing maintenance services, including the hire of new positions, SFHA needs to negotiate with the respective unions to immediately implement the maintenance mechanic classification. Other housing authorities, such as the Oakland Housing Authority, have implemented such a classification through negotiations with their respective unions.

Under-budgeted maintenance costs

Property managers are not able to manage their maintenance budgets because SFHA under-budgets for maintenance expenditures. SFHA’s actual expenditures for maintenance services were 39% over budget in the fiscal year ending September 30, 2011, and 35% over budget in the fiscal year ending September 30, 2012, as shown in Table 3.3.

**Table 3.3**  
**Maintenance Budget Shortfall**  
**Fiscal Years Ending September 30, 2011 and September 30, 2012**

<b>Year ending</b>	<b>September 30, 2011</b>	<b>September 30, 2012</b>
Budget	\$4,346,400	\$5,439,522
Actual	<u>6,037,563</u>	<u>7,367,628</u>
Over budget	(\$1,691,163)	(\$1,928,106)
Percent	(39%)	(35%)

Source: SFHA Budget Presentation to Housing Authority Commission

SFHA’s budget for maintenance services for the fiscal year ending September 30, 2013 is 38% less than the prior fiscal year’s budget (which was already under-budgeted) and 54% less than the prior fiscal year’s actual expenditures, as shown in Table 3.4.

**Table 3.4**  
**Comparison of FY 2013 Maintenance Budget**  
**to FY 2012 Actual and Budgeted Maintenance Expenditures**

September 30, 2013		September 30, 2012		Difference	Percent
Budget	\$3,386,669	Budget	\$5,439,522	(\$2,052,853)	(38%)
Budget	\$3,386,669	Actual	\$7,367,628	(\$3,980,959)	(54%)

Source: SFHA Budget Presentation to Housing Authority Commission

According to SFHA, maintenance services are “normally under-budgeted in an attempt to balance the budget”. In the first five months of FY 2013, actual maintenance service costs of \$3,201,484 exceeded the budget of \$1,588,275 by more than 201%.

High overtime costs for after-hours maintenance work

Emergency maintenance conducted after-hours results in high overtime costs. Specialized craft overtime costs for after-hours maintenance were equivalent to 2.82 FTEs for the first five months of FY 2013, as shown in Table 3.5.

**Table 3.5**  
**Craft Overtime**  
**October 5, 2012 through March 8, 2013**

	Estimated Salary and Benefit Cost per FTE October 5, 2012 through March 8, 2013	Overtime Costs	Overtime FTEs
Painter	\$41,451	\$1,133	0.03
Glazier	\$43,003	357	0.01
Carpenter	\$47,557	42,763	0.90
Electrician	\$64,509	44,668	0.69
Plumber	\$70,283	83,716	1.19
Total		\$172,637	2.82

Source: SFHA Overtime Report and SFHA Wage Plan

Requests for after-hours maintenance work are received through the City’s 311 call system and prioritized by the maintenance duty officer. Central Services staff have identified procedures that could reduce after-hours overtime, some of which are mechanical solutions, such as doors that do not self-lock and therefore do not require maintenance staff to unlock doors for tenants who accidentally lock themselves out of their units. Other solutions will require educating tenants on what constitutes an emergency and how they can reduce tenant-caused breakage and repairs. Also, as noted in Section 6, many of these repair requests are for tenant-caused damage, for which SFHA has not been charging fees since 2009.

Inadequate budgets and the lack of an active program for preventive maintenance may also contribute to unscheduled and after-hours repair due to poor building infrastructure.

### Not all property managers have adequate budget skills

HUD’s asset management program requires financial reporting at the asset management project level. HUD created a financial data schedule that standardizes project-level reporting of revenues and expenditures, and is intended to align housing authorities’ financial reporting with private industry reporting procedures.

SFHA has developed budget procedures that reflect HUD’s reporting requirements. SFHA wrote instructions and timelines for developing the FY 2013 operating budget that incorporate input from the asset management property managers. According to the budget instructions, each department and asset management project is responsible for the preparation and implementation of their operating budget.

Property managers have only been partially incorporated into the budget process. According to a survey conducted by the Budget and Legislative Analyst’s Office, less than one-half of respondents stated that they created the asset management project’s budget, and only 26% stated that they had control over expenditures once the budget was approved.

**Table 3.6  
Property Managers Role in the Budget Process<sup>1</sup>**

	Response Count	Response Percent
<b>How is the annual budget for your property developed?</b>		
I create the budget and submit it to the Finance Department	9	47.4%
Finance Department creates the budget and submits it to me for review/approval	8	42.1%
My property does not have an annual budget	0	0.0%
I don't know	<u>2</u>	<u>10.5%</u>
	19	100.0%
<b>Once the annual budget is approved, do you have control over expenditures?</b>		
Yes	5	26.3%
No	14	73.7%
I Don't Know	<u>0</u>	<u>0.0%</u>
	19	100.0%

Source: Budget and Legislative Analyst Survey

Property managers also need better budget skills. Although SFHA provided training to property managers on property management, HUD rules and regulations, and SFHA policies and procedures, most property managers responding to the survey expressed the need for more budget training.

<sup>1</sup> 19 of 24 property managers, or 79%, responded to the survey.

As noted in Section 2, SFHA needs to develop budget management staff. As part of this process, the Central Office Cost Center's budget manager should work directly with the property managers to assure their adequate understanding and efficient management of their asset management project's budgets.

## **Conclusions**

SFHA needs to implement asset management in accordance with HUD's requirements. This would require SFHA to create the maintenance mechanic position that can perform minor repairs, and hire additional maintenance staff to meet asset management project needs. SFHA needs more accurate maintenance budgeting, but in order to do so, must find revenue increases or expenditure savings in other budget areas, and develop the budget skills and responsibilities of property managers.

## **Recommendations**

The SFHA Executive Director should:

- 3.1 Immediately correct the stop-loss program deficiencies identified by HUD in managing budget variances, charging fees to asset management projects, and collecting tenant rents.
- 3.2 Implement the maintenance mechanic classification comparable to the HOPE VI maintenance technician or City's utility worker classification, including negotiating with the respective unions on the bargaining unit assignment of the classification and the training and reclassification of existing laborer and custodian staff into the new classification.
- 3.3 In conjunction with the designation of the budget manager position (see Recommendation 2.2), assign the budget manager responsibility for training and working with property managers in managing their project budgets.
- 3.4 Implement a formal preventive maintenance program

The Commission should:

- 3.5 Direct the Executive Director to submit to the Commission for approval prior to September 30, 2013, the new maintenance mechanic classification and associated plan to train and reclassify existing laborer and custodian staff into the new classification.
- 3.6 Direct the Executive Director to submit to the Commission for approval prior to September 30, 2013, a maintenance staffing plan that (a) determines the appropriate number of maintenance mechanic positions to be assigned to the asset management projects in order to meet HUD's requirements to implement asset management; (b) identifies sources of funds or cost-savings to pay for new

maintenance mechanic positions; and (c) correctly identifies the maintenance budget for each asset management project.

## **Costs and Benefits**

In order to meet a staffing ratio comparable to the Denver Housing Authority of one maintenance staff for every 41 housing units, SFHA would need to hire up to 15 new maintenance mechanic positions for an estimated annual salary and fringe benefit cost of \$1.3 million per year. In addition, SFHA has a \$4.0 million maintenance budget shortfall in FY 2013 that the authority needs to correct.

Partial funding to offset these annual maintenance costs of \$5.3 million could potentially come from a request to HUD to retroactively increase SFHA's operating subsidy under the stop-loss program (\$1.5 million annually as noted above) or other expenditure savings and revenue sources discussed in this report.

## 4. Procurement and Interagency Agreements

- **The San Francisco Housing Authority (SFHA) procurement function has been inadequately managed for several years, diminishing the efficiency and effectiveness of materials, goods, and services acquisition. The inadequate management has been partly the result of a lack of emphasis on procurement by executive management and the Finance Department’s lack of management structure. Management for the procurement function, traditionally housed in the Finance Department, has transferred between five individuals, including staff from the Office of the General Counsel, just since 2010. Further, the Department has lacked a dedicated chief financial officer since at least 2009; lacks managerial capacity; and most Department staff members have improper job classifications.**
- **SFHA procurement controls are not sufficient for controlling risks. In March 2011, the Commission raised the Executive Director’s authority for contracting from \$50,000 to \$100,000, placing the decision on the consent agenda without discussion. Shortly thereafter, two solicitations processed under the Executive Director’s authority were handled in a manner that gives an appearance of favoritism. The new Commission, which in April 2013 reduced the contracting threshold to \$30,000, should continue to discuss contracting decisions in public meetings rather than placing contracting decisions on the consent agenda.**
- **SFHA does not conduct sufficient procurement planning or monitoring to ensure that materials, goods, and services are acquired in the most efficient and effective manner. Although the SFHA Procurement Policy and Procedures Manual stipulates that “procurement requirements are subject to an annual planning process to assure efficient and economical purchasing,” we found no evidence that such planning has taken place in the last three years. Further, SFHA does not formally manage its relationship with Recology, the sole provider of trash pick-up services in San Francisco.**
- **SFHA does not adequately manage its agreements with City agencies. In particular, SFHA has agreements with the San Francisco Police Department (SFPD) to provide police services to the public housing sites and the Department of Public Works (DPW) to provide an apprenticeship program, for which SFHA incurs unnecessary costs. SFHA did not obtain an independent cost estimate for either agreement, in contradiction to the Department of Housing and Urban Development (HUD) requirements.**

## **Procurement is Not Efficiently or Effectively Managed**

Procurement has been inadequately managed at the San Francisco Housing Authority (SFHA) for several years. Due to a number of factors including a lack of emphasis by executive management, high staff turnover, and the lack of management structure in the Finance Department, SFHA has not been efficiently and effectively acquiring materials, goods, and services.

Responsibility for management of the procurement function has transferred between five individuals, including staff from the Office of the General Counsel, just since 2010. Further, SFHA has not had a staff member classified as a Procurement/Contracts Analyst or similar position since at least 2009. As a result, the authority has not exercised consistent or effective oversight, documentation, or controls over procurement. While SFHA has recently hired a Senior Accountant with relevant experience to manage the procurement function, this staff member has been asked to take on additional responsibilities and reports to the Accounting Manager rather than a Finance Director or the Executive Director, thereby diminishing the position's importance and independence.

Although the SFHA Procurement Policy and Procedures Manual asserts that the authority "maintains a centralized procurement process," contracting is not planned, monitored, or documented centrally. Rather, annual procurement planning, which is stipulated in the SFHA Procurement Policy and Procedures Manual does not occur. Contract monitoring, including the minimization of purchase order and contract irregularities, is decentralized and inconsistent at best. Further, procurement documentation, including copies of executed contracts and solicitation materials, is scattered among several departments throughout the authority.

## **SFHA Procurement Controls Need Improvement**

While SFHA procurement controls are not sufficient for controlling the risk of inefficiencies in purchasing or the misuse of public funds, the Commission and executive management began addressing the deficiencies as we concluded our fieldwork. In March 2011, the SFHA Commission doubled the Executive Director's contract authority from \$50,000 to \$100,000. Two solicitations from our sample, processed about one year after the change in the Executive Director's authority, included documentation that give an appearance of favoritism, or at the very least, a poorly managed procurement process. Additionally, the Procurement Policy and Procedures Manual is not consistently followed by management and staff. For instance, SFHA staff have noted that the authority does not consistently cap contract costs to ensure that policy thresholds are not exceeded. Further, blanket purchase orders, an arrangement in which the authority contracts with a vendor to provide items or services on an as-needed basis, are not sufficiently monitored to ensure they are utilized appropriately.

The Commission and executive management began taking steps to address the Authority's deficiencies around the time our audit team was concluding our fieldwork. These efforts included: (1) seeking technical assistance from HUD; (2) lowering the threshold for prospective contract approval by the Commission to \$30,000 and \$10,000

for retrospective ratification; (3) establishing a Finance and Personnel subcommittee of the Commission; and, (4) seeking temporary assistance from the former Director of Procurement.

### **Contract Authority of Executive Director Doubled without Justification**

In March 2011, the SFHA Commission doubled the Executive Director's contract authority from \$50,000 to \$100,000 without justification or discussion. The change was approved at the March 24, 2011 Board of Commissioners meeting based on consent rather than discussion. Although this was a significant change to the authority's procurement policies and procedures, and a significant weakening of the Commission's oversight over procurement, the decision was made without a staff report providing justification and without even a discussion of the item. Further, the decision was not part of a deliberate or methodical reform to the authority's approach to, or controls over, procurement. Rather, staff and Commissioners simply considered the change a "routine" matter and approved it along with minutes from two previous Commission meetings with a single vote approving the consent agenda.

In April 2013 the new Commission reduced the contracting threshold for Commission approval to \$30,000. In contrast to the prior Commission's action, which placed the decision to increase the Executive Director's contracting authority on the consent agenda, the new Commission should continue to discuss contracting decisions in public meetings.

### **Poorly Handled Solicitations Have Appearance of Favoritism**

Two solicitations that we reviewed from our sample appear to have been poorly handled by SFHA and have the appearance of favoritism. In both cases, two rounds of price quotes were obtained with the highest bidder in the first round lowering their bid significantly in the second round and subsequently being awarded the contract. The competing proposers did not lower their bids significantly in either case. Additionally, in the first case (Resident Services) the scope, term, and cost of the services changed significantly between the initial stage of the solicitation and the final award, seemingly without justification. Similarly, in the second case (Consulting Services for Community Engagement) the scope of the services changed significantly between the initial stage of the solicitation and the final award.

#### Solicitation of "Community and Resident Services"/"Resident Council Election Services"

In April 2012 SFHA initiated a solicitation for "community and resident services." The solicitation appears to have been handled poorly as there was no apparent evaluation of qualifications, no basis for the contract amount, and the final contract rate was higher than the final accepted bid. Further, the scope, cost, and term changed significantly between the initiation of the solicitation and the actual contract award without justification.

SFHA staff initiated the solicitation by drafting a formal Request for Quotes (RFQ) asking for proposals from qualified vendors, but the RFQ was apparently never

completed or released to the public. SFHA staff instead informally obtained quotes from three vendors. The draft RFQ document stated that SFHA was pursuing a “firm fixed price contract, at an amount of \$50,000, under a one year agreement, with an option to extend the agreement for an additional year based on the availability of funding sources and the performance of the consultant.” However, the actual contract award was for \$99,000 and for a period of 12 months. Further, the draft RFQ summarized the scope of services as:

Duties of the consultant will include, but are not limited to: ACOP & Annual Plan community meeting facilitation and support; Community stakeholder meeting representation and facilitation; SFHA resident leadership and organizational development; Program design, staffing, and implementation, Training and technical assistance for SFHA residents.

However, the actual agreement simply states that the contract is to provide “resident council election services.” Additionally, the documentation showing the bids submitted on April 13, 2012 show that the quotes were for “consultant for resident relations.” The same form prepared with a second round of bids on April 24, 2012 shows that the quotes were for “consultant for resident relations pertaining to tenant association and resident council elections.” There is no explanation in the documentation for why the scope of services changed between April 13 and April 24, 2012.

As shown in Table 4.1 below, the solicitation included two rounds of bids with the highest bidder in the first round (Vendor A) lowering their bid significantly in the second round and subsequently being awarded the contract.<sup>1</sup>

**Table 4.1**  
**Bids for Community and Resident Services/Election Services Contract**

Vendor	April 13, 2012 Bid Amount (Hourly Rate)	April 13, 2012 Additional Expenses	April 24, 2012 Bid Amount (Hourly Rate)	April 24, 2012 Additional Expenses
Vendor A	\$185	None	\$80	None
Vendor B	\$130	Travel & 10% Expense Markup	\$130	Travel & 10% Expense Markup
Vendor C <sup>2</sup>	\$120	Hotel & Travel	\$120	Hotel & Travel

Source: RFP Documentation provided by SFHA staff

<sup>1</sup> Vendor names have been omitted at the request of SFHA management to maintain confidentiality of vendor proprietary information.

<sup>2</sup> According to the April 13<sup>th</sup> price quotations documentation, the lead consultant for Vendor C required an hourly rate of \$120 plus hotel and travel or a flat daily rate of \$1,150 if travel and hotel reimbursements were not included. Additionally, a flat rate of \$90 per hour plus hotel and travel or \$950 per day if travel and hotel reimbursements were not included would be required for other associated consultants. According to the April 24<sup>th</sup> price quotations documentation, Vendor C reduced their rate for other associated consultants to \$79 per hour plus hotel and travel costs.

*No Apparent Evaluation of Qualifications*

Under the RFQ that was drafted at the start of the solicitation, the proposers were to be evaluated based on minimum qualifications (3-5 years of verifiable experience in administering or providing similar services), references, and a concise description of managerial and financial capacity to deliver the proposed services, including brief professional resumes. Based on the documentation of the solicitation provided by SFHA, it does not appear that the authority evaluated the qualifications of the proposers. Rather, it appears that SFHA staff simply contacted three separate consultants to request information on hourly rates and expenses.

*No Basis for Contract Amount*

There is no evidence that SFHA carefully estimated the cost for the services being solicited before requesting bids or awarding a contract. Further, there is no documentation showing the justification for the increase in the contract cost from the \$50,000 stated in the draft RFQ to the \$99,000 contract amount. Notably, the final contract amount was just under the \$100,000 SFHA policy and HUD cut-off for formal solicitation procedures, including Commission approval.

*Final Contract Rate Higher than Final Bid Without Justification*

Although the winning bidder, Vendor A, provided a quote of \$80 per hour for this solicitation, the contract stipulated that an hourly rate of \$85 would be provided for services performed. The documentation provided did not include a justification for the difference between the quoted rate and the contracted rate.

Solicitation of Consulting Services Poorly Handled

A second solicitation from our sample that was poorly managed was for consulting services. Specifically, there was an unjustified scope change, the highest initial bidder was permitted to lower their bid in a second round and subsequently awarded the contract, the contract was awarded to a firm that was not a listed bidder, and HUD regulations were incorrectly cited to justify the contract award.

*Scope Change and Second Round of Bidding*

In August 2012 SFHA initiated a solicitation of quotes for “consulting services for Sunnydale Hope SF project re-development.” Consistent with SFHA policies for contracts under \$100,000, staff conducted the solicitation informally by directly contacting vendors rather than issue a Request for Proposals (RFP). The next month, September 2012, SFHA initiated a second informal solicitation of quotes with a scope description of “consulting services for community engagement at 5 housing developments.” There was no explanation or justification in the documentation provided to our audit team for the change in scope.

As with the previously discussed solicitation from April 2012 for community and resident services, this contract was: (1) awarded to the highest initial bidder and (2) the contract

awardee, Vendor E, lowered their bid significantly for the second round of bids, but the other bidders did not significantly change their bids. A summary of the submission of bids for this solicitation is shown in Table 4.2 below.

**Table 4.2**  
**Bids for Community Engagement Consulting Services**

Vendor	August 21, 2012 Bid Amount (Hourly Rate)	August 21, 2012 Additional Expenses	September 11, 2012 Bid Amount (Hourly Rate)	September 11, 2012 Additional Expenses
Vendor D <sup>3</sup>	\$120	\$50 per diem + travel costs	\$120	\$50 per diem + travel costs
Vendor E <sup>4</sup>	\$150	sub-consultants <sup>5</sup>	\$85	sub-consultants <sup>6</sup>
Vendor F	\$130	travel costs + 10% of travel costs	\$130 <sup>7</sup>	travel costs + 10% of travel costs

Source: RFP Documentation provided by SFHA staff

#### *Contract Awarded to a Company that Did Not Submit a Bid*

The contract was executed in October 2012 to a firm that was not listed as a bidder on the SFHA official price quotations documents. Although the lowest bid from the second round of price quotations was submitted by United Way of the Bay Area, the contract agreement was made with a firm named Project Complete/RDJ Enterprises. The only commonality linking the United Way of the Bay Area bid to Project Complete/RDJ Enterprises was a named individual. This individual was listed as “Consultant” on the first bid and “President” on the second bid. This individual was also the signer who executed the contract agreement on behalf of Project Complete/RDJ Enterprises.

#### *SFHA Staff Incorrectly Cited HUD Regulations for Basis of Contract Award*

In a memo dated September 11, 2012 to senior management summarizing the bid solicitation and selection, a SFHA staff person incorrectly cited HUD regulations to support awarding the contract to United Way of the Bay Area. Specifically, the memo states that “according to HUD procurement regulations, the lowest proposer for a QTE (Request for Quotes) must be selected. No other factors may be considered.” In fact, HUD’s Small Purchase Procedures, which generally cover purchases by public housing authorities up to \$100,000, allow for different methods for evaluating price quotations. Specifically, the HUD Small Purchase Procedures state that if “using ‘price and other

<sup>3</sup> Vendor D included a rate of \$69 per hour for other associated consultants.

<sup>4</sup> Vendor E was represented by an individual as a principal consultant and a second individual as an additional consultant.

<sup>5</sup> Vendor E included various rates ranging from \$25 per hour to \$10,000 for sub-consultants.

<sup>6</sup> Vendor E included various hourly rates in their September 11, 2012 submission for sub-consultants ranging from \$25 per hour to \$65 per hour.

<sup>7</sup> Vendor F included additional rates for other consultants in their September 11, 2012 submission ranging from \$28 per hour to \$115 per hour.

factors’ to determine award, the Contracting Officer has broad discretion in fashioning suitable evaluation procedures.”

### **Blanket Purchase Orders are Not Sufficiently Managed**

SFHA does not have appropriate controls in place to ensure that blanket purchase orders, an arrangement in which the authority contracts with a vendor to provide items or services on an as-needed basis, allow for the most efficient and effective procurement. Specifically, SFHA does not ensure that blanket purchase orders provide contractually obligated discounts and/or rebates, or minimize the risk of unnecessary or fraudulent purchases. SFHA contracts directly (or “piggy-backs”) with some firms, including Home Depot and HD Supply, that have competitively-solicited contracts with a local government agency that allows other jurisdictions to contract for the same terms. This is primarily done to enable procurement of small dollar (less than \$2,000) item goods or services purchased with blanket purchase orders.

SFHA does not have an official list of blanket purchase orders or guidelines for their use. During the fieldwork phase of our audit we requested a list of the authority’s blanket purchase orders, but staff were unable to provide one, nor were they able to provide copies of the blanket purchase orders.

#### SFHA Lacks Guidelines on Blanket Purchase Orders

We found no evidence that the SFHA Finance Department maintains guidelines specific to these contracts such as caps on the amount that may be spent by month, housing project, or employee. Given that SFHA has already paid out over \$430,000 during the current fiscal year<sup>8</sup> on two blanket purchase orders, as seen in Table 4.3 below, SFHA management should take steps to monitor procurement activity to ensure that unnecessary and fraudulent purchases are prevented. Further, SFHA has recently cancelled its contract with Lowe’s Hardware for irregularities and lack of procurement controls. The lack of a blanket purchase order with Lowe’s may account for the increase in purchases from Home Depot and HD Supply.

**Table 4.3**  
**SFHA Blanket Purchase Order Activity**

<b>Vendor</b>	<b>Amount Paid Year to Date<sup>9</sup></b>	<b>Amount Paid in FY 2011-12<sup>10</sup></b>	<b>Total Amount Paid for Life of Contract</b>
Home Depot Credit Services	\$212,922	\$518,880	\$1,348,399
HD Supply Facilities Maintenance	\$225,000	\$359,024	\$1,688,175

Source: Finance Department reports

<sup>8</sup> Amount paid to Home Depot and HD Supply from October 1, 2012 through April 4, 2013.

<sup>9</sup> See above.

<sup>10</sup> SFHA Fiscal Year FY 2011-12 began on October 1, 2011 and ended on September 30, 2012.

## **Procurement Planning and Monitoring is Inadequate**

SFHA does not conduct sufficient procurement planning or monitoring to ensure that materials, goods, and services are acquired in the most efficient and effective manner. Although the SFHA Procurement Policy and Procedures Manual stipulates that “procurement requirements are subject to an annual planning process to assure efficient and economical purchasing,” we found no evidence that such planning has taken place in the last three years. Rather, the procurement function has not been systematically managed, leading to some apparently haphazard purchasing and an inability to adequately account for the goods and services being provided by vendors.

## **Lack of Contract Administration Plans**

SFHA has not conducted sufficient contract administration planning. The SFHA Policy and Procurement Manual stipulates that, “for more complex contracts...it is advisable to develop a formal, written contract administration plan before the contract award.” Such plans could assist SFHA management and staff in monitoring and evaluating the performance of consultants, contractors, and vendors. However, SFHA has not developed contract administration plans and does not have guidelines or procedures that define when such plans would be required. A judgmental sample of recently awarded contracts found several agreements over \$100,000, including a \$195,000 contract for as-needed employment, labor, and legal services, and two contracts over \$450,000 for annual auditing services, among others, that did not have contract administration plans. Rather, procurements are generally handled by the authority as single actions with little or no connection to an overall procurement program or strategy.

## **SFHA Not Formally Managing its Relationship with Recology**

SFHA does not formally manage its relationship with Recology, the sole provider of trash pick-up services in San Francisco. Although SFHA paid Recology approximately \$2.8 million for such services in 2012, the authority has not pursued a formal agreement or Memorandum of Understanding with the company, and until late last year had not even begun to assess its relationship. As a result, Recology charges have varied significantly from site to site with some housing projects receiving weekly pick-ups and others receiving twice weekly pick-ups without formal assessments to justify the differences. Further, SFHA staff have verified that one housing project was charged for 156 bins, but only has 111 to 115 occupied units at any given time.

The SFHA Maintenance Director was tasked with overseeing the authority’s relationship with Recology late last year with the goal of increasing recycling and composting, as well as finding cost savings. The Executive Director has noted to our audit team that these efforts have reduced monthly bills by 30 percent from \$233,184 per month to \$165,455 per month. However, these efforts have not included the Senior Accountant in charge of procurement as part of a broader effort to manage purchasing. Executive management should work toward solidifying these savings with a formal agreement and ongoing monitoring.

## **Energy Services Agreement Not Producing Anticipated Savings**

SFHA has undertaken a 20-year, approximately \$53 million,<sup>11</sup> project with AMERESCO, Inc. to design, construct, and operate an energy management services program with major goals of producing energy and cost savings. However, the program is not on target to produce the approximately \$3.7 million in savings anticipated for the current fiscal year.<sup>12</sup> Finance Department staff report that the authority's current financial crisis is due in part to the unrealized savings that were anticipated as a result of the Energy Services Agreement. While Housing Development and Modernization staff report that AMERESCO is analyzing consumption patterns to identify why savings are below anticipated levels, SFHA management, including staff responsible for procurement, should continue to monitor the program to ensure that the contractor has fulfilled all of its contractual obligations.

## **Interagency Agreements Cost More than Necessary**

SFHA has agreements with the San Francisco Police Department (SFPD) for security and Department of Public Works (DPW) for weekend trash pick-up, for which SFHA pays more than necessary.

### **MOU with SFPD for Security Services**

Under the Memorandum of Understanding (MOU) between SFHA and SFPD, SFHA is to pay \$1.3 million to SFPD in the fiscal year ending September 30, 2013 for police overtime and one police commander's salary, although legislation to authorize this MOU is pending before the Board of Supervisors and has not yet been approved. As noted in Section 8, because the authority does not monitor contract performance, SFHA cannot provide data demonstrating the effectiveness of the police overtime, nor can SFHA show that the police are present during the scheduled 12-hour shift.

### **MOU with DPW for the Apprentice Laborer Program**

SFHA has three MOUs with DPW for: (1) paving and sidewalk services; (2) tree removal; and, (3) a program for apprentice laborers to provide weekend building and grounds services, including trash pick-up. SFHA obtained independent cost estimates for the paving and sidewalk and tree removal service in accordance with HUD requirements for intergovernmental agreements.

SFHA entered into an MOU with DPW for the 27-month period from May 2012 through July 2014 for an apprenticeship program, in which the apprentices would provide weekend trash and landscaping services for an amount not to exceed \$1,814,190. Under the MOU, DPW would employ and supervise six full-time, benefited apprentices to

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<sup>11</sup> Amount includes total debt service of \$52,767,428 over 20 years, which management expects to be offset by projected energy savings of \$69,544,775.

<sup>12</sup> The SFHA Fiscal Year is based on the HUD Funding Year. The current fiscal year began October 1, 2012 and ends on September 30, 2013.

provide landscaping and trash pickup at five SFHA housing sites from Thursday through Monday. As seen in Table 4.4 below, since SFHA must pay DPW's overhead rates, SFHA is paying an estimated \$600,000 more to DPW than if SFHA provided the program directly through the Laborer's Union.

**Table 4.4**  
**Costs of Apprentice Program Provided by DPW Compared to Estimated Costs of Program Provided by SFHA**

	<b>DPW Rates</b>	<b>Estimated In-House Rates</b>	<b>Savings</b>
Apprenticeship	\$1,111,232	\$604,422	\$506,810
Supervision	311,495	211,912	99,583
Training	40,409	40,409	0
Materials	17,277	17,277	0
Subtotal, Staff and Training	1,480,413	874,020	606,393
Equipment (Packer and Lumper)	333,778	333,778	0
<b>Total Program</b>	<b>\$1,814,191</b>	<b>\$1,207,798</b>	<b>\$606,393</b>

Source: DPW

SFHA should terminate the MOU with DPW and provide the apprentice program directly through the Laborer's Union. Because the program is scheduled from Thursday through Monday, overlapping the work schedule of SFHA Laborers, SFHA should reassign Laborers to perform minor repairs and other work recommended in the new maintenance mechanic classification (see Recommendation 3.2).

## Conclusions

The San Francisco Housing Authority (SFHA) procurement function has been mismanaged for several years, diminishing the efficiency and effectiveness of materials, goods, and services acquisition. The mismanagement has been partly a result of a lack of emphasis placed on procurement by executive management and the Finance Department's lack of management structure.

SFHA procurement controls are not sufficient for controlling risks, although the Commission and executive management began efforts to address the deficiencies as we concluded our fieldwork. In March 2011, the Commission raised the Executive Director's authority for contracting from \$50,000 to \$100,000. Shortly thereafter, two solicitations processed under the Executive Director's authority were handled so poorly as to give an appearance of favoritism. Additionally, staff have noted that there have been several instances where services are originally procured below certain policy thresholds requiring additional scrutiny, but costs are not adequately capped to ensure that SFHA policy limits are not exceeded. Further, SFHA does not have appropriate controls to ensure that blanket purchase orders, an arrangement in which the authority contracts with a vendor to

provide items or services on an as-needed basis, allow for the most efficient and effective procurement.

SFHA does not conduct sufficient procurement planning or monitoring to ensure that materials, goods, and services are acquired in the most efficient and effective manner. Although the SFHA Procurement Policy and Procedures Manual stipulates that “procurement requirements are subject to an annual planning process to assure efficient and economical purchasing,” we found no evidence that such planning has taken place in the last three years. Further, SFHA does not formally manage its relationship with Recology, the sole provider of trash pick-up services in San Francisco.

SFHA does not adequately manage its agreements with City agencies. In particular, SFHA has agreements with the San Francisco Police Department (SFPD) and the Department of Public Works (DPW) among others, for which it does not evaluate or monitor to ensure that the agreements are the most efficient method for procuring associated services and that services are being provided at levels specified in the Memorandums of Understanding (MOUs).

## Recommendations

The Commission should:

- 4.1 Abide by the recently reduced Executive Director’s authority to approve contracts without Commission approval from \$100,000 to \$30,000 for prospective contracts and \$10,000 for retroactive ratification.
- 4.2 Pass a resolution requiring that changes to the approval threshold levels in the Procurement Policy and Procedures Manual be discussed in public meetings rather than placing such contracting decisions on the consent agenda as had been done by the prior Commission.
- 4.3 Direct the Executive Director to provide a monthly report to the Commission on the AMERESCO contract to ensure that the contractor has fulfilled all of its contractual obligations to help SFHA meet its energy and cost savings goals.

The Executive Director should:

- 4.4 Enter into a formal contractual agreement with Recology, subject to Commission approval, that specifies the most cost effective frequency of garbage collection, the number and types of collection containers, and collection rates, including City and/or Lifeline, for each property.
- 4.5 Terminate the MOU between SFHA and DPW for the Apprentice Program in order to provide the program directly by SFHA through the Laborer’s Union. This recommendation would require SFHA to reassign existing Laborer staff to perform the work of the maintenance mechanic position as recommended in Recommendation 3.2.

The designated Procurement Officer should:

- 4.6 Initiate centralized annual procurement planning and documentation, including the development of contract administration plans and guidelines for their use, to lead the Authority's efficient and effective management of purchasing.
- 4.7 Hold annual trainings with SFHA property managers and other staff with purchasing authority on procurement policies and procedures.
- 4.8 Establish a process to monitor blanket purchase orders to ensure that SFHA receives contractually obligated discounts and/or rebates, or minimize the risk of unnecessary or fraudulent purchases.

## **Costs and Benefits**

SFHA would incur costs associated with staff time spent on: (1) providing monthly reports to the Commission on the AMERESCO contract; (2) preparing and negotiating a formal contractual agreement with Recology; (3) initiating centralized procurement planning; (4) preparing and holding annual trainings on procurement policies and procedures; and, (5) establishing and maintaining an effective process to monitor blanket purchase orders.

SFHA would save estimated contract costs of \$232,500 if Recology contract costs were reduced by an additional 5% per year (\$140,000) and utility savings due to the AMERESCO contract were increased by 10% per year (\$92,500).<sup>13</sup> SFHA would save an estimated \$600,000 one-time by terminating the MOU with DPW for the apprentice program and directly providing program supervision.

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<sup>13</sup> The SFHA would retain only 25 percent of total utilities savings of \$370,000 as HUD subsidies to housing authorities are reduced as utility costs are reduced.

## 5. Property Management and Maintenance

- In 2007, HUD required all public housing authorities to decentralize property management in order to operate, fund, manage and evaluate each property individually. SFHA began the process of transitioning to this “asset management model”, but failed to comply with certain aspects, particularly those related to maintenance worker classifications. As such, SFHA currently has a hybrid model of property management, where some activities are centralized and others are managed on the property level.
- Because it did not complete the transition to asset management, SFHA has lost \$7.5 million in HUD funding over the past five years – resources critical to sustaining proper operation of public housing developments.
- SFHA faces a significant backlog of maintenance repair requests. As of April 4, 2013, there were 2,853 outstanding requests for repairs. This backlog is the result of inefficient management and inadequate staffing levels for maintenance and craft workers. As noted in Section 4, the number of specialized craft positions has been reduced by 40% since 2010.
- Because maintenance costs are not truly controlled at the property level, it is difficult to monitor and contain them. SFHA should therefore complete the transition to asset management to establish greater controls and accountability.
- Despite the urgent need for resources to address ongoing maintenance issues, SFHA has not collected maintenance fees for tenant-caused damage to public housing units since 2009. An analysis of repairs requested via 311 (outside of regular working hours) suggests that a significant percentage of repairs would be considered “tenant-caused”. If SFHA instituted a Schedule of Charges similar to other housing authorities, it would be able to recoup costs and complete more repairs.

### Property Maintenance Policies

Public housing properties require a significant amount of ongoing maintenance. In San Francisco, many of the large properties were built in the 1940s, and have over time fallen into disrepair. At the time of conception, public housing in the United States was considered a transitional program to assist families back on their feet. As such, the buildings were never designed to be used as permanent housing, and were not built to withstand the wear and tear of long-term use.

## **HUD Policy**

In accordance with federal guidelines established by HUD, tenants under lease at public housing properties are obligated to:

- keep the dwelling unit...in a clean and safe condition;
- pay reasonable charges (other than for wear and tear) for the repair of damages to the dwelling unit caused by the tenant, a member of the household or a guest.

## **SFHA Policy**

Similarly, and as stated in Section 8 of the 2012 Admissions and Continued Occupancy (ACOP) Policy, SFHA “is obligated to maintain dwelling units and the project in decent, safe and sanitary condition and to make necessary repairs to dwelling units” in accordance with Code of Federal Regulations<sup>1</sup>.

## **SFHA Has Not Effectively Managed Property Maintenance**

Public housing tenants typically make requests for emergency and routine repairs through their property managers during regular work hours (M-F, 8am-5pm), and through 311 at all other times. These requests are categorized according to the level of severity, so that work can be prioritized.

Emergency repairs, which must be repaired within 24 hours, are defined as conditions in the unit that create hazards to life, health or safety. As detailed in the SFHA 2012 ACOP, these can include:

- conditions that jeopardize the security of the unit;
- major plumbing leaks or flooding;
- gas or oil leaks;
- electrical problems that create the risk of fire;
- absence of heat, when outside temperatures are below 60 degrees; and
- inoperable smoke detectors.

Routine repairs are defined as non-life threatening health and safety defects, and must be corrected within 15 calendar days<sup>2</sup>.

## **Inconsistent and Ineffective Oversight of Maintenance Operations**

Property maintenance for SFHA public housing units is currently managed through the Central Services Division of the Public Housing Operations Department. Central Services includes plumbers, steamfitters, electricians, carpenters, painters, glaziers, and tile layers. In addition, all properties have dedicated laborers and custodians who are directly managed by the property manager.

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<sup>1</sup> 24 CFR 966.4(e)

<sup>2</sup> Routine repairs should be completed within 15 days, except when extenuating circumstances exist.

### Asset Management Transition

In response to the 2003 Harvard Cost Study<sup>3</sup>, HUD began implementing new requirements in 2007 to restructure the management of public housing properties. Under this change, centralized administrative functions would be transitioned to the property level, so that each individual public housing property would be operated, funded, managed and evaluated separately.

From 2007 through 2010, as the Housing Authority attempted to transition to this “asset management” model, SFHA maintenance and specialized craft<sup>4</sup> workers were assigned directly to properties. As such, property managers became responsible for work assignments and performance monitoring of maintenance operations at their buildings.

One SFHA property manager noted that the number of vacancies at that particular property decreased from 148 to 28 in a single year during asset management, as a result of property-level controls. Since maintenance operations have reverted back to Central Services, and craft positions have been reduced, the number of vacancies at that property has increased to 56, or doubled.

### Current Property Management Model

Although SFHA began the process of complying with these changes, the authority has been unable to negotiate successfully with the specialized craft unions to create a maintenance mechanic position to date, and therefore has failed to complete the transition. In addition to causing the authority to lose \$1.5 million in annual HUD subsidies, as discussed in Section 3 of this report, the failure of SFHA to transition to asset management left the organization with a hybrid model of management.

SFHA specialized craft workers have been reassigned from properties back to the Central Services Division of the Public Housing Operations Department. Under the direction of the Maintenance Manager, craft workers (down in number by almost half from 2010 to 2013 – from 68 to approximately 38 total) receive assignments from the Maintenance Manager or the foreman on a daily basis. Typically, they will travel throughout the day to different properties, as emergencies arise.

When specialized craft workers arrive at a property to complete a work order, there is no protocol in place requiring them to check in with the property manager – either before or after the work has been completed – and often property managers have no idea what work has been done. This makes it difficult for property managers to monitor fees for service, which have exceeded budgetary allocations in every year since the transition started.

While craft workers have been reassigned back to Central Services, many properties still maintain custodians and laborers on site. As noted in Section 3, these staff should have

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<sup>3</sup> Detailed in this report’s Introduction

<sup>4</sup> “Specialized craft workers” include skilled building tradesmen, such as plumbers, electricians, carpenters, glaziers and tile-layers.

been reclassified under asset management as maintenance mechanics so that they could perform a wider range of services to address minor maintenance issues as they arise, thereby reducing both fees for service charged by specialized craft workers and the amount of time residents wait for repairs.

### **Frequent Replacement of Work Order Tracking Systems**

For the second time in as many years, SFHA is transitioning to a new information systems platform that will be used for all data management across the organization. The current software was adopted specifically because it has the capacity to track maintenance work orders. Previously, SFHA used multiple information systems to manage data needs.

As part of this system upgrade and to help expedite the processing of work orders, SFHA has issued portable devices (iPads) to specialized craft workers who can now update work order records and retrieve information from the field in real time.

In the process of launching the new software system, SFHA has faced challenges in ensuring and maintaining accurate records of repair requests. As a result, and until very recently, maintenance requests were recorded in three different software systems: CCS (which was replaced by Meware in 2010, but remains in use for calls to 311), Meware (which was officially phased out on April 8, 2013), and Gilson (which was launched in 2012).

For example, a report from SFHA dated April 4, 2013 indicated a total of 9,753 open work orders across the three data management systems, as shown below.

**Table 5.1**  
**Open Work Orders as of April 4, 2013**

<b>Data System</b>	<b>Number of Open Work Orders</b>
CCS	133
Meware	6,900
Gilson	2,720
<b>Total</b>	<b>9,753</b>

Source: SFHA Report

Four days later, SFHA “did a mass closing” of all Meware work orders, on the presumption that the records were outdated and the work had already been completed, bringing the total number of outstanding work orders down to 2,853.

### **Emergency Work Orders Not Completed According to Regulations**

As noted above, there are guidelines both at HUD and SFHA regarding the appropriate time periods to complete emergency and routine work orders. Emergency repairs must be completed within 24 hours, and routine repairs must be completed within 15 days.

The table below shows SFHA work order completion rates for FY 2013, as of March 20, 2013.

**Table 5.2**  
**Work Order Completion Rate, Year-to-Date Performance**  
**As of March 20, 2013**

	<b>YTD Total</b>
Number of Emergency Work Orders	1,672
Number of Emergency Work Orders Completed Within 24 Hours	734
Percentage of Emergency Completed in 24 Hours	43%

Source: SFHA Report

Despite the 24-hour mandate for emergency repairs, the SFHA department has not effectively enforced this policy.

### **Insufficient Revenues to Support Ongoing Maintenance Needs**

While a portion of the maintenance backlog could be effectively addressed through improved management of maintenance operations, insufficient resources remain a challenge for the Authority.

### **Maintenance Fees for Tenant-Caused Damage Not Collected**

#### Lease Provisions regarding Maintenance Fees

Although SFHA passed a resolution in 2008 to suspend the collection of maintenance charges, current policy documents continue to reflect the tenant responsibility for damage beyond normal wear-and-tear. The SFHA lease agreement and the 2012 ACOP both state that the tenant “shall pay reasonable charges for maintenance and repair of damages beyond normal wear and tear to the [unit]” which “shall be charged to Tenant’s account and shall be due on the first day of the second month following the month in which the charges are incurred. Tenant shall make payments at the SFHA property office. Failure to make payments when due shall constitute a material breach of this Lease.”

The HOPE VI property management companies (McCormack Baron Salazar and John Stewart) have included similar provisions for maintenance charges in their lease agreements, as well. However, unlike SFHA, both regularly enforce this policy and charge maintenance fees to tenants, as appropriate.

#### SFHA Practice

Despite written policies to the contrary, the Housing Authority has not collected – or attempted to collect – the costs of tenant-caused damages since 2009. In September

2008, SFHA staff presented a resolution to the SFHA Commission<sup>5</sup> to suspend the collection of maintenance charges. That resolution remains in effect.

For the two most recent years during which maintenance fees were being collected, SFHA charged the following amounts in damages to tenants:

**Table 5.3**  
**Total Maintenance Charges to Tenants, 2007 & 2008**

Year	Total Charged
2007	\$114,120
2008	\$139,474

As noted above, maintenance fee collection represents one of very few opportunities for the authority to generate revenues. As federal funding for public housing continues to shrink, and without any other reliable funding sources, SFHA cannot continue to allow this opportunity to be missed.

### **Maintenance Fee Charges at Other Housing Authorities**

A survey of housing authorities across the country shows that the collection of maintenance fees for tenant-caused damage is a standard and best practice in public housing property management.

Housing authorities typically provide a schedule of charges with the lease agreement. Although SFHA's lease agreement references such a schedule, none in fact exists. A comparison of these schedules from 5 housing authorities around the country indicates a fairly standard schedule of costs.

**Table 5.4**  
**Comparison of Maintenance Charges for Selected Repairs**

	Lock Out	Toilet Clog	Sink Clog	Bathtub Clog	Broken Door
<b>Sacramento</b>	\$6.60	\$19.80	\$39.60	\$39.60	\$168.53
<b>Miami</b>	\$80.00	\$40.00	\$60.00	\$60.00	
<b>Oakland</b>	\$10.00	\$35.00	\$35.00	\$35.00	\$250.00
<b>Cambridge</b>	\$30.00	\$50.00			\$300.00
<b>Average</b>	<b>\$31.32</b>	<b>\$36.20</b>	<b>\$44.87</b>	<b>\$44.87</b>	<b>\$239.51</b>

According to SFHA staff, certain types of repairs typically result from "tenant-caused" damage. The table below shows the frequency of work order requests for 5 of those

<sup>5</sup> A copy of this resolution was not included in the SFHA Commission Book for that meeting, and current SFHA staff have been unable to locate it.

“tenant-caused” repairs, as reported to 311 during off-hours from February 28 through April 15, 2013.

**Table 5.5**  
**Repairs Requested via 311, 2/28/13-4/15/13**

Type of Repair	Number of Requests	Total Charges if Average Cost Applied
Broken Door	14	\$3,353.14
Lock out	95	\$2,975.40
Sink Clog	89	\$3,993.43
Toilet Clog	50	\$1,810.00
Bathtub clog	39	\$1,749.93
<b>Total Potential Charges</b>	<b>287</b>	<b>\$13,881.90</b>

Source: 311 Data

If SFHA had applied these fees to tenants for repairs reported in the off-hours of March 2013 alone, the agency would have potentially collected \$13,881.90.

## Conclusions

The San Francisco Housing Authority has not sufficiently managed its maintenance operations, which have shifted back and forth from Central Services to the properties over the past four years. As a result, nearly 3,000 work orders for repairs have not been completed and fewer than half of all emergency work orders are completed within the required 24-hour timeframe. Although there has been an ongoing backlog of maintenance requests, the Housing Authority has reduced specialized craft workers by nearly half since 2010. Despite the personnel reduction, cost savings have not been realized as expected because there has been a corresponding increase in overtime charges.

## Recommendations

The Executive Director of the San Francisco Housing Authority should:

- 5.1 Ensure that the Director of Maintenance takes immediate steps to improve management of maintenance operations to address the work order backlog and meet all maintenance timelines.
- 5.2 Assess the reasonableness of maintenance costs and identify opportunities to make reductions, and report on those findings to the Commission no later than July 31, 2013.

- 5.3 Reinstating the maintenance fee collection policy that was revised in 2008 in order to attempt to collect the costs of tenant-caused damage to public housing units and help foster a culture to optimize tenant care for SFHA property.

## **Costs and Benefits**

The implementation of these recommendations will result in savings for the authority. Based upon previous performance and an analysis of current repair requests, there would be significant savings realized from a reduction in maintenance costs and the successful collection of maintenance fees for tenant-caused damage.

## 6. Tenant Rent Collection

- **Tenant rent collection is one of the few opportunities for the housing authority to generate revenue. These revenues typically represent approximately 33% of the authority's annual public housing program budget.**
- **Failure to collect tenant rent revenues means that other important agency activities cannot occur - notably, ongoing maintenance and repairs of public housing facilities. For example, SFHA currently has nearly 3,000 outstanding work orders for maintenance that have been delayed due to insufficient funding.**
- **Historically, and despite repeated agency commitments to enforcing lease agreements and payment policies, public housing tenants in San Francisco have been delinquent in rent payments. Since 2010, the average number of delinquent SFHA tenants per month is 1,876. With an average occupancy rate over that period of 94.5%, the average percentage of delinquent tenants per month is 37.5%**
- **In accordance with HUD guidelines, the housing authority makes reasonable accommodations for public housing tenants facing financial hardship. When rent payments cannot be made in a timely manner, tenants are urged to notify property managers. In cases where such hardship will extend beyond 30 days, SFHA policy requires tenants to develop a payment plan with the Authority.**
- **As of February 2013, 81% of delinquent tenants had not established a payment plan with the housing authority. Despite failure to make timely rent payments or establish payment plans, these tenants have been allowed to remain in their units.**
- **With over 26,000 low-income San Francisco families still on the waiting list for public housing, SFHA should not continue to allow noncompliant tenants continue to remain housed, while those families who are willing to pay their fair contribution continue to wait. Further, SFHA is currently enforcing inconsistent tenancy standards, allowing tenants who fail to comply with lease terms the ability to remain housed, while other tenants make timely payments every month.**

## Tenant Rent Collection Policies

Because the San Francisco Housing Authority relies primarily on HUD subsidies for operations, collecting rent from tenants is one of the ways it can generate revenue. In FY 2012, tenant rents of \$17.5 million made up approximately 33 percent of SFHA’s public housing program revenues of \$53.6 million.

### HUD Policy

In accordance with federal guidelines established by HUD, tenants in public housing are required to pay the tenant contribution, as calculated during the initial eligibility and annual recertification process. These requirements are detailed in the Code of Federal Regulations, Title 24, Section 966.4, that outlines public housing lease requirements and tenant obligations, making clear that the public housing authority “may terminate the tenancy...for serious or repeated violation of material terms of the lease, such as...failure to make payments due under the lease.”

### SFHA Policy

Tenant rent payments are also explicitly required by the San Francisco Housing Authority. As stated in SFHA’s 2012 Admissions and Continued Occupancy Policy, “If the family fails to pay their rent by the fifth day of the month, a 14 day Notice to Vacate will be issued to the resident for failure to pay rent, demanding payment in full or the surrender of the premises.”

## SFHA Does Not Effectively Enforce Rent Payment Obligations

Despite written policies, as well as resolutions from SFHA staff and the Commission regarding the enforcement of rent collection, SFHA has experienced ongoing challenges with compliance in collecting monthly tenant rents. At the October 28, 2010 Commission meeting, at least one SFHA Commissioner<sup>1</sup> expressed concern regarding the agency’s poor performance with regard to rent collection. According to the minutes, that Commissioner advised SFHA staff to pursue new ways to improve collection results, and senior SFHA staff assured the Commission that the agency had “established new procedures for rent collections”.

However, rent collection reports indicate that those policies – which were not specified to the Commission – did not produce the desired result of improving rent collection and reducing the number of delinquent tenants. As shown in the table below, SFHA has allowed a significant number of public housing tenants to remain delinquent in rent payments since 2010.

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<sup>1</sup> SFHA Commission meeting minutes are not actual transcripts of the discussion. It is clear that not all statements are recorded in the minutes, as posted.

**Table 6.1**  
**Number of Delinquent Tenants, 2010-2012**

Quarter Ending	Number of Delinquent Tenants	Total Amount of Delinquent Rent
3/31/2010	2,095	\$3,537,341
9/30/2010	1,417	\$838,758
12/31/2010	1,723	\$1,495,403
3/31/2011	1,798	\$1,876,170
6/30/2011	2,143	\$2,366,001
9/30/2011	1,973	\$2,398,703
12/31/2011	1,991	\$2,576,721
3/31/2012	1,960	\$2,649,092
6/30/2012	1,927	\$2,842,142
9/30/2012	1,772	\$2,530,418
12/31/2012	1,839	\$2,802,289
Average	1,876	

Source: SFHA Delinquent Accounts Report

At an average occupancy rate of 94.5%, the housing authority has had an average of 5,007 tenants, of which 1,876 (or 37.5%) tenants have been delinquent on rent since 2010.

As of February 2013, of the 5,372 public housing tenants, a total of 2,572, or 47.9%, were delinquent on rent.

### **Payment Plans are not Consistently Required or Enforced**

In an August 2010 memo to all Property Managers, the SFHA Executive Director clarified the agency's policy regarding rent collection procedures. According to the memo, "if a resident has failed to pay rent...s/he can enter into a payment plan to include a portion of the missed payment...in their existing rental payment." The memo notes that the total monthly contribution under a payment plan – reflecting the regular monthly rent plus a percentage of the arrears owed – cannot exceed 37.5% of the tenant's household income. According to the memo, once a payment plan has been established, "if the household fails to comply with the payment plan more than once during a 24-month period, SFHA will pursue eviction."

Despite this directive from SFHA leadership to reduce tenant debt obligations and ensure repayment by enforcing tenant payment plans, only a fraction of delinquent tenants have negotiated such agreements, as shown in the table below.

**Table 6.2**  
**Payment Plans for SFHA Public Housing Tenants, 2010-2012**

Date	# of Delinquent Tenants	# of Payment Plans	% of Delinquent Tenants on Payment Plans
Sept 2010	1,417	256	18%
Sept 2011	1,973	527	27%
Sept 2012	1,772	446	25%

Source: SFHA Delinquent Accounts Report

Since September 2012, and despite increased attention to the financial instability of the housing authority, the number of delinquent tenants has increased, while the number of payment plans has gone down. According to recent data from February 2013, 486 (or 18.9%) of the 2,572 delinquent tenants had established payment plans with the housing authority.

### Legal Proceedings

As noted above, the official SFHA policy with regard to ongoing delinquent tenant payments is to pursue eviction if a tenant fails to comply with a payment plan more than once in a 24 month period. After issuing a 14-day notice, the SFHA Legal Department will file an unlawful detainer (UD) lawsuit against the tenant. According to the August 2010 Policy memo, “a resident has the ability to enter a payment plan and avoid eviction up until the formal hearing date which is usually 30-45 days from the point at which the Unlawful Detainer was issued.”

As of March 4, 2013, SFHA reported 177 cases in active legal proceedings regarding delinquent rent.

### **HOPE VI Properties Practice**

Although still not at 100% collection rate, the HOPE VI property management companies report significantly higher rates of rent collections. The terms of the HOPE VI leases regarding tenant rent payments essentially mirror the terms of the SFHA contract. If rent is not received by the 5<sup>th</sup> calendar day of the month, a \$25 late fee will be assessed. Further, in the event of habitual late payment<sup>2</sup>, the landlord shall have the right to require that the tenant participate in a direct payment program.

Because HOPE VI tenants have all been certified for eligibility by SFHA under the same criteria used for tenants of SFHA-managed properties, there is effectively no difference in their ability to pay in accordance with the calculated tenant contribution.

<sup>2</sup> “Habitual late payment” shall mean failure by Tenant to pay Rent timely or any other payments required under this Lease for any three (3) months during any twelve (12) month period. LANDLORD may terminate or refuse to renew the Lease agreement in the event of habitual late payment.

### Rent Collection Rates

Although HOPE VI property managers also face challenges reaching 100% in tenant rent collection, their policies and enforcement have been significantly more effective than those of SFHA. As the table below shows, one of the HOPE VI property management companies experienced a 10% delinquency rate for the month of February 2013.

**Table 6.3**  
**Delinquent Tenants at HOPE VI versus SFHA**

Property Manager	Number of Units	Number of Delinquent Tenants	Percentage of Total Tenants
SFHA	5386	2572	48%
HOPE VI	470	49	10%

Source: SFHA and HOPE VI Reports

This demonstrates a marked difference in success in holding tenants accountable for monthly rent contributions and points to an important opportunity for SFHA.

### **SFHA Writes-Off “Uncollectible” Tenant Rent Annually**

According to HUD policy, the housing authority must “write off” uncollectible tenant rent on an annual basis. The uncollectible balances typically include uncollectible account balances owed by former tenants who have vacated or abandoned their units, been evicted, found new housing, and balances from active tenants that cannot be legally collected or carried in the books based on SFHA’s write-off policy. SFHA reviews the Tenant Accounts Receivables (TARs), and annually writes off the amounts owed that are not legally collectible or deemed uncollectible based on SFHA’s write-off policy.

Below is a table showing the total annual write-off amounts since 2007.

**Table 6.4**  
**Uncollectible Tenant Rent Write-Offs**

Year	Uncollectible Rent
2007	\$1,080,574
2008	\$342,504
2009	\$729,772
2010	\$1,031,954
2011	\$4,443,170
2012	\$1,483,680
<b>Total Annual Write-Offs</b>	<b>\$9,111,654</b>
<i>Average Annual Write-Offs</i>	<i>\$1,518,609</i>

Source: SFHA Delinquent Accounts Report

## **Failure to Charge Late Fees**

Prior to 2012, the San Francisco Housing Authority did not collect, or attempt to collect, late fee payments from tenants delinquent in rent. Beginning in FY 2012, however, SFHA revised the ACOP to clarify several aspects of rent collection, including the:

- establishment of specific deadlines, after which rent will be considered late
- provision of specific actions which will be taken for late rent payments
- definition of late fee amounts; and
- establishment of an insufficient funds fee.

According to the 2012 ACOP, if a tenant fails to pay rent by the 5<sup>th</sup> day of the month, a 14-day Notice to Vacate will be issued. In addition, a \$25.00 late fee will be charged. If the tenant can document financial hardship, the late fee may be waived on a case-by-case basis.

However, to date, SFHA has not collected late fees from delinquent tenants.

## **Insufficient Revenues to Support Ongoing Property Needs**

As noted above, tenant rent collection represents one of very few opportunities for the housing authority to generate revenues. As federal funding for public housing continues to shrink, and without any other reliable funding sources, the housing authority cannot continue to allow this opportunity to be missed.

## **Thousands of Eligible Low-Income Households Willing to Pay Remain on Waiting List**

Currently, there are 26,070 households on the SFHA public housing waiting list. Typically, these applicants wait approximately 10 years for placement in a unit. For many, public housing represents the last resort of housing alternatives, in a city with a widely acknowledged shortage of affordable housing for low-income families. Given the high demand and the limited supply, the SFHA should immediately discontinue its practice of allowing delinquent tenants to remain in public housing units. If tenants have not come forward with information and evidence regarding financial hardship, they should be expected to make timely payments in accordance with their lease agreements like other compliant tenants in public housing. Ongoing failure to do so cannot be tolerated, particularly given the thousands of eligible low-income families in San Francisco who would be willing to comply with the terms of a lease.

## **Conclusions**

With over 26,000 low-income San Francisco families waiting for public housing units to become available, it is simply unjust for the housing authority to allow tenants who consistently fail to make rent payments to continue to reside in public housing. The housing authority offers the opportunity for payment plans and other arrangements to be made in the case of financial hardship. In order to be fair to the families waiting for assistance and those current tenants who comply with their payment obligations, and to increase the generation of revenues for the agency's maintenance and other operating costs, SFHA must begin to actively and aggressively enforce the terms of the lease. That enforcement protects a tenant's rights and ensures fairness for all current and prospective residents of public housing.

## **Recommendations**

The Executive Director of the San Francisco Housing Authority should:

- 6.1 Take immediate measures to enforce rent collection policies by directing all property managers to issue 14-day Notices to Vacate to delinquent tenants who have not established a payment plan for arrears owed, and to enforce late fee payment policies.
- 6.2 Convene regular roundtable discussions with all SFHA property managers (as well as HOPE VI property managers) to identify effective solutions and provide an opportunity for staff to share information and resources.

The SFHA Commission should:

- 6.3 Require monthly reports on delinquent tenants and payment plans by property to monitor progress and identify challenges.

## **Costs and Benefits**

The implementation of these recommendations will potentially increase the SFHA's annual revenues by approximately \$1,450,000. These funds could then be used to address the outstanding backlog of maintenance repairs at properties and help expedite the turnover of vacant units.

## 7. Occupancy Rate and Vacant Units

- **Occupancy rate is one of three primary indicators assessed by HUD to measure the effectiveness of public housing management. As of February 2011, the HUD standard for occupancy in public housing is 98%. At the time of the last assessment, the SFHA occupancy rate was 93%. According to HUD’s scoring scale, this translates to a score of 25% (or 4 out of 16 points).**
- **Not only does SFHA have a high number of vacant units, but those units have remained vacant for extended and unacceptable periods of time. As of March 2013, there were 276 vacant public housing units in San Francisco. These units have been vacant for an average of 195.5 days, or six and a half months. HUD standards indicate that public housing units should not be vacant for more than 30 days.**
- **A major factor contributing to the high vacancy rate is the high cost of preparing vacant units for occupancy (or, “turning over vacant units”). The cost of turning over vacant units varies significantly between senior/disabled units and family units, with respective average costs of \$7,306 and \$14,779.**
- **Currently, over 26,000 low-income families in San Francisco are on the waiting list for public housing. This list has been closed since 2008, and the average wait period is approximately ten years.**
- **Although there are costs to preparing vacant units for occupancy, there are also costs to not preparing them for occupancy. SFHA loses HUD subsidies for vacant units, as well as tenant rent, as long as the units remain unoccupied. In addition, SFHA incurs increased security costs related to protecting the safety of the vacant units and keeping them free from squatters and vandalism.**

### HUD Occupancy Standards Have Not Been Met

HUD measures the performance of public housing authorities using two primary tools: the Public Housing Assessment System (PHAS) and the Section Eight Management Assessment Program (SEMAP). PHAS assesses public housing operations in four key areas: physical, financial, management and resident satisfaction. Public housing occupancy measures are contained in the Management Assessment Subsystem (MASS) of the PHAS review, which focuses on three measures: occupancy, tenant accounts receivable and accounts payable.

In accordance with the standards outlined in the February 23, 2011 Federal Register , public housing units should be occupied at a rate of 98%.

HUD’s most recent PHAS Score Report for SFHA, which reviewed 2011 performance, designated the agency as “troubled”. In the Management Indicator, the housing authority received 12 out of 25 (or 48%) points. At the time of evaluation, the occupancy rate was

93 percent, or 5% below HUD's standard. Since that evaluation, overall occupancy rates have improved at SFHA, though some properties continue to face very high vacancy rates, as shown below.

**Table 7.1**  
**Occupancy Rate of SFHA Public Housing Properties, as of 3/19/13**

<b>Development</b>	<b>Total # Units/Dev</b>	<b># Vacant Units</b>	<b>% Occupancy</b>
Holly Courts	118	1	99.15
Alemaný	158	9	94.30
<i>Potrero Terrace</i>	469	54	88.49
<i>Sunnydale</i>	757	63	91.68
<i>602-642 Velasco</i>	18	2	88.89
<i>Westside Courts</i>	136	6	95.59
Westbrook Apts.	226	13	94.25
Potrero Annex	150	8	94.67
Ping Yuen	234	4	98.29
227 Bay St.	51	0	100.00
<i>Hunters Point – East &amp; West</i>	213	19	91.08
Hunters View	159	0	100.00
<i>Alice Griffith</i>	256	28	89.06
Ping Yuen North	194	3	98.45
990 Pacific	92	3	96.74
1880 Pine St.	113	3	97.35
1760 Bush St.	108	3	97.22
Rosa Parks Apts.	198	5	97.47
Joan San Jules Apts.	8	0	100.00
255 Woodside	110	5	95.45
Mission Dolores	92	7	92.39
363 Noe St.	22	0	100.00
350/666 Ellis St.	196	9	95.41
3850-18th/255 Dorland	107	1	99.07
101 & 103 Lundy Lane	2	0	100.00
320/330 Clementina	276	3	98.91
Kennedy Towers	98	6	93.88
2698 California St.	40	1	97.50
4101 Noriega St	8	0	100.00
Great Highway	16	1	93.75
409 Head/200 Randolph	16	0	100.00
1750 McAllister St.	97	4	95.88
345 Arguello	69	1	98.55
462 Duboce	42	0	100.00
25 Sanchez St.	90	2	97.78
491-31st Ave.	75	1	98.67
939/951 Eddy St	60	2	96.67
430 Turk	89	1	98.88
Robert B. Pitts	203	8	96.06
Ping Yuen North	6	0	100.00
<b>TOTAL</b>	<b>5372</b>	<b>276</b>	<b>96.43</b>

In its letter to the SFHA Board of Commissioners in December 2012, HUD noted that “more improvement is needed in order to stabilize occupancy rates.” As shown above, as of March 19, 2013, SFHA’s overall occupancy rate was 96.4%. While this demonstrates an improvement from HUD’s last assessment, there is still a need to address ongoing vacancy issues – particularly at the larger family developments.

## Costs of Turning Over Vacant Units are Excessive

According to SFHA, a major factor contributing to the high vacancy rate is the high cost of preparing vacant units for occupancy. These costs vary significantly between senior/disabled and family units, and as such, the family developments experience much higher vacancy rates.

Because senior/disabled units are smaller in size (typically studios or one bedroom apartments), the costs of preparing them for occupancy are much lower than family units. As such, these units can be turned over at significantly faster rates than family units. Property managers report that it often only takes a few days to prepare a senior/disabled unit for occupancy.

Unlike senior/disabled units, vacant family units can require a significant amount of work to be turned over. According to staff, this is because they are larger (usually 2+ bedrooms) and tend to experience harder use and more tenant-caused damage.

As shown in Table 8.2 below, the average cost to prepare a vacant family unit for occupancy is more than twice the cost of a senior/disabled unit.

**Table 7.2**  
**Costs of Vacant Unit Repairs, Senior/Disabled vs Family Units**

Repair Cost Description	Senior Unit	Family Unit
Laborers	\$675.72	\$900.96
Carpenters	\$1,020.00	\$2,550.00
Painters	\$1,368.00	\$3,040.00
Floor Layers	\$664.00	\$1,743.00
Plumbers	\$575.00	\$1,035.00
Electricians	\$735.00	\$945.00
Materials	\$1,000.00	\$2,000.00
Administration & General Conditions	\$1,267.92	\$2,564.94
<b>Total Average Cost</b>	<b>\$7,305.64</b>	<b>\$14,778.90</b>

Source: SFHA Cost Breakdown

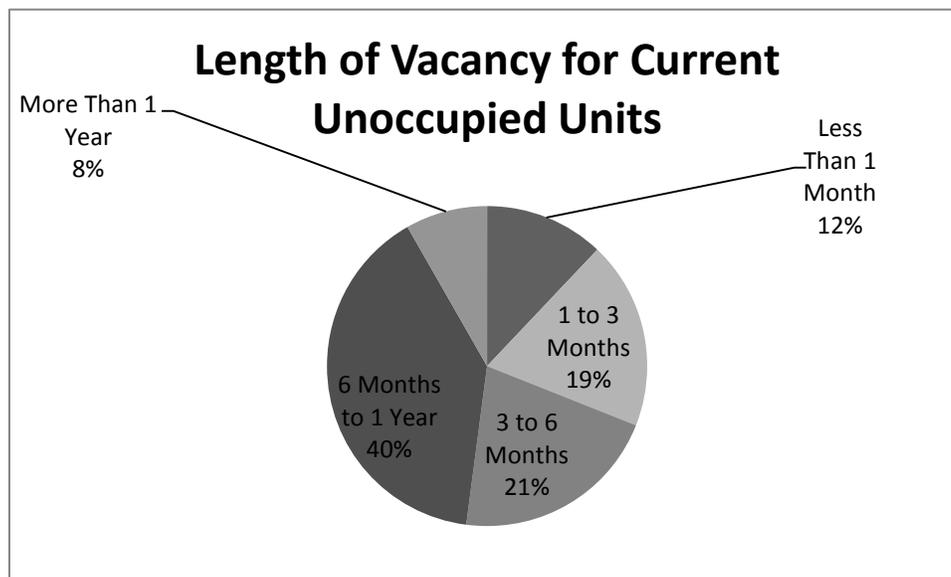
These excessive costs reveal the inadequacy of SFHA’s oversight and management, and suggest a key opportunity for improving efficiencies and reducing expenditures.

## Vacant Units Remain Unoccupied Far Beyond Standards

Vacant units have a negative impact on revenues – both in limiting HUD operating subsidies and reducing rent collection opportunities. In addition, as has been noted throughout this report, there are over 26,000 low-income households actively seeking public housing. It is therefore urgent that the housing authority turn over vacant units as quickly as possible. Typically, agencies should turn over units within 30 days.

Unfortunately, due to the high costs detailed above and the financial challenges facing the agency, the turnover rate at SFHA is significantly longer than 30 days. In fact, SFHA’s performance on this measure is so low that it cannot be scored according to HUD’s rating scale, which only extends to 30 days.

**Exhibit 7.1**  
**Length of Vacancy for Current Unoccupied Units**



Source: SFHA Report

As of March 2013, the average number of days the SFHA’s current vacant units have been unoccupied was 195.5, or six and a half months.

## SFHA Does Not Sufficiently Control Frequency of Unit Turnover

Another finding from HUD’s 2012 public housing assessment focused on the frequency with which tenants moved out – most often to transfer to other public housing units. While it did not report on the housing authority’s actual performance on this measure, HUD noted that SFHA “should consider implementing [policies] that would reduce the frequency of move-outs, such as...limiting transfers for existing tenants”.

The table below illustrates the most extreme examples of vacant unit turnover frequency at SFHA, and the associated costs.

**Table 7.3**  
**Most Frequent Turnovers, by Unit, 2008-2012**

Unit	Repair Completed	Labor Costs	Administration & General Costs	Total
Unit 1	March 2008	\$17,258.66	\$1,035.52	\$18,294.18
	April 2009	\$22,776.90	\$1,822.16	\$24,599.06
	February 2012	\$18,428.50	\$1,842.86	\$20,271.36
	Subtotal of Turnover Costs for Unit 1			\$63,164.60
Unit 2	February 2009	\$21,040.20	\$1,262.42	\$22,302.62
	August 2009	\$22,630.85	\$1,357.86	\$23,988.71
	June 2011	\$13,045.32	\$1,304.54	\$14,349.86
	Subtotal of Turnover Costs for Unit 2			\$60,641.19
Unit 3	January 2009	\$20,501.00	\$1,230.06	\$21,731.06
	April 2009	\$25,714.01	\$1,542.84	\$27,256.85
	June 2012	\$15,000.01	\$3,000.00	\$18,000.01
	Subtotal of Turnover Costs for Unit 3			\$66,987.92
Total Turnover Costs for All # Units				\$190,793.71

Source: SFHA Report "FA Repeat Vacant Units - Worst Breakdown"

Over the past five years, SFHA spent nearly \$200,000 to turn over three units three times each. According to SFHA, these units were turned over so frequently "due to immediate transfer [related] to the security of the tenant or for evictions due to criminal activity. The units [were] left vandalized or in great disrepair."

The cost of these repairs included replacing refrigerators and stoves (at an average cost of \$1,219 and \$1,019, respectively) and painting (at an average cost of \$1,993) for each turnover. Units 2 and 3, for example, received new appliances twice in less than six months in 2009.

While these examples are not the norm, they illustrate the risks involved in poor oversight and controls, and reinforce the need for the collection of maintenance fees for tenant-caused damage, as discussed in Section 5.

## Vacant Units Increase Expenditures and Reduce Revenues

In addition to the human cost of prolonging the period of time that low-income San Francisco households must remain on the waiting list, there is a financial cost to the housing authority of allowing units to remain vacant for extended periods of time (over 30 days).

## Increased Security Costs

As vacant units remain unoccupied, security resources must be directed to protecting them from burglary and squatters. According to SFHA property managers, vacant units represent a constant security risk at the family developments, and often the police and private security must focus efforts on keeping those units secure, at the expense of other general public safety precautions.

## Loss of Revenue

As discussed in Section 2 on the Financial Condition of SFHA, HUD provides a monthly subsidy to the housing authority for every occupied housing unit. The longer units remain unoccupied, the lower the total subsidy received from HUD for public housing operations.

On average, HUD provides SFHA an operating subsidy \$427 per month per unit. As such, the housing authority has lost an estimated \$807,714 in HUD operating subsidies for the current vacant units.

**Table 7.4**  
**Lost Rent Collection Revenue Due to Ongoing Vacancies, 2009-2013**

Year	Rent Collection Loss
2009 (actual)	\$814,245
2010 (actual)	\$1,484,194
2011 (actual)	\$1,612,406
2012 (actual)	\$1,483,009
2013 (budgeted)	\$892,107
<b>Total</b>	<b>\$6,285,961</b>

Source: SFHA Reports, Operating vs Actual Budgets, 2009-2012

At the end of the first five months of the fiscal year, the total vacancy loss reached \$634,601, or 71% of the total. If this vacancy loss rate stays constant for the remainder of FY 2013, SFHA would experience a total loss of \$1,523,042, exceeding its 2013 vacancy loss projections. Over the previous four years, the average loss incurred was \$1,348,464.

## Transfer Requests Cannot Be Processed

The San Francisco Housing Authority experiences a high number of requests for transfers, which are classified as either emergency or routine. As of March 28, 2013, there were 11 requests for emergency transfer, and 45 requests for routine transfer. Due to cost constraints, SFHA is currently only able to process requests for emergency transfer.

Emergency transfers are defined in the SFHA 2012 ACOP as those circumstances in which:

- the health and safety of the tenants is threatened by maintenance conditions in the unit;
- there is an imminent health impairment posed by the current unit;
- there is a real and imminent threat of criminal attack; and
- there is a pattern of physical and/or extreme verbal harassment.

Routine transfers typically include non-emergency administrative transfers to make adjustments for unit occupancy and reasonable accommodation requests.

#### SFHA Bears Cost of All Transfers

According to HUD’s Public Housing Occupancy guidelines, “PHAs must bear the costs of transfers that they initiate (demolition, disposition, revitalization or rehabilitation [and] residents typically must bear the costs associated with occupancy transfers, incentive transfers and all resident-initiated transfers.

If residents must be relocated for public safety reasons, it should not be incumbent upon them to pay for the cost of the transfer. But when residents request transfers simply as a matter of preference, the housing authority should not bear the cost.

Since SFHA typically does bear the cost of transfer, and because the cost of turning over vacant units is prohibitively high, most routine transfer requests are not being processed at this time.

### **Examples of Best Practices**

As with other challenges facing SFHA, issues related to occupancy are neither unusual nor insurmountable. San Francisco public housing residents do not face particularly unique needs from public housing residents in other cities and counties.

#### San Francisco HOPE VI Properties

Even within San Francisco, there are examples of stronger vacancy turnover policies. The HOPE VI properties, which house residents meeting the same criteria as those in SFHA public housing units, have significantly lower vacancy rates and costs of unit turnover.

As of March 2013, the 5 HOPE VI properties experienced vacancies as follows:

**Table 7.5**  
**Current Vacancies at HOPE VI Properties, as of March 2013**

Property Name	Total Units	Vacant Units
Bernal Dwellings	160	3
Hayes Valley	117	1
Plaza East	193	4
North Beach	138	1
Valencia Gardens	148	0

Source: SFHA Occupancy Report

One of the HOPE VI property management companies reported that the average cost of turning over a vacant unit can range between \$4000 - \$8000, depending on the condition, and some cost less than \$1000.

Acknowledging that the HOPE VI buildings are newer, without the same level of deferred maintenance as SFHA properties, the cost variance nonetheless suggests an opportunity for SFHA to improve occupancy management and oversight in order to realize savings.

#### Housing Authority of the City of Los Angeles (HACLA)

The Housing Authority of the City of Los Angeles, designated a high performer by HUD for the past four years, provides a good counter example to San Francisco with regard to occupancy. In June 2012, HACLA reported a public housing occupancy rate of 99%, and an average turnaround time of 17 days for vacant units.

## **Conclusions**

The San Francisco Housing Authority currently has nearly 300 vacant public housing units, despite the urgent need to house low-income households in San Francisco. A review of SFHA unit turnover costs reinforces the need for the agency to create reasonable standards for repair costs in order to reduce expenditures while ensuring decent housing. Improving management of vacant units will lead to increased revenues through both HUD subsidies and tenant rent collection.

## **Recommendations**

The Executive Director of the San Francisco Housing Authority should:

- 7.1 Direct the Maintenance and Force Account Divisions to thoroughly review vacancy turnover costs and policies to ensure that only necessary repairs are being completed, within reasonable cost guidelines to be submitted for review and approval by the Commission no later than July 31, 2013.
- 7.2 Maintain a schedule for repairing all vacant units, so that property managers can effectively manage the expectations of pre-leased applicants.
- 7.3 Establish and enforce policies to turn over units within 30 days.

## **Costs and Benefits**

If the San Francisco Housing Authority were to implement these recommendations, it would save over \$400 per vacant unit per month from lost HUD subsidies (estimated to be at least \$810,000 annually), while generating estimated tenant rents of \$890,000, totaling \$1.7 million in annual revenues. This would expedite the process by which low-income families on the waiting list can be placed in housing, and would allow security resources to be devoted on other safety issues at properties.

## 8. Protective Services in Public Housing

- **Public safety is a top concern facing public housing residents in San Francisco. For the 13 public housing properties with the highest security needs, an average of 1,190 criminal offenses were recorded annually from 2008-2012.**
- **In accordance with HUD guidelines, SFHA is responsible for maintaining the safety of public housing properties. To meet that obligation, SFHA has engaged in three primary efforts to ensure public safety at its properties: enhanced police services, private security guards, and in-house security officers.**
- **SFPD officers provide supplemental police services at designated SFHA properties (primarily family sites), in accordance with a Memorandum of Understanding between the two agencies. Since 2004, these services have cost the housing authority approximately \$1,000,000 per year – for a total of \$8,973,995. Although the MOU clearly outlines the specific activities to be completed by the assigned SFPD officers, property managers and residents report that those services are not provided as prescribed in the agreement.**
- **SFHA also provides private security guards at designated properties (primarily senior/disabled buildings) through two contracts. Despite the fact that both contracts expired in 2010, these security contractors have continued to work and receive payment from SFHA. SFHA has spent a total of \$7.2 million on private security services since 2009.**
- **In an effort to curb increasing security costs, SFHA launched an in-house security program in 2009 that offers employment opportunities to public housing residents at a cost lower than that paid to private contractors. These “Building Concierges” are primarily assigned to senior/disabled buildings.**
- **Although the intention of the Concierge Program was to create a cost-effective alternative to private security guards, the authority has spent increasingly more resources on safety measures since the program’s launch.**
- **To date, the housing authority has not performed a thorough needs assessment to determine the appropriate level of service needed at each property. SFHA’s oversight of public safety programs is inadequate, and costs are significantly higher than comparable housing authorities.**

## Public Safety Mandate

As a public housing provider, the San Francisco Housing Authority has an obligation to ensure the safety of the residents living at its properties. In accordance with the guidelines established by the Code of Federal Regulations, Title 24, Section 902.23, “Public housing must be maintained in a manner that meets the physical condition standards...to be considered decent, safe, sanitary and in good repair (standards that constitute basic acceptable housing conditions).”

SFHA echoes this commitment to safety throughout organizational literature and policy documents, including: the Annual PHA Plans, the annual Admissions and Continued Occupancy Plans (ACOP), and the annual Capital Plan. In addition, public safety is central to the organization’s overall mission: *to deliver safe and decent housing for low income households.*

## Crime Rates At/Near Public Housing Developments

SFHA public housing developments are located throughout the City and County of San Francisco. The properties considered at highest risk of safety concerns can be seen in the table below, as well as the annual number of reported offenses at each location over the past five years.

**Table 8.1**  
**Criminal Offenses Reported at Select SFHA Properties, 2008-2012**

SFHA Property	2010	2011	2012	Change
Sunnydale	202	161	174	-28
Potrero Terrace	159	155	175	+16
Potrero Terrace Annex	37	61	38	+1
Hunters Point/ Hunter's View/ Westbrook	213	139	140	-73
Hayes Valley North	212	211	277	+65
Hayes Valley South	45	56	90	+45
Plaza East	103	171	137	+34
Alice Griffith	53	59	65	+12
Alemanly	51	75	49	-2
Bernal Dwellings	71	87	89	+18
Valencia Gardens	357	371	322	-35
<b>Total</b>	<b>1,075</b>	<b>1,088</b>	<b>1,145</b>	<b>+70</b>

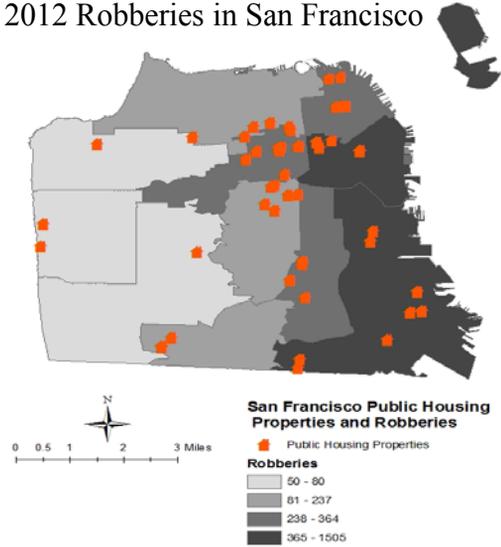
Source: SFPD

As indicated above, the number of criminal incidents has increased since 2010, despite the increase in resources dedicated to protecting public safety.

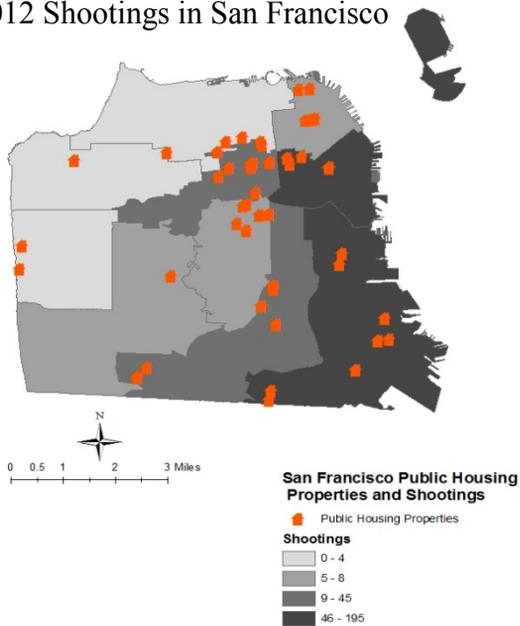
The maps below show the locations of all 48 properties, as well as the frequency of incidents of violent crime (including robberies, shooting and homicides) in the city.

# SFHA Properties and 2012 Crimes

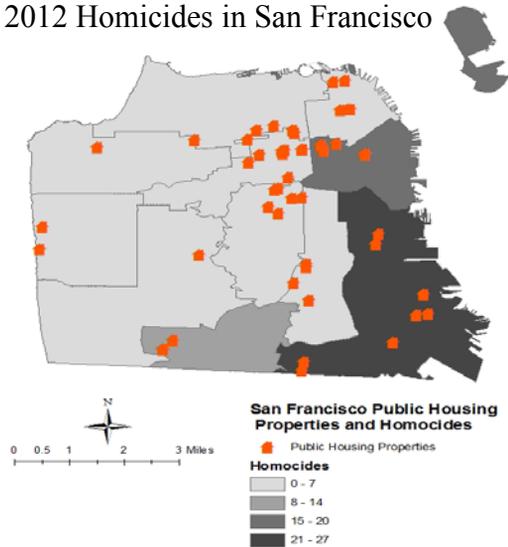
## 2012 Robberies in San Francisco



## 2012 Shootings in San Francisco



## 2012 Homicides in San Francisco



## SFHA Public Safety Efforts

### San Francisco Police Department

In 2004, after a spate of increased violence near public housing properties, city and community leaders urged SFHA to increase security measures to protect the safety of residents in those areas. Under the leadership of Executive Director Gregg Fortner, SFHA subsequently entered into a Memorandum of Understanding (MOU) with the San Francisco Police Department (SFPD) to provide supplemental police services at designated housing authority locations for \$1,000,000 per year.

Although this type of agreement was new to San Francisco, similar contracts between housing authorities and law enforcement already existed in at least two other California cities: Los Angeles and Sacramento. Notably, Mr. Fortner had previously worked at both agencies, and is credited with initiating the law enforcement partnership at the Sacramento Housing Authority.

#### SFHA/SFPD MOU Provisions

##### *Basic Police Services and Community Policing*

According to the SFHA/SFPD MOU, the SFPD is required to provide basic police services to housing authority properties to the same extent as provided to other City residents. Basic police services include: responding to calls and incidents in housing authority properties; investigating crimes committed on housing authority properties; patrolling of public streets; and providing community policing<sup>1</sup>.

##### *Supplemental Police Services*

Under the agreement between the SFPD and the housing authority, SFPD provides additional police services to designated housing authority properties, as identified by the housing authority, by:

- (a) assigning police officers who volunteer to one-year assignments to designated housing authority properties;
- (b) requiring these police officers to work 12-hour shifts, which includes 10 hours of regular time and 2 hours of overtime each shift, of which 50% of each shift will be spent on foot patrol;
- (c) assigning these officers to “no-call” cars, which will not be called off their community policing assignments unless there is an emergency;
- (d) meeting with Property Managers daily and attending formal meetings as scheduled;
- (e) providing monthly copies of crime reports; and

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<sup>1</sup> According to the SFPD’s General Order 1.08, Community Policing includes the assignment of police officers to regularly-scheduled beats and sectors on a daily basis; regular attendance of beat and sector police officers at all community meetings in their assigned areas; and regular staffing of foot beat assignments.

(f) assisting in enforcing no trespassing, removing squatters in units, and evictions.

In 2012, under the direction of a Commander, three Sergeants and 28 Housing Liaison Officers were assigned to eight SFHA properties: Sunnysdale, Potrero Terrace and Annex, Hunter's Point, Hunter's View, Alice Griffith, Alemany, Hayes Valley, and Plaza East. According to SFPD Deputy Chief Lyn Tomioka, the SFPD and the housing authority identified these designated properties as high crime locations.

It should be noted that two of the eight properties that have been designated for supplemental police services are HOPE VI properties. These properties are managed by private management companies, which have not reimbursed SFHA for the costs related to police services at their locations.

### SFPD MOU Costs

Because the SFPD is providing police services (regular 10-hour shifts) as part of its Community Policing program, the SFPD pays for the police officers' regular pay with no reimbursement from the housing authority. Under the existing agreement between SFPD and SFHA, the authority reimburses the SFPD for all scheduled overtime, as well as one Commander's salary and benefits, as shown in the table below.

**Table 8.2**  
**Actual and Projected Expenditures, SFPD MOU, 2004-2013**

<b>Year</b>	<b>Amount</b>
2004 (actual)	1,000,000
2005 (actual)	1,000,000
2006 (actual)	1,000,000
2007 (actual)	1,000,000
2008 (actual)	650,000
2009 (actual)	1,173,995
2010 (actual)	1,000,000
2011 (actual)	1,000,000
2012 (actual)	1,150,000
2013 (projected)	1,300,000
<b>Total Projected Expenditures</b>	<b>10,273,995</b>
<b>Total Actual Expenditures</b>	<b>8,973,995</b>

Source: SFHA Budget Reports

## Private Security Contracts

In May 2009, SFHA entered into one-year contracts with two private security providers (Cypress Security and W.S.B. and Associates) to provide additional security services at properties. The private security guards primarily provide services at designated senior/disabled buildings, although they have periodically been placed at family sites in response to urgent needs.

### Scope of Services

The contracts, identical in scope but with different payment rates, call for the provision of armed, unarmed and roving security services, as assigned by the housing authority. Contractors are required to provide a checklist of routine items to be monitored per shift. In addition, private security contractors must:

- Develop and implement a security plan
- Furnish daily written reports to property managers
- Provide technical assistance in training SFHA residents to form resident patrols
- Maintain daily log of all activities
- Attend monthly meetings with SFHA personnel to discuss concerns

### Cost of Services

Since 2009, and despite a not-to-exceed-amount of \$1,000,000 for each of the two contracts, SFHA expended \$7.2 million on private security guards services from Cypress and WSB as of April 15, 2013, shown in the table below.

**Table 8.3**  
**Total and Projected Expenditures on Private Security Contracts, 2008-2013**

Security Company	Amount Paid 05/01/09 to 12/31/10	Amount Paid 01/01/11 to 4/15/13	Total Expenditure 05/01/06 to 04/15/13
WSB and Associates	\$1,831,703.95	\$2,081,299.75	\$3,913,003.70
Cypress Security	\$1,022,929.43	\$2,285,902.70	\$3,308,832.13
A-1 Protective Services	\$93,300.38	-	
<b>Total</b>	<b>\$2,947,933.76</b>	<b>\$4,367,202.45</b>	<b>\$7,221,835.83</b>

Source: SFHA Contract Amendments and SFHA Board Resolution #0005-13

The hourly rates for private security guards vary by contractor, as shown below:

**Table 8.4**  
**Rates for Private Security Guards**

Contractor	Armed	Unarmed	Roving
WSB Associates	\$27.41	\$19.87	\$29.04
Cypress	\$24.66	\$20.65	\$25.62

Source: Private Security Contracts

## SFHA Concierge Program

At the same time that the housing authority entered into agreements for private security services, it also launched an in-house security effort called the Concierge Program. Developed by the Director of Security at the request of the Executive Director, the Concierge Program was launched in April 2009 with three primary purposes: (1) to create an additional security presence at designated properties; (2) to provide this presence at a lower cost than the contracted private guards; and (3) to create an employment opportunity for residents.

The Concierge Program hires qualified residents of the family properties to provide services exclusively at senior/disabled properties. When it began in 2009, SFHA assigned 20 concierges to 2 sites. As of March 2013, the program has grown to 96 concierges (including 2 supervisors) who are assigned to 13 sites.

The Concierges are paid \$15.14 per hour, and their total hours are limited in order to keep them under pension eligibility thresholds. Concierges can only work up to 32 hours per week, and 1000 hours per year. These restrictions have required a significant amount of monitoring and management by the Security Director. Supervisors are compensated at \$17.14/hour and are regular full-time SFHA staff.

## Additional Security Enhancements

In addition to the three services detailed above, the San Francisco Housing Authority invests in property improvements to enhance security – such as security cameras and enhanced lighting. Property managers and residents note that these cost-effective enhancements have been effective at deterring criminal activity and promoting safety.

## SFHA Does Not Effectively Manage Public Safety Expenditures

Although the Building Concierge Program was created with the explicit purpose of providing a cost effective security service in order to reduce costs, with the exception of 2010, annual expenditures for protective services have increased. As shown in the table below, the SFHA is projected to spend nearly \$3,000,000 for protective services in FY 2013.

**Table 8.5**  
**Total SFHA “Protective Services” Budget, 2009-2013**

Year	Budget
FYE 2009	\$2,851,100
FYE 2010	\$2,746,834
FYE 2011	\$3,234,501
FYE 2012	\$2,747,584
FYE 2013	\$2,857,522

Source: SFHA Budget Variance Reports

## SFHA Does Not Monitor the Performance of its Security Programs

Management of security programs at SFHA has shifted three times in the past four years. In March 2013, the responsibility for security was moved to the Public Housing Department, under the management of the Director of Family Developments, and the Security Director was laid off.

There has been neither consistent leadership at SFHA on these services, nor a comprehensive approach to needs assessment and performance monitoring. Because the authority does not adequately monitor the programs, it cannot ensure that services are being provided at the levels specified in the contracts.

### Private Security Contracts

As noted above, SFHA has allowed these contractors to continue providing services beyond their contracted terms and in excess of contracted award amounts. In addition, there has been no formal monitoring of the performance of these contracts.

### SFPD MOU

Because the agency does not monitor contract performance, SFHA cannot provide data demonstrating the effectiveness of any of the three security measures in place.

However, property managers informally track these activities at their respective properties. In response to a survey conducted for this audit, SFHA public housing property managers at the sites designated for SFPD supplemental services responded as follows to questions regarding SFPD's presence:

**Table 8.6**  
**Property Managers' Assessment of SFPD Performance**

<b>Frequency of SFPD Foot Patrol</b>	
multiple times a day	12.50%
once a day	12.50%
<b>less than once a month</b>	<b>75%</b>
<b>SFPD officers at assigned post for duration of 12-hour shift</b>	
Yes	0%
<b>No</b>	<b>83.30%</b>
I Don't Know	16.70%

Source: Survey of Property Managers

Clearly, SFHA is paying for police services - available to other San Francisco residents at no cost - that are not being provided in accordance with the terms of the MOU.

According to Deputy Chief Tomioka, assigning dedicated police officers to the housing authority properties is consistent with SFPD policy to allocate police resources to areas of highest need based on crime data and other factors. For example, the SFPD also assigns dedicated police officers to the (a) Mid-Market neighborhood, and (b) San Francisco Unified School District., but does not receive reimbursement for these dedicated assignments.

As such, SFHA should immediately terminate this agreement, and the SFPD should provide ongoing police services to support the safety needs of the SFHA public housing communities, in accordance with the standards SFPD sets for staffing and assignments throughout the City and County. As a result, SFPD could continue providing dedicated police services to SFHA, consistent with SFPD policy, but would not provide overtime services.

### **SFHA Safety Expenditures Far Exceed Standards**

Because the nature of crime varies dramatically by city and region, there is no national standard for protecting the security of residents at public housing properties. A survey of other housing authorities indeed reveals a wide range of practices and programs to meet specific community needs. As federal funding for public housing disappears, agencies have made programmatic changes to find cost-effective solutions. Two notable examples include:

Minneapolis, MN: In response to anticipated budget shortfalls in 2012, the Minneapolis Housing Authority ended its contract with the Minneapolis Police Department for supplemental police services – and restructured its safety services to include private guards and resident volunteer monitors.

Newark, NJ: In 2006, when the Newark Housing Authority faced financial crisis and the threat of Federal receivership, the Director implemented a dramatic change by replacing the in-house security guard unit with a private service. This service primarily utilizes state-of-the-art surveillance camera technology, monitored 24 hours a day by no more than 2 staff people. Expenditures were reduced to less than \$200,000 in 2012.

The table below shows 2012 budgeted expenditures for public safety efforts at select<sup>2</sup> housing authorities.

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<sup>2</sup> The housing authorities above were selected based on the following criteria: geographic proximity, relative size and composition (large PHA in metropolitan area).

**Table 8.7**  
**Total Public Safety Expenditures at Other Housing Authorities**

PHA	# of Public Housing Units	Total 2012 Budget	Annual 2012 Budget	% of Total Budget	Cost per Unit
Baltimore, MD	10,598	\$290,889,113	\$3,109,686	1.07%	\$293.42
Charlotte, NC	5,533	\$116,909,172	\$1,151,382	0.98%	\$208.09
Los Angeles, CA	7,099	\$909,882,170	\$2,830,955	0.31%	\$398.78
Minneapolis, MN	7,021	\$123,711,160	\$1,000,000	0.81%	\$142.43
Newark, NJ	8,523	\$136,708,722	\$191,313	0.14%	\$22.45
Oakland, CA	3,308	\$575,108,529	\$5,153,168	0.90%	\$1,557.79
Pittsburgh, PA	4,983	\$148,000,000	\$1,000,000	0.68%	\$200.68
<b>San Francisco</b>	<b>5,737</b>	<b>\$214,403,061</b>	<b>\$2,811,683</b>	<b>1.31%</b>	<b>\$490.10</b>

Source: Annual Budget Documents for Selected PHAs

As shown above, San Francisco's public safety expenditures per unit far exceed those of other metropolitan areas, including cities with much higher crime rates.

## Conclusions

Public safety remains one of the top concerns of public housing residents and property managers, and SFHA is required by the federal government to maintain the safety of its properties. Although expenditures have increased, SFHA does not track the performance of its current safety programs. In fact, surveys suggest that SFHA is paying for services that are not being provided. As such, it is critical that the authority assess the needs of properties, analyze current cost expenditures, and develop a detailed strategy for ensuring the safety of residents and properties throughout San Francisco.

## Recommendations

The Executive Director of the San Francisco Housing Authority should:

- 8.1 Terminate the current Memorandum of Understanding with the SFPD for supplemental police services.
- 8.2 Designate a qualified staff member to:

- (a) perform a comprehensive performance analysis of existing public safety measures; and
  - (b) conduct a thorough public safety needs assessment of all SFHA public housing properties
- 8.3 Ensure regular performance monitoring and measurement of security services and contracts by requiring the Security Coordinator, or designee, to provide monthly performance and budget reports.

## **Costs and Benefits**

A comprehensive security needs assessment, in conjunction with regular program performance monitoring, will enable the San Francisco Housing Authority to ensure that it is providing the highest quality services to meet safety needs. The implementation of the recommendation to terminate the SFPD MOU will result in an ongoing annual savings of \$1,300,000 for the agency. SFHA should be able to implement the remaining recommendations without additional resources.

## 9. Section 8 Department Management

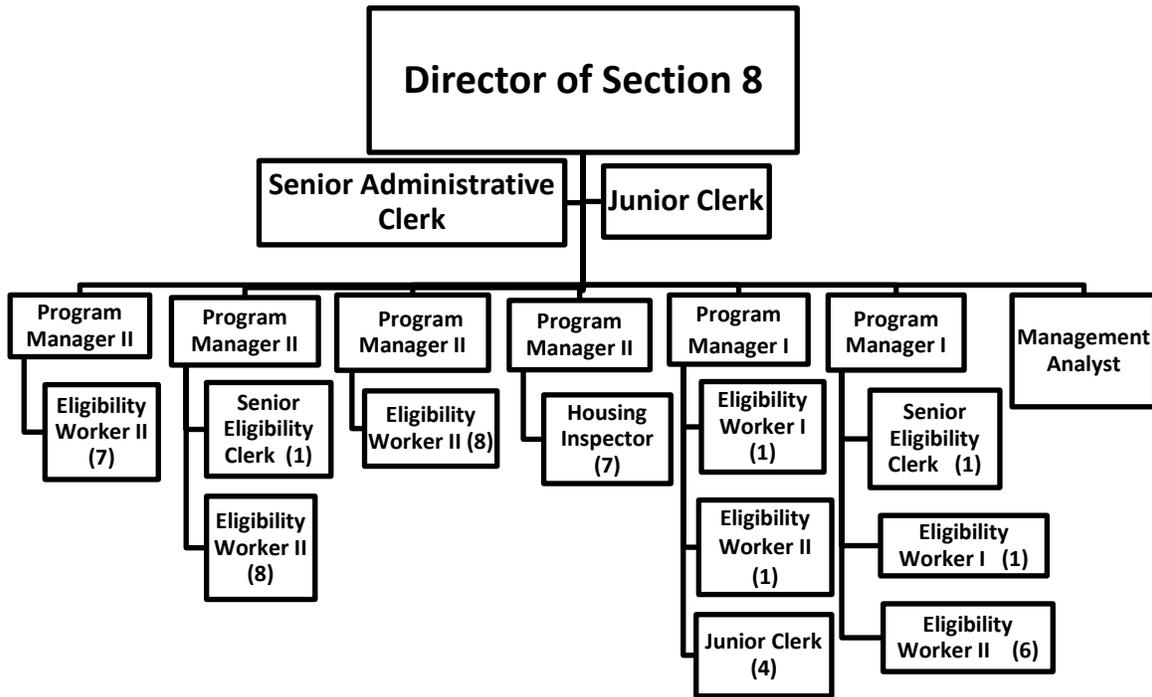
- **The waiting lists and initial eligibility certification for both the Section 8 and Public Housing programs are managed by the SFHA Section 8 Department.**
- **Despite HUD guidelines to update waiting lists annually, SFHA has not updated the Section 8 or Public Housing waiting lists since 2001 and 2008, respectively. There are currently 8,974 households on the Section 8 waiting list, and 26,070 households on the Public Housing waiting list.**
- **Failure to update waiting lists more frequently places an unnecessary burden on the eligibility process. For example, when public housing units become available, the housing authority has to complete the intake process for 80 applicants in order to find 1 viable candidate that is still eligible and still seeking housing. This process wastes both staff time and revenue for the housing authority, as units remain vacant longer than necessary. SFHA should implement regular purging of the waiting list to ensure that eligible applicants can move in to vacancies as quickly as possible.**
- **HUD assessments have shown consistently poor performance of the SFHA Section 8 Department over the past 10 years. Even during active Corrective Action processes with HUD, SFHA has failed to demonstrate significant improvements. A key measure of performance for Section 8 programs is the rate of annual income re-examinations. During the department's most recent corrective action process in 2011, eligibility staff processed an average of 1 re-examination per day.**

### Structure of Department

Initial eligibility and waiting lists for both SFHA housing programs - Section 8 and public housing - are managed within the Section 8 department at the San Francisco Housing Authority. This department also oversees all other functions related to Section 8 operations, including annual eligibility re-examinations for Section 8 voucher holders, Housing Quality Standards (HQS) inspections, ongoing monitoring of Housing Assistance Payments and contracts, and Rent Reasonableness determinations.

The department has 55 employees, who are organized as seen below:

**Exhibit 9.1  
Section 8 Department Organization Chart**



**Waiting List Management**

Updating the Lists

Although HUD guidelines<sup>1</sup> state that “well-managed Public Housing Authorities update waiting lists at least annually”, the SFHA 2012 HCV Admin Plan , the agency’s primary policy document for the Section 8 program, notes instead that the SFHA “waiting list will be updated *as needed* to ensure that all applicants and applicant information is current and timely” [italics added]. The SFHA Section 8 Voucher waiting list was last open in 2001, and the SFHA Public Housing waiting list was last open in 2008.

Currently, the total number of households on each waiting list are as follows:

<sup>1</sup> HUD Public Housing Occupancy Guide, Section 3.7

**Table 9.1**  
**SFHA Housing Program Waiting Lists**

<b>Housing Program</b>	<b>Total # of Existing Units/Vouchers</b>	<b>Total # of Households Currently on Waiting List</b>	<b>Year Waiting List Last Opened</b>
Section 8	8,942	8,974	2001
Public Housing	6,130	26,070	2008

Source: SFHA

According to the HUD Occupancy Guide, “using an updated waiting list makes it easier for the Occupancy staff to contact applicants, and productivity typically increases.”

Because SFHA’s lists have not been purged in many years, when units become available, the housing authority (and its partners) must contact and complete the intake process for multiple applicants on the list in order to identify an eligible candidate. At the January 26, 2012 SFHA Commission meeting, the Section 8 Director told the Commission that it takes “over 80 applicants to get to one”. Many of the original applicants have since relocated or found other suitable housing alternatives. While SFHA claims it cannot afford to purge the waiting lists more regularly, it is widely acknowledged that the costs associated with vacant units and fruitless outreach efforts are much higher.

Indeed, because the SFHA waiting lists are so dated, local partner agencies in San Francisco who manage Section 8 project-based units<sup>2</sup> have requested authorization to manage their own site-based waiting lists.

## **Performance Measures for Section 8 Voucher Management**

As set forth in 24 CFR 985, HUD established the Section Eight Management Assessment Program (SEMAP) in 1998 to objectively measure public housing agency performance in key tenant-based assistance areas (including annual income re-examinations, HQS unit inspections, and voucher lease-up rates). In 2000, HUD issued Notice PIH 2000-34 (HA) requiring all housing authorities to submit SEMAP Certifications electronically. These certifications reflect self-assessments performed by the housing authority and reviewed by HUD.

### Annual Income Re-examinations for Section 8 Voucher Holders

Housing authorities are required to reexamine the incomes of all residents who pay income-based rent at least annually in order to determine whether adjustments need to be made to tenant rent contributions based on income changes. According to HUD, most

<sup>2</sup> Project-based units are affordable housing units which are financed by Section 8 vouchers and made available to eligible low-income tenants.

housing authorities begin the reexamination process 120 to 90 days before the lease expiration.

### HQS Inspections for Section 8 Units

Similarly, according to HUD guidelines, each unit that is leased through a Section 8 voucher must have an annual inspection no more than 12 months after the most recent inspection.

### Voucher Lease-Up Rate

For traditional Section 8 vouchers, HUD requires that all housing authorities must maintain an occupancy rate of at least 95 percent of the contracted units. A housing authority must have a lease-up rate of 98 percent to receive maximum points under SEMAP. For vouchers<sup>3</sup> in general, a utilization rate below 95% is rated as substandard.

## Consistently Low Assessment Scores

HUD has identified 14 specific indicators by which it measures Section 8 performance on an annual basis. As noted below, SFHA's score decreased from 85% in 2009 to 59% in 2012<sup>4</sup>.

**Table 9.2**  
**SFHA SEMAP Score Details - 2009, 2010, 2012**

	Maximum	2009	2010	2012
Selection from Waiting List	15	15	15	15
Reasonable Rent	20	20	20	20
Adjusted Income	20	20	20	0
Utility Allowance	5	5	5	0
HQS Quality Control Inspections	5	5	0	5
HQS Enforcement	10	10	0	10
Expanding Housing Opportunities	5	5	0	5
Payment Standards	5	5	5	5
Annual Re-examinations	10	0	0	0
Correct Tenant Rent Calculations	5	5	0	0
Pre-Contract HQS Inspections	5	5	5	5
Annual HQS Inspections	10	0	0	0
Lease-Up	20	20	20	20
Self-Sufficiency	10	8	0	0
<b>Total</b>	<b>145</b>	<b>123</b>	<b>90</b>	<b>85</b>
<i>Score</i>		<i>85%</i>	<i>62%</i>	<i>59%</i>

Source: HUD SEMAP Score Details

<sup>3</sup> For housing vouchers designated as Veterans Affairs Supported Housing (VASH), a lower target utilization rate of 88% is the HUD standard.

<sup>4</sup> The SEMAP score report for 2011 could not be located by SFHA staff.

## SFHA Corrective Action Plans

As the result of poor performance, HUD will typically require housing authorities to comply with a Corrective Action Plan, which details findings, milestones, deliverables and target completion dates for corrective actions.

HUD requires that the housing authority board of commissioners approve the Corrective Action Plan and monitor compliance with the corrective action plan on a monthly basis, until completion.

In 2011, HUD requested that the SFHA Section 8 program report on a Corrective Action Plan. Below is a summary of the department's performance during this period of corrective action, as reported<sup>5</sup> to the SFHA Board of Commissioners.

**Table 9.3**  
**HUD Performance Measures,**  
**As Tracked During 2011 Corrective Action Process**

Month	HCV Lease-Up Rate	VASH Lease-Up Rate	Number of Income Re-exams Completed	Number of HQS Inspections Completed
January 2011				1479
February 2011	96.0%			1304
March 2011	97.9%	53.5%	588	967
April 2011	97.5%	55.6%		
May 2011	97.2%	58.5%	764	1288
June 2011	96.6%	60.4%	752	1488
July 2011	96.2%	71.3%	823	952
August 2011	97.0%	64.7%	638	1261
September 2011	97.0%	65.7%	617	1196
<i>Monthly Average</i>	<i>96.9%</i>	<i>61.4%</i>	<i>697</i>	<i>1242</i>

Source: SFHA Commission Reports, TAR Report

### Section 8 Eligibility Workers - Staffing Levels and Performance

In 2011, during the corrective action period, SFHA had 35 eligibility workers (including temporary staff that had been hired explicitly to assist the agency in catching up on the re-examination backlog) to manage initial eligibility applications for both Section 8 and Public Housing, as well as annual re-examinations for Section 8 voucher holders. Those 35 staff people completed a total average of 697.0 re-examinations per month during this corrective action period. Each eligibility worker therefore completed an average of 19.9 re-examinations per month, or 1.0 per day, as shown below.

<sup>5</sup> According to SFHA, these reports were not provided to HUD.

Section 8 HQS Inspectors - Staffing Levels and Performance

SFHA had a total of 9 Housing Quality Standards inspection workers in 2011 who completed an average of 1,242 inspections per month, or 138 inspections each. Each inspector completed roughly 6.9 inspections per day.

**Table 9.4**  
**Section 8 Staff Performance,**  
**As Tracked During 2011 Corrective Action Process**

Average completion rate	Eligibility Worker Performance	HQS Inspector Performance
Total Average # of re-exams per month	697.0	1241.0
Monthly Average per Staff	19.9	138.0
Daily Average per Staff	1.0	6.9

Source: SFHA Commission Reports, 2011

The work required for annual income re-examinations generally includes a review of income verification materials, family composition verification, and tenant share calculations. The HQS inspections generally include an assessment of the safety and condition of utilities, plumbing, appliances, walls, doors and windows.

Currently, the housing authority has a total of approximately 9,500 housing vouchers, which require an average of 800 re-examinations per month. Eligibility workers should be able to complete 6 re-examinations per day. Allowing for half of that level of productivity, whereby workers completed an average of 3 per day, the housing authority would only need a maximum of 14 eligibility workers. As noted above, there are 24 eligibility workers currently assigned to this task in the Section 8 Department.

Public Housing Annual Re-examinations

By contrast, SFHA has received a score of 97.37% for its rate of annual income re-examinations of public housing tenants (as compared to the 0 of 10 points received in each of the past three SEMAP assessments for Annual Section 8 Re-Examinations, as noted above in Table 10.2). HUD's passing score on this measure is 95%. Re-examinations for public housing tenants are completed at the individual properties by either eligibility workers assigned to that property or property managers.

**Conclusions**

The SFHA Section 8 Department is responsible for managing initial eligibility certifications for both Section 8 vouchers and public housing, managing reexaminations of eligibility for Section 8 vouchers, Housing Quality Standards inspections of Section 8 units, and the waitlists for both Section 8 and public housing. SFHA has historically performed below HUD standards in Section 8 and eligibility management, which may be the result of insufficient training of staff and weak performance standards within the

division. Further, the waiting lists have not been opened or purged in several years, and as a result, staff must contact and complete the intake process for at least 80 applicants before finding an eligible tenant. This prolongs the time that units remain vacant (or vouchers unused) and creates an unnecessary administrative burden on staff.

## **Recommendations**

The Executive Director of the San Francisco Housing Authority should:

- 9.1 Direct the Section 8 Director to establish clear performance goals for Section 8 staff and ensure that performance evaluations are completed for all Section 8 Department staff. The Director of Section 8 should report monthly to the Executive Director on staff performance and outcomes.
- 9.2 Direct the Section 8 Director to identify opportunities for staffing changes where employees are failing to meet performance standards, and reduce the number of eligibility workers assigned to Section 8 re-examinations from 24 to 14, in order to shift those resources to other urgent needs (such as maintenance).
- 9.3 Shift management of Public Housing eligibility to the Public Housing Operations Department.
- 9.4 Require annual purging of the waiting lists for both Section and Public Housing.

## **Costs and Benefits**

The implementation of these recommendations will result in significant savings for the San Francisco Housing Authority. If the Authority implements the recommendation regarding reducing the staffing level of Eligibility Workers, it would achieve an estimated annual savings of \$880,000. The recommendations focus on improving staff performance monitoring to reflect SFHA's own personnel policies and standards, and to encourage better performance from staff. Performance goals should be immediately clarified, and performance tracked, so that management can clearly identify where weaknesses exist. Given the urgent needs facing other departments, it is critical that this department in particular be held to appropriate performance standards so that resources can be shifted to Maintenance and other essential areas.

## Appendix

### Resident Survey Summary

For the purpose of this audit, the Budget and Legislative Analyst surveyed a random sample of SFHA clients, including public housing residents and Section 8 voucher holders to assess their living conditions and experience dealing with SFHA staff.

Below is a summary of those results.

\*\*\*\*\*

Total Number of Respondents: 69

Public Housing Respondents: 58

Section 8 Respondents: 11

<b>Questions for Public Housing Residents</b>				
<b>(1) How long have you lived in your unit</b>				
	Respondents from Family Sites	%	Respondents from Senior / Disabled Sites	%
Less than a year	2	14%	1	2%
1 to 2 years	1	7%	1	2%
2 to 3 years	4	29%	3	7%
3 to 5 years	3	21%	5	12%
5 to 10 years	3	21%	13	30%
More than 10 years	1	7%	20	47%
Total	14	100%	43	100%
<b>(2) Describe the condition of the exterior grounds/buildings</b>				
	Family Sites	%	Senior / Disabled Sites	%
Very Good	0	0	5	13%
Good	4	36%	16	40%
Fair	3	27%	11	28%
Bad	2	18%	4	10%
Very Bad	2	18%	4	10%
Total	11	100%	40	100%
<b>(3) Describe the condition of your unit</b>				
	Family Sites	%	Senior / Disabled Sites	%
Very Good	0	0%	10	23%
Good	3	30%	17	40%
Fair	4	40%	10	23%
Bad	2	20%	4	9%
Very Bad	1	10%	2	5%
Total	10	100%	43	100%

<b>(4) How safe do you feel in your home in the evening?</b>				
	Family Sites	%	Senior / Disabled Sites	%
Very Safe	1	11%	7	17%
Safe	4	44%	15	37%
Fairly Safe	0	0%	6	15%
Unsafe	3	33%	10	24%
Very Unsafe	1	11%	3	7%
Total	9	100%	41	100%
<b>(5) How safe do you feel outdoors where you live?</b>				
	Family Sites	%	Senior / Disabled Sites	%
Very Safe	1	11%	12	30.0%
Safe	3	33%	11	27.5%
Fairly Safe	2	22%	7	17.5%
Unsafe	1	11%	9	22.5%
Very Unsafe	2	22%	1	2.5%
Total	9	100%	40	100%
<b>(6) How safe do you feel allowing your school age children outdoors during the day?</b>				
	Family Sites	%		
Very safe	0	0%		
Safe	0	0%		
Fairly Safe	1	17%		
Unsafe	4	67%		
Very Unsafe	1	17%		
Total	6	100%		
<b>(7) How long did it take for the last repair you requested repair to be completed?</b>				
	Family Sites	%	Senior / Disabled Sites	%
Less than 24 hours	1	9%	7	19%
24 to 48 hours	2	18%	1	3%
48 to 72 hours	0	0%	5	14%
72 hours to a week	0	0%	3	8%
More than a week	8	73%	20	56%
Total	11	100%	36	100%

<b>(8) How well were you treated when you requested the repair?</b>				
	Family Sites	%	Senior Sites	%
Very well	1	13%	14	33%
Well	4	50%	12	28%
Not well, not badly	0	0%	12	28%
Badly	1	13%	4	9%
Very badly	2	25%	1	2%
Total	8	100%	43	100%

<b>(9) Who would you call if you were treated unfairly by an SFHA employee?</b>				
	Family Sites	%	Senior Sites	%
That person's supervisor	2	33%	12	30%
An Area Manager	1	17%	9	23%
Board of Supervisors	0	0%	5	13%
the Mayor's Office	0	0%	2	5%
Ombudsman	0	0%	3	8%
Other	3	50%	9	23%
Total	6	100%	40	100%

**Questions for Public Housing and Section 8 Clients**

<b>(10) How helpful was the person who you spoke with the last time you went to SFHA Headquarters?</b>				
	# of Respondents	%		
Extremely	1	6%		
Very	3	19%		
Somewhat	4	25%		
Not Helpful	3	19%		
Very unhelpful	5	31%		
Total	16	100%		

<b>(11) How well did the last person you spoke with on the phone at the SFHA treat you?</b>				
	# of Respondents	%		
Very well	0	0%		
Well	5	29%		
Not well not badly	4	24%		
Badly	1	6%		
Very badly	7	41%		
Total	17	100%		

<b>Questions for Section 8 Clients</b>				
<b>(12) Who are you most likely to call if you have a problem with your Section 8 worker?</b>				
	# of Respondents	%		
Their Supervisor	5	45%		
The Board of Supervisors				
Mayor				
Ombudsman				
Other	6	55%		
Total	11			
<b>(13) How fairly were you treated while on the Section 8 Waiting List?</b>				
	# of Respondents	%		
Very Fairly	2	20%		
Fairly	2	20%		
Somewhat Fairly	4	40%		
Unfairly	0	0%		
Very Unfairly	2	20%		
Total	10	100%		
<b>(14) How comfortable do you feel going to your Section 8 worker with a problem?</b>				
	# of Respondents	%		
Very	3	30%		
Comfortable	2	20%		
Somewhat	3	30%		
Uncomfortable	2	20%		
Very Uncomfortable	0	100%		
Total	10			

San Francisco Housing Authority Audit

**Recommendation Priority Ranking**

Based on the management audit findings, the Budget and Legislative Analyst has made 45 recommendations which are ranked based on priority for implementation. The definitions of priority are as follows:

- Priority 1: Priority 1 recommendations should be implemented immediately.
- Priority 2: Priority 2 recommendations should be completed, have achieved significant progress, or have a schedule for completion prior to December 1, 2013.
- Priority 3: Priority 3 recommendations are longer term and should be completed, have achieved significant progress, or have a schedule for completion prior to June 1, 2014.

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
	<b>The Board of Supervisors should:</b>			
1.1	Seek an amendment to the State’s Health and Safety Code, and amend the City’s Administrative Code to require that the Board of Supervisors either confirm Mayoral appointees to the SFHA Commission or appoint a certain number of SFHA Commissioners.	3		
	<b>The Mayor should:</b>			
1.2	Appoint at least one member to the SFHA Commission with experience in development finance, low-income housing development, property management, or real estate law.	2		
	<b>The San Francisco Housing Authority Board of Commissioners President should:</b>			
1.3	Make the recently reestablished Commission committees permanent and ensure that they meet at least once a month.	1	Agree	The SFHA Board of Commissioners, appointed in February 2013, amended the bylaws on March 2014 and reestablished Personnel and Finance, and Diversity Committees. The Committees meet monthly.
1.4	Relocate Commission meetings to City Hall and ensure that audio and video recordings are archived on the SFHA website.	2	Agree	12/1/13

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
	<b>The Executive Director of the San Francisco Housing Authority should:</b>			
1.5	Authorize a comprehensive staffing analysis of the entire organization, no later than July 31, 2013, and take immediate steps to achieve appropriate staffing levels in all departments.	1	Agree with qualifications	A comprehensive staffing analysis will be authorized and carried out taking into consideration the Budget Analyst's recommendations, along with the ongoing HUD assessment, HUD Recovery Agreement and Action Plan and the Mayor's July 2013 Re-envisioning Plan.
1.6	Fill key vacant positions and ensure that all senior staff are in permanent positions.	1	Agree	10/1/13
1.7	Reorganize the Finance Department to: (1) Reassign the Junior Management Analyst and Budget Analyst II positions from the MEA bargaining unit to the SEIU bargaining unit, subject to meeting and conferring with the respective unions; (2) Reclassify the three Senior Accountant positions to Supervising Accountant positions, and increase the pay schedule of the Supervising Accountant positions to the Senior Accountant pay schedule, subject to meeting and conferring with the respective unions; (3) Assign the Supervising Accountant positions responsibility for accounting, budget management, and procurement respectively; and (4) Delete one Junior Management Analyst position.	2	Agree with qualification	Finance functions of SFHA will be reorganized taking into consideration the Budget Analyst's recommendations along with the HUD assessment, HUD Recovery Agreement and Action Plan and the Mayor's July 2013 Re-envisioning Plan.

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
1.8	Ensure the timely completion of annual employee performance evaluations and require a monthly report from the Human Resources Department on monthly completion rate.	1	Agree	At the May 15, 2013 Commission Personnel and Finance Committee meeting, the Commission instructed the Acting Executive Director to arrange for staff training and implementation of an employee performance planning and appraisal process that will be monitored monthly.
2.1	Immediately recruit and hire a chief financial officer.	1	Agree with qualifications	The timing of filling this position will take into consideration the Budget Analyst's recommendations along with the HUD assessment, HUD Recovery Agreement and Action Plan and the Mayor's July 2013 Re-envisioning Plan.
2.2	Once the chief financial officer is hired, designate a qualified budget manager, either through a new hire or reassignment of existing positions, with sole responsibility for developing and monitoring the budget. This position should be classified as a supervisory position.	1	Agree	See 2.1 above
2.3	Submit to the Board of Supervisors the request for a waiver of the payment in lieu of taxes from 1991 through 2103, no later than May 31, 2013.	1	Agree with qualifications	This request will be submitted to the Board of Supervisors in July.

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
	<b>The San Francisco Housing Authority Board of Commissioners should:</b>			
2.4	Direct the Executive Director to develop a five-year financial plan, subject to Commission approval, to be updated annually. The five-year financial plan should address the SFHA’s pension and retiree health liability and offer solutions, such as prefunding a portion of the retiree health liability.	2	Agree	
2.5	Schedule annual review of the audited financial statement, including detailed discussion in the Commission’s finance subcommittee of the financial risks identified in the financial statement.	2	Agree	This will be completed by December 31 of each year.
2.6	Adopt a policy requiring that one-time sources of funds can only be used for one-time uses, especially capital repairs and renovations.	1	Agree	These funds should be used primarily for one time uses such as debt repayment or replenishment of required reserves in addition to capital repairs and renovations.
2.7	Authorize the sale of 440 Turk Street, contingent on adopting a policy that the sale proceeds must be designated for capital repairs and renovations of public housing.	3	Agree with qualifications	See 2.6 above

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
	<b>The Executive Director of the San Francisco Housing Authority should:</b>			
3.1	Immediately correct the stop-loss program deficiencies identified by HUD in managing budget variances, charging fees to asset management projects, and collecting tenant rents.	1	Agree	The Commission and Personnel and Finance Committee receive monthly budget variance reports that include identification of material negative variances and corrective actions. Asset management fees are no longer charged to properties with negative cash flow and collection of tenant rents has increased from 91% to 94% this fiscal year.

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
3.2	Implement the maintenance mechanic classification comparable to the HOPE VI maintenance technician or City’s utility worker classification, including negotiating with the respective unions on the bargaining unit assignment of the classification and the training and reclassification of existing laborer and custodian staff into the new classification.	2	Agree	SFHA has been negotiating with the craft unions to establish a maintenance mechanic position that will be able to perform a broad range of repairs at each property. As soon as the specialized craft worker agreements have been amended to allow repair work to be performed by a maintenance mechanic the position will be implemented.
3.3	In conjunction with the designation of the budget manager position (see Recommendation 2.2), assign the budget manager responsibility for training and working with property managers in managing their project budgets.	2	Agree	

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
3.4	Implement a formal preventive maintenance program.	3	Agree	SFHA has contracts in place for preventive maintenance of elevators, generators, and fire alarm systems. Staff are developing a Comprehensive Maintenance Plan by 10/1/13 that includes preventive maintenance that is performed by staff, work order procedures and specific plans for each asset management project.
<b>The San Francisco Housing Authority Board of Commissioners should:</b>				
3.5	Direct the Executive Director to submit to the Commission for approval prior to September 30, 2013, the new maintenance mechanic classification and associated plan to train and reclassify existing laborer and custodian staff into the new classification.	1	Agree with qualifications	Negotiations are underway for this. A maintenance mechanic classification description has been drafted and will be implemented as soon as the specialized craft worker agreements have been amended to allow repair work to be performed by a maintenance mechanic.

***Recommendation Priority Ranking***

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
3.6	Direct the Executive Director to submit to the Commission for approval prior to September 30, 2013, a maintenance staffing plan that: (a) determines the appropriate number of maintenance mechanic positions to be assigned to the asset management projects in order to meet HUD’s requirements to implement asset management; (b) identifies sources of funds or cost-savings to pay for new maintenance mechanic positions; and (c) correctly identifies the maintenance budget for each asset management project.	2	Agree	A maintenance staffing plan will be developed that determines the appropriate number of maintenance positions at properties, identifies sources of funds and identifies the budget for each project by December 1, 2013.
4.1	Abide by the recently reduced Executive Director’s authority to approve contracts without Commission approval from \$100,000 to \$30,000 for prospective contracts and \$10,000 for retroactive ratification.	1	Agree	
4.2	Pass a resolution requiring that changes to the approval threshold levels in the Procurement Policy and Procedures Manual be discussed in public meetings rather than placing such contracting decisions on the consent agenda as had been done by the prior Commission.	1	Agree with qualifications	The approval threshold is already part of the Procurement Policy that may only be modified by Commission resolutions that are presented and discussed in public meetings. SFHA will continue to adhere to this policy.

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
4.3	Direct the Executive Director to provide a monthly report to the Commission on the AMERESCO contract to ensure that the contractor has fulfilled all of its contractual obligations to help SFHA meet its energy and cost savings goals.	1	Agree with qualifications	The Executive Director will report on the Ameresco contract quarterly to the Commission and provide a full 12 month post-Energy Performance Contract reconciliation of the savings 90 days after the first full 12 months from commencement of debt service payments in January 2013.
	<b>The Executive Director of the San Francisco Housing Authority should:</b>			
4.4	Enter into a formal contractual agreement with Recology, subject to Commission approval, that specifies the most cost effective frequency of garbage collection, the number and types of collection containers, and collection rates, including City and/or Lifeline, for each property.	3	Agree	SFHA will negotiate a contractual agreement with Recology based on a determination of more favorable City and/or Lifeline rates and completion of a review of services and modifications that have recently resulted in a 30% reduction in bills from \$233,195 to \$165,455 per month.

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
4.5	Terminate the MOU between SFHA and DPW for the Apprentice Program in order to provide the program directly by SFHA through the Laborer’s Union. This recommendation would require SFHA to reassign existing Laborer staff to perform the work of the maintenance mechanic position as recommended in Recommendation 3.2.	2	Agree	
<b>The designated Procurement Officer of the San Francisco Housing Authority should:</b>				
4.6	Initiate centralized annual procurement planning and documentation, including the development of contract administration plans and guidelines for their use, to lead the Authority’s efficient and effective management of purchasing.	3	Agree	SFHA is re-instating centralized procurement with annual planning and documentation, contract administration plans, guidelines for their use and training. The Acting Executive Director has engaged SFHA’s former Director of Procurement to assist in this transition.
4.7	Hold annual trainings with SFHA property managers and other staff with purchasing authority on procurement policies and procedures.	2	Agree	Staff training on procurement policies and procedures is beginning on 5/28/13 with the updated Policy and Procedures Manual, accountability and responsibility to staff administering contracts contract administration.

*Recommendation Priority Ranking*

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
4.8	Establish a process to monitor blanket purchase orders to ensure that SFHA receives contractually obligated discounts and/or rebates, or minimize the risk of unnecessary or fraudulent purchases.	1	Agree	In consultation with HUD technical assistance on federal procurement requirements, all procurement monitoring of contract administration is being re-centralized including blanket purchase orders.

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
	<b>The Executive Director of the San Francisco Housing Authority should:</b>			
5.1	Ensure that the Director of Maintenance takes immediate steps to improve management of maintenance operations to address the work order backlog and meet all maintenance timelines.	1	Agree	The Director of Maintenance is working with the IT Department for implementation of a new work order system. Work is dispatched to craft worker iPads by foreman throughout the day in an efficient manner based on geographic location of workers and urgency of the work. As workers complete tasks, they are able to close out the work on their iPads and trigger an automatic email to the property manager so that they know that work has been completed.

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
5.2	Assess the reasonableness of maintenance costs and identify opportunities to make reductions, and report on those findings to the Commission no later than July 31, 2013.	1	Agree	Maintenance costs will be reduced with implementation of a maintenance mechanic position that will be based at individual properties and carry out routine plumbing, electrical, painting, carpentry and floor laying work. This position would be paid a lower rate than the specialized craft, not have to travel from a central dispatching location and be able to perform multiple tasks that are associated with one job including pipe repair, wall repair and painting.
5.3	Reinstate the maintenance fee collection policy that was revised in 2008 in order to attempt to collect the costs of tenant-caused damage to public housing units and help foster a culture to optimize tenant care for SFHA property.	1	Agree	On 5/9/13 a resolution was presented to the Commission to reinstate maintenance charges for tenant caused damage to property. This is still under discussion residents and advocated but is expected to be adopted in June.

*Recommendation Priority Ranking*

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
6.1	Take immediate measures to enforce rent collection policies by directing all property managers to issue 14-day Notices to Vacate to delinquent tenants who have not established a payment plan for arrears owed, and to enforce late fee payment policies.	1	Agree	14 day notices are automatically generated from SFHA's computer system and sent to tenants who are delinquent on their rent. On 5/9/13 a resolution was presented to the Commission to reinstate maintenance charges for tenant caused damage to property. This is still under discussion residents and advocated but is expected to be adopted in June.
6.2	Convene regular roundtable discussions with all SFHA property managers (as well as HOPE VI property managers) to identify effective solutions and provide an opportunity for staff to share information and resources.	2	Agree	Since April 2013, the Acting Executive Director, Director of Public Housing Operations and the Area Managers have been meeting monthly with property managers. HOPE VI property managers will be invited to attend these meetings.

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
	<b>The San Francisco Housing Authority Board of Commissioners should:</b>			
6.3	Require monthly reports on delinquent tenants and payment plans by property to monitor progress and identify challenges.	1	Agree	The new Commission will continue to require monthly reports on tenant accounts receivable and rent collections. There has been some recent progress in rent collections that since October 2012 have increased from 91% to 94%.
	<b>The Executive Director of the San Francisco Housing Authority should:</b>			
7.1	Direct the Maintenance and Force Account Divisions to thoroughly review vacancy turnover costs and policies to ensure that only necessary repairs are being completed, within reasonable cost guidelines to be submitted for review and approval by the Commission no later than July 31, 2013.	1	Agree	The Maintenance and Force Account Divisions will continue to seek ways to reduce vacancy turnover costs which have been reduced from an average of \$19,000 to \$14,779 per family unit and to \$7,306 for senior apartments.

***Recommendation Priority Ranking***

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
7.2	Maintain a schedule for repairing all vacant units, so that property managers can effectively manage the expectations of pre-leased applicants.	1	Agree	For the past year, schedules for completion of vacant units have been prepared, updated weekly and sent to Property Managers to prepare for lease up and to Eligibility Workers to make referrals from the waitlist.
7.3	Establish and enforce policies to turn over units within 30 days.	3	Agree	Repair of vacant units will be greatly accelerated when will be greatly accelerated when property based staff include Maintenance Mechanic workers that are able to perform a broad range of plumbing , electrical, carpentry, painting and other repairs to make units ready. With the exception of older family units that have endured extensive wear and tear, vacant apartments should be turned over within 30 days.
8.1	Terminate the current Memorandum of Understanding with the SFPD for supplemental police services.	1	Agree	
8.2	Designate a qualified staff member to: (a) perform a comprehensive performance analysis of existing public safety measures; and (b) conduct a thorough public safety needs assessment of all SFHA public housing properties	1	Agree	

***Recommendation Priority Ranking***

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
8.3	Ensure regular performance monitoring and measurement of security services and contracts by requiring the Security Coordinator, or designee, to provide monthly performance and budget reports.	2	Agree	
9.1	Direct the Section 8 Director to establish clear performance goals for Section 8 staff and ensure that performance evaluations are completed for all Section 8 Department staff. The Director of Section 8 should report monthly to the Executive Director on staff performance and outcomes.	1	Agree	At the May 15, 2013 Commission Personnel and Finance Committee meeting, the Commission instructed the Acting Executive Director to arrange for staff training and implementation of an employee performance planning and appraisal process that will be monitored monthly.
9.2	Direct the Section 8 Director to identify opportunities for staffing changes where employees are failing to meet performance standards, and reduce the number of eligibility workers assigned to Section 8 re-examinations from 24 to 14, in order to shift those resources to other urgent needs (such as maintenance).	2	Agree	Section 8 functions of SFHA will be reorganized taking into consideration the Budget Analyst's recommendations along with the HUD assessment, HUD Recovery Agreement and Action Plan and the Mayor's July 2013 Re-envisioning Plan.

*Recommendation Priority Ranking*

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
9.3	Shift management of Public Housing eligibility to the Public Housing Operations Department.	2	Agree with qualifications	Eligibility functions of SFHA will be reorganized taking into consideration the Budget Analyst's recommendations along with the HUD assessment, HUD Recovery Agreement and Action Plan and the Mayor's July 2013 Re-envisioning Plan.
9.4	Require annual purging of the waiting lists for both Section and Public Housing.	3	Agree	



## SAN FRANCISCO HOUSING AUTHORITY

1815 Egbert Avenue • San Francisco CA • 94124 • (415) 715-3284

May 31, 2013

**To:** Severin Campbell  
San Francisco Board of Supervisors  
Budget Analysts Office

**From:** Barbara Smith  
Acting Executive Director

**Subject:** Comments of Performance Audit Report of the San Francisco Housing Authority

The San Francisco Housing Authority (SFHA) appreciates the Board of Supervisor's Budget and Legislative Analyst Office's efforts in conducting the Performance Audit of the San Francisco Housing Authority, and agrees, with some qualifications, with those recommendations directed to SFHA and the Commission. Upon establishment of complete new leadership, SFHA recognized the urgent need for making critical fundamental changes to achieve better delivery of affordable housing services. SFHA continues to be committed to reforming a housing authority for the City that is strong, operationally sound and improves the quality of life for those we serve. Many of the recommendations are already being implemented. Some, like the establishment of the maintenance mechanic classification, are being vigorously pursued in ongoing labor negotiations. All of the recommendations, with some qualifications, will be integrated into a comprehensive plan for improvement that also takes into consideration an ongoing U.S. Department of Housing and Urban Development (HUD) assessment, mandated HUD Recovery Agreement and Action Plan, and the Mayor's upcoming July 2013 Re-envisioning Plan. SFHA's complete responses to the audit recommendations are attached and recent accomplishments are briefly highlighted below.

The Board of Commissioners, appointed on February 8, 2013, immediately amended SFHA's bylaws on February 28 to reestablish Personnel and Finance, and Diversity committees that meet monthly to increase oversight of operations and refine program delivery. At this same meeting, the Commissioners, with expertise in finance, human resources, public safety, contract administration, employment and resident services, required presentation of detailed reports on SFHA's financial condition, compliance with HUD performance measures, and operational issues in order to provide further governance, oversight and administrative guidance. To ensure increased procurement oversight and controls, On April 25, the Commission reduced the threshold for commission authorization of contracts from \$100,000 to \$30,000, established a requirement that all contracts between \$10,000 and \$30,000 be presented to the Commission for

May 31, 2013

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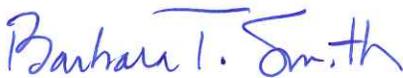
authorization, and requires staff to provide monthly reports to the Commission on all contracting activities.

SFHA's severe financial difficulties have been improving through combined measures for cost savings and revenue increases. As a result of these efforts, the public housing deficit identified in January has decreased from \$6.4 million to an estimated \$1.8 million this month. This was accomplished by a reduction of 13 management level staff positions, transfer of several specialized craft workers to work on rehabilitation of vacant units with alternative funding, reduction of overtime for non-emergency work, increased recycling and composting, modification of trash collection methods and frequency, and the realignment of security services to more critical hours. Since February, SFHA has been working to get relief from agreements for extra services with the San Francisco Police Department and Department of Public Works and defer payments to the Public Utilities Commission for electric service. A resolution has been scheduled before the Commission to reinstate maintenance charges for tenant caused damage to property and a fee for late rent payments, both of which are in SFHA's lease agreement and Admissions and Continuing Occupancy Policy. Over the past four months, rent collections have recently increased from 91 percent to 94 percent.

A team of experienced City staff was assembled in March to assist SFHA in negotiating essential cost saving changes to labor agreements, including wages and benefits. A critical component of these negotiations is that the specialized craft workers allow the establishment of a maintenance mechanic classification to be based at our properties and authorized to perform routine plumbing, electrical, carpentry, painting, flooring and other repairs. The establishment of this position will reduce maintenance costs and greatly improve the ability of SFHA to respond to repair requests and make vacant units ready for re-occupancy.

We look forward to our continued work with the City, HUD, community stakeholders and most importantly, our residents, as we implement these comprehensive improvements.

Sincerely,



Barbara T. Smith  
Acting Executive Director

**San Francisco Housing Authority Audit**

**Recommendation Priority Ranking**

Based on the management audit findings, the Budget and Legislative Analyst has made 45 recommendations which are ranked based on priority for implementation. The definitions of priority are as follows:

- Priority 1: Priority 1 recommendations should be implemented immediately.
- Priority 2: Priority 2 recommendations should be completed, have achieved significant progress, or have a schedule for completion prior to December 1, 2013.
- Priority 3: Priority 3 recommendations are longer term and should be completed, have achieved significant progress, or have a schedule for completion prior to June 1, 2014.

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
	<b>The San Francisco Housing Authority Board of Commissioners President should:</b>			
1.3	Make the recently reestablished Commission committees permanent and ensure that they meet at least once a month.	1	Agree	The SFHA Board of Commissioners, appointed in February 2013, amended the bylaws on March 14 and reestablished Personnel and Finance, and Diversity Committees. The Committees meet monthly.
1.4	Relocate Commission meetings to City Hall and ensure that audio and video recordings are archived on the SFHA website.	2	Agree	12/1/13
	<b>The Executive Director of the San Francisco Housing Authority should:</b>			
1.5	Authorize a comprehensive staffing analysis of the entire organization, no later than July 31, 2013, and take immediate steps to achieve appropriate staffing levels in all departments.	1	Agree with qualifications	A comprehensive staffing analysis will be authorized and carried out taking into consideration the Budget Analyst's recommendations, along with the ongoing HUD assessment, HUD Recovery Agreement and Action Plan, and the Mayor's July 2013 Re-envisioning Plan.
1.6	Fill key vacant positions and ensure that all senior staff are in permanent positions.	1	Agree	10/1/13

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
1.7	<p>Reorganize the Finance Department to: (1) Reassign the Junior Management Analyst and Budget Analyst II positions from the MEA bargaining unit to the SEIU bargaining unit, subject to meeting and conferring with the respective unions; (2) Reclassify the three Senior Accountant positions to Supervising Accountant positions, and increase the pay schedule of the Supervising Accountant positions to the Senior Accountant pay schedule, subject to meeting and conferring with the respective unions; (3) Assign the Supervising Accountant positions responsibility for accounting, budget management, and procurement respectively; and (4) Delete one Junior Management Analyst position.</p>	2	Agree with qualifications	<p>Finance functions of SFHA will be reorganized taking into consideration the Budget Analyst's recommendations along with the HUD assessment, HUD recovery agreement and action plan, and the Mayor's July 2013 Re-envisioning Plan.</p>
1.8	<p>Ensure the timely completion of annual employee performance evaluations and require a monthly report from the Human Resources Department on monthly completion rate.</p>	1	Agree	<p>At the May 15, 2013 Commission Personnel and Finance Committee meeting, the Commission instructed the Acting Executive Director to arrange for staff training and implementation of an employee performance planning and appraisal process that will be monitored monthly.</p>
<b>The Executive Director of the San Francisco Housing Authority should:</b>				
2.1	<p>Immediately recruit and hire a chief financial officer.</p>	1	Agree with qualifications	<p>The timing of filing this position will take into consideration the Budget Analyst's recommendations along with the HUD assessment, HUD recovery agreement and action plan, and the Mayor's July 2013 Re-envisioning Plan.</p>

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
2.2	Once the chief financial officer is hired, designate a qualified budget manager, either through a new hire or reassignment of existing positions, with sole responsibility for developing and monitoring the budget. This position should be classified as a supervisory position.	1	Agree	See 2.1 above
2.3	Submit to the Board of Supervisors the request for a waiver of the payment in lieu of taxes from 1991 through 2103, no later than May 31, 2013.	1	Agree with qualifications	This request will be submitted to the Board of Supervisors in July.
	<b>The San Francisco Housing Authority Board of Commissioners should:</b>			
2.4	Direct the Executive Director to develop a five-year financial plan, subject to Commission approval, to be updated annually. The five-year financial plan should address the SFHA's pension and retiree health liability and offer solutions, such as prefunding a portion of the retiree health liability.	2	Agree	
2.5	Schedule annual review of the audited financial statement, including detailed discussion in the Commission's Personnel and Finance committee of the financial risks identified in the financial statement.	2	Agree	This will be completed by December 31 of each year.
2.6	Adopt a policy requiring that one-time sources of funds can only be used for one-time uses, especially capital repairs and renovations.	1	Agree	These funds should be used primarily for one time uses such as debt repayment or replenishment of required reserves in addition to capital repairs and renovations.
2.7	Authorize the sale of 440 Turk Street, contingent on adopting a policy that the sale proceeds must be designated for capital repairs and renovations of public housing.	3	Agree with qualifications	See 2.6 above.

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	Recommendation	Priority	Department Response (Agree/Disagree)	Department Implementation Status/ Comments
	<p><b>The Executive Director of the San Francisco Housing Authority should:</b></p>			
3.1	<p>Immediately correct the stop-loss program deficiencies identified by HUD in managing budget variances, charging fees to asset management projects, and collecting tenant rents.</p>	1	Agree	<p>The Commission and Personnel and Finance Committee receive monthly budget variance reports that include identification of material negative variances and corrective actions. Asset management fees are no longer charged to properties with negative cash flow and collection of tenant rents has increased from 91% to 94% this fiscal year.</p>
3.2	<p>Implement the maintenance mechanic classification comparable to the HOPE VI maintenance technician or City's utility worker classification, including negotiating with the respective unions on the bargaining unit assignment of the classification and the training and reclassification of existing laborer and custodian staff into the new classification.</p>	1	Agree	<p>SFHA has been negotiating with the craft unions to establish a maintenance mechanic position that will be able to perform a broad range of repairs at each property. As soon as the specialized craft worker agreements have been amended to allow repair work to be performed by a maintenance mechanic the position will be implemented.</p>

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
3.3	In conjunction with the designation of the budget manager position (see Recommendation 2.2), assign the budget manager responsibility for training and working with property managers in managing their project budgets.	2	Agree	
3.4	Implement a formal preventive maintenance program.	2	Agree	SFHA has contracts in place for preventive maintenance of elevators, generators and fire alarm Staff systems/equipment. Staff are developing a Comprehensive Maintenance Plan by 10/1/13 that includes preventive maintenance that is performed by staff, work order procedures and specific plans for each asset management project.
<b>The San Francisco Housing Authority Board of Commissioners should:</b>				
3.5	Direct the Executive Director to submit to the Commission for approval prior to September 30, 2013, the new maintenance mechanic classification and associated plan to train and reclassify existing laborer and custodian staff into the new classification.	1	Agree with qualifications	Negotiations are underway for this. A maintenance mechanic classification description has been drafted and will be implemented as soon as the specialized craft worker agreements have been amended to allow repair work to be performed by a maintenance mechanic.

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/ Disagree)</b>	<b>Department Implementation Status/ Comments</b>
3.6	Direct the Executive Director to submit to the Commission for approval prior to September 30, 2013, a maintenance staffing plan that: (a) determines the appropriate number of maintenance mechanic positions to be assigned to the asset management projects in order to meet HUD's requirements to implement asset management; (b) identifies sources of funds or cost-savings to pay for new maintenance mechanic positions; and (c) correctly identifies the maintenance budget for each asset management project.	2	Agree	A maintenance staffing plan will be developed that determines the appropriate number of maintenance positions at properties, identifies sources of funds and identifies the budget for each project by December 1, 2013.
4.1	Abide by the recently reduced Executive Director's authority to approve contracts without Commission approval from \$100,000 to \$30,000 for prospective contracts and \$10,000 for retroactive ratification.	1	Agree	
4.2	Pass a resolution requiring that changes to the approval threshold levels in the Procurement Policy and Procedures Manual be discussed in public meetings rather than placing such contracting decisions on the consent agenda as had been done by the prior Commission.	1	Agree with qualifications	The approval threshold is already part of the Procurement Policy that may only be modified by Commission resolutions that are presented and discussed in public meetings. SFHA will continue to adhere to this policy.

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
4.3	Direct the Executive Director to provide a monthly report to the Commission on the AMERESCO contract to ensure that the contractor has fulfilled all of its contractual obligations to help SFHA meet its energy and cost savings goals.	1	Agree with qualifications	The Executive Director will report on the Ameresco contract quarterly to the Commission and provide a full 12 month post-Energy Performance Contract reconciliation of the savings 90 days after the first full 12 months from commencement of debt service payments in January 2013.
<b>The Executive Director of the San Francisco Housing Authority should:</b>				
4.4	Enter into a formal contractual agreement with Recology, subject to Commission approval, that specifies the most cost effective frequency of garbage collection, the number and types of collection containers, and collection rates, including City and/or Lifeline, for each property.	3	Agree	SFHA will negotiate a contractual agreement with Recology based on a determination of more favorable City and/or Lifeline rates and completion of a review of services and modifications that have recently resulted in a 30% reduction in bills from \$233,184 to \$165,455 per month.

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
4.5	<p>Terminate the MOU between SFHA and DPW for the Apprentice Program in order to provide the program directly by SFHA through the Laborer's Union. This recommendation would require SFHA to reassign existing Laborer staff to perform the work of the maintenance mechanic position as recommended in Recommendation 3.2.</p>	2	Agree	
	<p><b>The designated Procurement Officer of the San Francisco Housing Authority should:</b></p>			
4.6	<p>Initiate centralized annual procurement planning and documentation, including the development of contract administration plans and guidelines for their use, to lead the Authority's efficient and effective management of purchasing.</p>	3	Agree	<p>SFHA is re-instating centralized procurement with annual planning and documentation, contract administration plans, guidelines for their use and training. The Acting Executive Director has engaged SFHA's former Director of Procurement to assist with this transition.</p>
4.7	<p>Hold annual trainings with SFHA property managers and other staff with purchasing authority on procurement policies and procedures.</p>	2	Agree	<p>Staff training on procurement policies and procedures is beginning on 5/28/13 with the updated Policy and Procedures Manual, accountability and responsibility to staff administering contracts contract administration.</p>

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	Recommendation	Priority	Department Response (Agree/Disagree)	Department Implementation Status/ Comments
4.8	Establish a process to monitor blanket purchase orders to ensure that SFHA receives contractually obligated discounts and/or rebates, or minimize the risk of unnecessary or fraudulent purchases.	1	Agree	In consultation with HUD technical assistance on federal procurement requirements, all procurement monitoring of contract administration is being re-centralized including blanket purchase orders.

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

Department Implementation Status/ Comments	Department Response (Agree/ Disagree)	Priority	Recommendation
<p>The Director of Maintenance is working with the IT Department for implementation of a new work order system. Work is dispatched to craft worker iPads by foreman throughout the day in an efficient manner based on geographic location of workers and urgency of the work. As workers complete tasks, they are able to close out the work on their iPads and trigger an automatic email to the property manager so they know that work has been completed.</p> <p>Work order completion times will be greatly accelerated when property based Maintenance Mechanic workers that are able to perform a broad range of plumbing, electrical, carpentry, painting and other repairs are approved and in place.</p>	<p>Agree</p>	<p>1</p>	<p><b>The Executive Director of the San Francisco Housing Authority should:</b></p> <p>5.1 Ensure that the Director of Maintenance takes immediate steps to improve management of maintenance operations to address the work order backlog and meet all maintenance timelines.</p>

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

Recommendation	Priority	Department Response (Agree/Disagree)	Department Implementation Status/ Comments
<p>5.2 Assess the reasonableness of maintenance costs and identify opportunities to make reductions, and report on those findings to the Commission no later than July 31, 2013.</p>	<p>1</p>	<p>Agree</p>	<p>Maintenance costs will be reduced with implementation of a maintenance mechanic position that will be based at individual properties and carry out routine plumbing, electrical, painting, carpentry and floor laying work. This position would be paid a lower rate than the specialized craft, not have to travel from a central dispatching location and be able to perform multiple tasks that are associated with one job including pipe repair, wall repair and painting.</p>
<p>5.3 Reinstate the maintenance fee collection policy that was revised in 2008 in order to attempt to collect the costs of tenant-caused damage to public housing units and help foster a culture to optimize tenant care for SFHA property.</p>	<p>1</p>	<p>Agree</p>	<p>On 5/9/13 a resolution was presented to the Commission to reinstate maintenance charges for tenant caused damage to property. This is still under discussion residents and advocates but is expected to be adopted in June.</p>

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
6.1	<p>Take immediate measures to enforce rent collection policies by directing all property managers to issue 14-day Notices to Vacate to delinquent tenants who have not established a payment plan for arrears owed, and to enforce late fee payment policies.</p>	1	Agree	<p>14 day notices are automatically generated from SFHA's computer system and sent to tenants who are delinquent on their rent. On 5/9/13 a resolution was presented to the Commission to reinstate maintenance charges for tenant caused damage to property. This is still under discussion residents and advocates but is expected to be adopted in June.</p>
6.2	<p>Convene regular roundtable discussions with all SFHA property managers (as well as HOPE VI property managers) to identify effective solutions and provide an opportunity for staff to share information and resources.</p>	2	Agree	<p>Since April 2013, the Acting Executive Director, Director of Public Housing Operations and the Area Managers have been meeting monthly with property managers. HOPE VI property managers will be invited to attend these meetings.</p>

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
	<b>The San Francisco Housing Authority Board of Commissioners should:</b>			
6.3	Require monthly reports on delinquent tenants and payment plans by property to monitor progress and identify challenges.	1	Agree	The new Commission will continue to require monthly reports on tenant accounts receivable and rent collections. There has been some recent progress in rent collections that since October 2012 have increased from 91% to 94%.

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
	<b>The Executive Director of the San Francisco Housing Authority should:</b>			
7.1	Direct the Maintenance and Force Account Divisions to thoroughly review vacancy turnover costs and policies to ensure that only necessary repairs are being completed, within reasonable cost guidelines to be submitted for review and approval by the Commission no later than July 31, 2013.	1	Agree	The Maintenance and Force Account Divisions will continue to seek ways to reduce vacancy turnover costs which have been reduced from an average of \$19,000 to \$14,779 per family unit and to \$7,306 for senior apartments.
7.2	Maintain a schedule for repairing all vacant units, so that property managers can effectively manage the expectations of pre-leased applicants.	1	Agree	For the past year, schedules for completion of vacant units have been prepared, updated weekly and sent to Property Managers to prepare for lease up and to Eligibility Workers to make referrals from the waitlist.

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
7.3	Establish and enforce policies to turn over units within 30 days.	3	Agree	Repair of vacant units will be greatly accelerated when property based staff include Maintenance Mechanic workers that are able to perform a broad range of plumbing, electrical, carpentry, painting and other repairs to make units ready. With the exception of older family units that have endured extensive wear and tear, vacant apartments should be turned over within 30 days.
	<b>The Executive Director of the San Francisco Housing Authority should:</b>			
8.1	Terminate the current Memorandum of Understanding with the SFPD for supplemental police services.	1	Agree	
8.2	Designate a qualified staff member to: (a) perform a comprehensive performance analysis of existing public safety measures; and (b) conduct a thorough public safety needs assessment of all SFHA public housing properties	1	Agree	
8.3	Ensure regular performance monitoring and measurement of security services and contracts by requiring the Security Coordinator, or designee, to provide monthly performance and budget reports.	2	Agree	

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/Comments</b>
	<b>The Executive Director of the San Francisco Housing Authority should:</b>			
9.1	Direct the Section 8 Director to establish clear performance goals for Section 8 staff and ensure that performance evaluations are completed for all Section 8 Department staff. The Director of Section 8 should report monthly to the Executive Director on staff performance and outcomes.	1	Agree	At the May 15, 2013 Commission Personnel and Finance Committee meeting, the Commission instructed the Acting Executive Director to arrange for staff training and implementation of an employee performance planning and appraisal process that will be monitored monthly
9.2	Direct the Section 8 Director to identify opportunities for staffing changes where employees are failing to meet performance standards, and reduce the number of eligibility workers assigned to Section 8 re-examinations from 24 to 14, in order to shift those resources to other urgent needs (such as maintenance).	2	Agree	Section 8 functions of SFHA will be reorganized taking into consideration the Budget Analyst's recommendations along with the HUD assessment, HUD recovery agreement and action plan, and the Mayor's July 2013 Re-envisioning Plan.

**Recommendation Priority Ranking**

San Francisco Housing Authority Audit

	<b>Recommendation</b>	<b>Priority</b>	<b>Department Response (Agree/Disagree)</b>	<b>Department Implementation Status/ Comments</b>
9.3	Shift management of Public Housing eligibility to the Public Housing Operations Department.	2	Agree with qualifications	Eligibility functions of SFHA will be reorganized taking into consideration the Budget Analyst's recommendations along with the HUD assessment, HUD recovery agreement and action plan, and the Mayor's July 2013 Re-envisioning Plan.
9.4	Require annual purging of the waiting lists for both Section and Public Housing.	3	Agree	