



**U.S. Department of Housing
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October 18, 2024

Board of Commissioners
c/o, Brooke VandeBerg, Acting Board Chair
Housing Authority of the City of Milwaukee (HACM)
809 N. Broadway
Milwaukee, WI 53202

**SUBJECT: Public Housing Agency Recovery and Sustainability (PHARS) Assessment
Results and Determinations**

Dear Commissioners:

This letter is to convey the results and determinations of a Public Housing Agency Recovery and Sustainability (PHARS) assessment of the Housing Authority of the City of Milwaukee (HACM) and to advise of the next steps to be taken by HUD. The assessment was conducted by a hybrid PIH team of both the Milwaukee field office and Prevention, Recovery, and Transformation (PRT) team. The on-site portion of the assessment was between August 20th and August 22nd. HACM received an assessment of its physical, financial, and management conditions as well as governance because of a designation of Troubled by HUD's Real Estate Assessment Center (REAC) for the fiscal year ending December 31, 2022.

HUD's PIH team reviewed financial records, Board minutes, and other key documents of the agency, as well as conducted interviews with key staff and stakeholders and visited selected properties and maintenance facilities. The results and determinations of the assessment are outlined in the enclosed summary. This will be used to develop a Recovery Agreement, as required by federal statute, stating factual determinations, proposing performance standards and timelines, and specifying remedies to achieve agreed-upon levels of performance. As soon as can be arranged, the PIH Milwaukee field office will schedule meetings with HACM to negotiate and execute the Recovery Agreement to assist the agency in recovery from its Troubled Designation.

We appreciate your cooperation and look forward to working with the HACM to recover and achieve sustainable performance. If you have any questions, please contact Shirley Wong at (414) 935-6729, or Shirley.Wong@hud.gov. Thank you for your ongoing assistance in this matter.

Sincerely,



Shirley Wong, PIH Director

Wisconsin Public Housing

Program Center, 5IPH

Cc via email:

Cavalier Johnson, Mayor of Milwaukee, mayor@milwaukee.gov

Sherri Daniels, HACM Board Chair, sherri.daniels@hacm.org

Darian Lockett, HACM Board Member, [REDACTED]

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HACM

Public Housing Agency Recovery and Sustainability (PHARS) Assessment

Results and Determinations

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Governance

The HACM Board of Commissioners is unable to meet its oversight role or responsibilities for a complex, large public housing agency. The HACM board is tasked with oversight of the organization's operations, providing constructive criticism to management, and making appropriate oversight decisions so that the PHA achieves its objectives and mission. The HACM mission is to provide a continuum of high-quality housing options that support self-sufficiency, good quality of life, and the opportunity to thrive. However, board oversight of management is not sufficient to ensure HACM achieves its objectives and mission. HACM management is not providing high-quality public housing, accurate financial reporting, or compliance with HUD program regulations. A root cause for the Board's insufficient management oversight is the lack of a full board of commissioners for an extended amount of time. At the time of the assessment, there were only three active board members.¹ Moreover, the HACM board has not had a full seven-member board since 2019, indicating the appointment of board members is a low priority for both the current² and prior³ mayoral administrations.

Not only does the lack of a full board make it extremely difficult to maintain adequate board oversight of management, but HACM may not currently be adhering to HACM bylaws or State PHA governance statutes. For example, HACM is required to have two board members that are residents of Authority-owned or constructed properties, currently only one board member is an eligible resident.⁴ Moreover, HACM may not be adhering to Wisconsin statute requirements related to having a quorum.⁵ In a review of Board minutes in the past six months, HACM has held Board of Commissioners meeting(s) with only three members present.⁶

In addition, the governance structure of HACM is complicated with multiple instrumentalities. HUD regulations and guidance as well as state statutes require that the authority be vested in the Board

¹ Although there are four active board members listed, the chair of the board is currently sometimes attending board meetings, but not voting and/or running the board meetings due to a recent medical event.

² The current mayor assumed office in April of 2022.

³ The prior mayor was in office from 2004 until 2022.

⁴ State statutes 66.1201(5) indicates two members must be residents of a housing project acquired or constructed by the authority.

⁵ State Statutes 66.1201(5) specify a quorum constitutes four of seven members of the housing authority board of commissioners. State Statutes specify that a commissioner shall hold office until a successor has been appointed and qualified.

⁶ This occurred at the April 10, 2024, May 8, 2024 and July 10, 2024 HACM Board of Commissioners meetings.

of Commissioners of the public housing authority.⁷ HACM instrumentalities include Travaux, Inc and limited liability corporations (LLCs) that make up HACM's project-based voucher and market rate portfolio. The instrumentalities have no overlap with HACM board members. In the case of Travaux, there are 8 board members, one of whom is the HACM Executive Director. Under the Travaux bylaws, all Travaux board members serve at the pleasure of HACM. Additionally, the HACM bylaws have no written policies for how it selects Travaux board members. This is not the typical arrangement for instrumentalities. In the more typical arrangement, the PHA board of commissioners is as also the board for the instrumentality.⁸ This lack of overlap between board members⁹ leads to confusion on governance and accountability. Further confusing the distinction between HACM and its instrumentalities is that there is no clear distinction for staff operating and maintaining public housing properties and LLC properties. For example, some housing managers, maintenance staff, and accounting staff work on both public housing properties and LLC properties. Moreover, some staff including senior management are Travaux employees while other staff are HACM employees that may manage or work on public housing properties and repositioned properties.

The multiple instrumentalities with separate governance structures creates conflicting priorities and missions that contributes to a failure of effective oversight. It was difficult for the HUD review team to determine which governance body was making strategic decisions for the housing authority. For example, the full eight member Travaux board¹⁰ may be making strategic decisions to use capital funds for re-positioning public housing developments instead of addressing the capital needs of public housing properties. An analysis of capital fund grants between 2013 and 2022 indicates that HACM is using 80% of capital fund grants (almost \$32 million)¹¹ for RAD projects and only 20% (\$8 million)¹² for public housing capital needs. This significant use of capital funds for re-positioning and development aligns with Travaux's mission to acquire, develop, construct,

⁷ HUD defines instrumentalities in Section 3(b)(6) of the 1937 Act, 24 CFR 5.100 and in PIH Notice 2007-15 (extended until rescinded by PIH Notice 2011-47) as an entity related to the public housing agency whose assets, operations, and management are legally and effectively controlled by the PHA, through which PHA functions and policies are implemented and that utilize public housing funds or assets for the purpose of carrying out public housing development functions. For the purposes of HUD, an Instrumentality assumes the role of the PHA and is the PHA under the public housing requirements for purposes of implementing public housing development activities and programs. An instrumentality must abide by the public housing requirements that would be applicable to the PHA. Any actions the instrumentality take must be approved by the HACM Board of Commissioners.

⁸ HUD's Office of General Counsel reviewed Travaux's bylaws and financial statements in February of 2020 to conclude that Travaux is an instrumentality of HACM. In its memorandum it reviewed Travaux for adherence to four indicia of control (i.e., legal control) required by HUD in PIH Notice 2007-15 (as extended until rescinded by PIH Notice 2011-47). As part of that review it opinioned on the structure of Travaux's Board of Directors.

⁹ Although Travaux and HACM does not share any board members, the Travaux chairman of the board is the HACM executive director.

¹⁰ Travaux's bylaws only require three board members.

¹¹ The 80% of funds is calculated after accounting for the automatic transfer of operations and administrative funds.

¹² HACM automatically transfers 25% of capital funds to operations and 10% of capital funds to administration each year.

rehabilitate, and provide construction management services¹³ However, it does not provide high quality, safe and affordable housing.

Another factor impacting effective governance involves the quality, accuracy and level of information provided to the board by HACM leadership and staff. While the HUD team did not conduct a detailed review of board reports, the reports reviewed during this assessment and during past HUD reviews of HACM operations raise significant concerns about the information being provided to the board. Previous reviews have identified that financial and operational reports provided to the HACM board contain misleading financial information that misrepresents both the financial position and utilization of HUD programs being administered by HACM.¹⁴ The assessment team also identified that reports on Public Housing operations provided to Travaux's board contained more detailed information than reports on the same activity provided to the HACM board. The HACM board is not able to achieve effective governance and oversight of the authority without accurate and comprehensive information.

Financial

HACM's financial management is not meeting requirements under Federal regulations nor the needs of the organization. Root causes include a lack of control activities that ensure accurate, current, and complete financial statements, not maintaining sufficient financial management or accounting staff, and an inability to maintain data and information to ensure accurate cost allocations.

HACM's financial staff are not sufficient in number and do not display professional competence for a public housing agency of HACM's size and complexity. For example, the FY2022 audit stated that "HACM did not employ enough individuals with the appropriate skills, knowledge and expertise to prepare its financial statements and related account reconciliations." Currently, there are only two accountants on staff along with one temporary accountant. Moreover, senior financial management consists of just the finance director¹⁵ with the CFO position remaining mostly unfilled for over two years.¹⁶

HACM is unable to provide accurate financial reports for the HACM board, senior management, other HACM stakeholders, or HUD. Due to HACM's inability to provide accurate financial statements, HACM received a disclaimer of opinion on the FY2022 financial statement audit. In addition, material misstatements were discovered as part of the audit process. For example, there was an account reconciliation provided for audit purposes that contained an unreconciled variance of \$2,561,093. Concerningly, during the interviews between HUD and HACM for this review, HACM's responses strongly suggested that HACM is not correctly reporting cash in its audit filings or in the corresponding data submissions into HUD's FASS-PH system. Specifically, in some

¹³ RACM does not share any of the same board members with HACM or Travaux. HUD's Office of General Counsel from February 2020 noted that the possibility that Travaux might benefit RACM was raised as a concern and if Travaux would retain its status as an instrumentality.

¹⁴ HUD Milwaukee Field Office HACM Review Letter dated December 28, 2022.

¹⁵ HACM is very dependent on the work and institutional knowledge of the finance director.

¹⁶ Although the previous CFO was promoted to the Deputy Director position in 2022, he is unable to adequately perform the duties of both the Deputy Director and Chief Financial Officer over a long period of time.

instances, HACM may be recording cash that is not physical cash held at a bank but rather IOUs of other programs and divisions within HACM or Travaux. Similarly, HACM is not reporting accurate financial information to HUD. There are significant discrepancies between the unaudited submission to HUD and the audited submission to HUD in FDS. In addition, the audited submission reported to HUD results in a higher financial PHAS score than HACM would otherwise obtain if there were no audit issues.¹⁷ HACM is over-reporting cash balances, under-reporting accounts payable balances, and under-reporting tenant accounts receivable balances which would result in a higher PHAS score.

Finally, the lack of communication between departments and staff prevents HACM accounting staff from collecting the required data and information to accurately allocate expenses between the public housing program, affordable housing developments, and market rate developments. For example, some maintenance staff work on all HACM properties including both public housing and affordable housing developments, but accounting staff incorrectly allocated the maintenance staff to public housing.

Physical

HACM does not have adequate management of physical assets to ensure the provision of safe, decent, and sanitary housing for its public housing residents. Root causes include HACM management lacking a long-term strategic plan¹⁸, adequate knowledge and understanding of the public housing property's capital needs, lack of a preventative maintenance program to ensure the units meet UPCS / NSPIRE¹⁹ standards, and inadequate property management practices.

HACM's maintenance program does not ensure public housing units meet the physical needs of the property and comply with NSPIRE standards. The maintenance program does not have policies and procedures that have managers reviewing work performed by maintenance staff. The program relies on tenant complaints for work not performed or completed well. Moreover, HACM management and staff were unaware of the preventative maintenance plan document HACM supplied to HUD previously and do not implement its use across the organization. The maintenance program also doesn't have an adequate process for repairing Health and Safety issues within required timeframes. Finally, while the maintenance program has a written preventative maintenance plan that covers the annual inspection process for public housing units, HACM could not demonstrate that the inspections were being conducted or that HACM staff implemented the plan. Further, the inspection checklist HACM currently utilizes is not aligned with NSPIRE standards.

HACM does not have adequate property management. HACM does not have a process to ensure inventory of supplies are tracked and used on public housing properties. In addition, HACM does not have an adequate quality control system for property managers, completed maintenance work, addressing inspection deficiencies consistently, or oversight of contractors. Finally, HACM does

¹⁷ However, HACM did not receive any financial points due to the disclaimer of opinion and inability to complete an audit on-time.

¹⁸ See Capital Funds section below for further detail.

¹⁹ The current standard for HUD properties is NSPIRE.

not have a standardized operating procedure for the unit-turn process that enables public housing units to return to occupancy after a tenant moves out.

Capital Fund Program

HACM has not conducted a Physical Needs Assessment (PNA) or a comprehensive Capital Needs Assessment (CNA) to identify the repair, modernization, and maintenance needs of housing developments since 2014. Despite the dated PNA/CNA, HACM did not use it for capital planning or for creating the most recent 5-year action plans. This led into deferred maintenance on HACM properties and made it difficult for HACM to prioritize improvement based upon urgency, safety, regulatory requirements, and long-term impact on housing quality. HACM was unable to provide a basis for creating a detailed Capital Fund Five-Year Plan and its execution. HACM does not have staff and resources dedicated to different activities related to Capital Fund planning, management of Capital funds, management of Capital needs, improvements, and emergency needs. HACM lacks organizational quality control checks and balances needed to evaluate completed projects to assess their impact on housing quality, safety, and resident satisfaction. It could not be determined if HACM's residents and other stake holders feedback or input was gathered and considered into the Capital Fund planning. HACM will need a robust plan to dedicate its Capital Fund resources to preserve and enhance the quality and sustainability of its Public Housing developments.