audit report

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TO: Milan M. Ozdinec, Deputy Assistant Secretary, Office of Public Housing Investments, PI

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: HUD's Oversight of the Philadelphia Housing Authority's Moving to Work Program
Philadelphia, Pennsylvania

INTRODUCTION

We audited the U.S. Department of Housing and Urban Development's (HUD's) oversight of the Philadelphia Housing Authority's (Authority's) Moving to Work Program, focusing on the Program's Section 8 component. The objective of the audit was to determine if HUD adequately evaluated the Authority's Moving to Work application and the adequacy of its controls for monitoring the Authority's performance under the Program.

To accomplish our audit objective we: reviewed applicable federal and HUD regulations to gain an understanding of the Moving to Work Program; reviewed HUD's Moving to Work Demonstration Agreement with the Authority; interviewed appropriate HUD staff; and examined policies, procedures, files, records, plans, and other reports maintained by HUD.

We conducted the audit from September 2003 to February 2004. The audit covered the period from October 2000 to October 2003. We expanded the scope of our review as necessary and performed the audit in accordance with generally accepted government auditing standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please give us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact John Buck, Assistant Regional Inspector General for Audit, at (215) 656-3401, extension 3486.

SUMMARY

HUD accepted the Philadelphia Housing Authority into a new flexible housing demonstration program known as Moving to Work[1] without restriction, before carefully evaluating the reasons for the Authority's past poor performance in utilizing its Section 8 funding and the merits of its Moving to Work application. Although HUD was within its authority to accept the Philadelphia Housing Authority into the demonstration program, by doing so it incurred a higher risk. As such, HUD should have established more stringent controls under its agreement with the Authority to ensure its interests were adequately protected and HUD funds would be used in the most efficient and effective manner that served the residents of the community.

Further, after HUD accepted the Authority into the Moving to Work Program, we found it did not provide adequate oversight of the development and implementation of the Authority's Moving to Work Plans. Specifically, HUD did not adequately evaluate the appropriateness of the Authority's proposed alternative uses of Section 8 funds to determine if they would better serve the residents of Philadelphia; nor did HUD develop an effective monitoring plan to track the Authority's progress and performance in implementing its new program.

HUD personnel said the Department was reluctant to interfere with the Authority's Moving to Work Plans because it viewed this action as contrary to the philosophy of the demonstration program. Also, they said a lack of resources hindered HUD's ability to adequately monitor the Authority's performance under the Program. As a result, HUD has no assurance that the Authority's plans to spend as much as $134 million of Section 8 funds in alternative ways, over the 7-year term of its Moving to Work Agreement, will provide more efficient and effective housing assistance to an acceptable number of the thousands of needy families in the city.

In a prior audit[2], we determined the Authority was not able to fully utilize its Section 8 Program due to limitations in the way it administered its Program. HUD's local field office had similar concerns and the Authority's Section 8 Management Assessment

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[1] Under Moving to Work, HUD exempted the Authority from many Program rules and regulations and allowed the Authority to retain Section 8 funds it did not use to lease-up vouchers. Thus, the Authority can now allocate unused Section 8 funds for more extensive, non-traditional endeavors such as developing projects, and making capital improvements.

[2] HUD – OIG Audit Report 2003-PH-1803, dated September 24, 2003. This report was issued after HUD approved the Authority's Moving to Work application.

Program scores reflected its performance problems. In effect, HUD rewarded the Authority for its past poor performance by allowing it to participate in the new program in which it has the flexibility to use substantial Section 8 funds in non-traditional ways that may not provide the greatest benefit to thousands of families who continue to wait for housing assistance. Accordingly, we believe the Authority could put to better use an estimated $50.2 million of the Section 8 funding it will receive over the remaining four years of its Agreement by leasing-up the remaining rental housing vouchers in its inventory.

BACKGROUND

Program History

The U.S. Housing Act of 1937 initiated the public housing program and authorized individual states to establish public housing authorities. In the same year, the Philadelphia Housing Authority was organized under the laws of the Commonwealth of Pennsylvania to provide low-rent housing for qualified applicants. For nearly 30 years, public housing, owned and managed by local public housing authorities, was the primary source of housing assistance for low-income families. Over time, the federal strategy for housing assistance shifted from sole involvement by housing authorities toward involvement of the private housing sector. For example, the Housing and Community Development Act of 1974 authorized the Section 8 Program. Under this Program, also known as the Rental Certificate Program, families selected their own housing and the housing subsidy followed the families when they moved. In 1998, Congressional housing reform legislation phased-out the Certificate Program and established rental housing assistance for qualified families under the Housing Choice Voucher Program.

In 1996, Congress authorized Moving to Work as a HUD demonstration program. This Program allowed certain housing authorities to design and test ways to: promote self-sufficiency among assisted families, achieve programmatic efficiency, reduce costs, and increase housing choice for low-income households. Congress exempted participating housing authorities from much of the U.S. Housing Act of 1937 and associated regulations as delineated in the individual Moving to Work agreements. HUD initially selected housing authorities for participation based on management performance and potential to plan and carry out a program under the demonstration. In a second round of selections, HUD opened participation in the Program to large housing authorities planning to undertake a substantial transformation of their public housing stock and management systems.

Under the demonstration program, participating housing authorities have considerable flexibility in determining how to use federal funds. For example, participating authorities may combine operating subsidies provided under Sections 8, 9, and 14 of the U.S. Housing Act of 1937[3] to fund HUD-approved Moving to Work activities. Initially,

[3] Funds provided under Section 8 are for rental housing assistance funds; Section 9 funds are for housing authority operations; and Section 14 funds are for public housing modernization. This report focuses on the Section 8 component of the Program.

HUD's Office of Policy, Programs, and Legislative Initiatives was responsible for implementing, managing, and monitoring the Moving to Work Demonstration Program. In May 2002, HUD transferred the responsibility from the Office of Policy, Programs, and Legislative Initiatives to the Office of Public Housing Investments.

In December 2000, the Authority submitted an application to participate in the Program. In February 2002, HUD signed a 7-year Moving to Work Agreement with the Authority that was retroactive to April 2001. The Agreement provided the Authority considerable flexibility in determining how it will use federal funds, did not require the Authority to return unused Section 8 funds at year-end, and significantly reduced HUD's oversight. Although the Authority's Moving to Work Agreement included a local rent subsidy program, or Section 8 component, the Agreement marked the end of the Authority's traditional Section 8 Program until April 2008.

Recent Inspector General Audit Disclosed Management Issues and Raised Concern

On September 24, 2003, HUD-OIG published an audit report concerning the Authority's utilization of tenant-based Section 8 funds (Audit Report 2003-PH-1803). The audit found the Authority did not fully utilize all the tenant-based Section 8 funding HUD provided due to limitations in the way it administered its Program. The Authority did not use $24.7 million, or 26-percent, of its available budget authority of $96.6 million for its fiscal year ending March 2000, and $23.9 million, or 22-percent, of its available budget authority of $107.6 million for its fiscal year ending March 2001. HUD expects housing authorities to use at least 95-percent of their tenant-based Section 8 resources, and the Annual Contributions Contract requires the Authority to proceed expeditiously with the Program. The following table illustrates the changes in the Authority's Section 8 Program from 1999 to 2002.

Authority Fiscal Year Ending[4]	Total Section 8 Funding (in Millions)	Units Under Contract[5]	Units Leased	Units Not Leased	Utilization Rate[6]
3/31/99	$ 75.3	12,073	10,527	1,546	87.2 %
3/31/00	$ 96.6	12,143	10,270	1,873	84.6 %
3/31/01	$107.6	14,350	11,163	3,187	77.8 %
3/31/02	$121.5	15,906	12,212	3,694	76.8 %

As a result of its underutilization, HUD recaptured $47.9 million of unused Section 8 funds from the Authority in August 2001. We estimated the Authority could have assisted an additional 3,200 families obtain suitable housing. Despite the Authority's utilization record, HUD accepted the Authority into Moving to Work in February 2002.

[4] The Authority's fiscal year runs from April 1 to March 31.

[5] Figure represents the number of Section 8 units (vouchers) under contract at the beginning of the Authority's fiscal year.

[6] Percentage of units available which the Authority leased-up during the fiscal year.

The decrease in HUD oversight coupled with increases in the Authority's Section 8 Program and new flexibility to retain unused Section 8 funding concerns us.

FINDING

HUD DID NOT ADEQUATELY REVIEW AND MONITOR THE AUTHORITY'S MOVING TO WORK PROGRAM

HUD signed a 7-year agreement with the Authority, allowing it to participate in a new flexible housing demonstration program known as Moving to Work without restriction, despite the Authority's poor Section 8 utilization record. Although HUD had the authority to accept the Authority into the Program, HUD incurred a higher risk by including a poorly performing housing authority without establishing more stringent controls. Under the Program, HUD gave the Authority considerable flexibility to determine how it would spend more than $134 million of Section 8 funds, although under traditional contracts with HUD, the Authority had difficulty fully utilizing these resources. This occurred because HUD did not: adequately review the Authority's Moving to Work application; determine why the Authority was underutilizing its Section 8 funds before allowing the Authority to participate in the Program; or solicit input from the field office before making the decision to accept the Authority into the Program. Additionally, after accepting the Authority into the Program, HUD did not adequately evaluate the appropriateness of the Authority's proposed allocation of traditional versus non-traditional spending in its Plans and did not have an effective plan in place to monitor the Authority's performance.

HUD placed more emphasis on filling remaining vacancies in the demonstration program with large housing authorities, such as the Authority, rather than objectively evaluating the performance history and the merits of the proposed programs, as outlined in the applications. Further, HUD personnel said the Department was reluctant to interfere with the Authority's Moving to Work Plans because it viewed this action as contrary to the philosophy of the demonstration program. Also, they said a lack of resources hindered HUD's ability to adequately monitor the Authority's performance under the Program.

In our opinion, HUD's lack of oversight and the considerable amount of deregulation conferred to the Authority, in essence, rewarded it for poor performance, and resulted in needy families having to continue waiting for housing assistance. HUD considers expanding access to affordable rental housing a key activity to providing affordable housing opportunities to as many families as possible. Therefore, we believe the Authority could put $50.2 million to better use over the remaining four years of its Moving to Work Agreement by leasing-up the remaining rental housing vouchers in its inventory.

HUD's Mission

HUD's overall mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination. According to its Fiscal Year 2003 – 2008 Strategic Plan, HUD has created a new framework to fulfill its mission through a series of strategic goals and objectives. The framework includes the specific objective of expanding access to affordable rental housing. As a strategy to meet that objective, HUD plans to expand the number of families benefiting from subsidized rental housing by improving the utilization of its Housing Choice Voucher Program. Within the constraints of its budget, HUD seeks to provide affordable housing opportunities to as many families as possible.

Congress has expressed interest in the utilization of housing vouchers it allocated to assist needy families. For example, in the Senate's recent deliberation of HUD's Appropriation, the Senate stated that housing vouchers are a critical resource in ensuring families can afford safe, decent, and adequate housing. The Senate expects HUD to take all necessary actions to encourage full utilization of vouchers, so that needy families use every available voucher.

HUD Did Not Adequately Review the Authority's Application

HUD placed more emphasis on filling vacancies in the demonstration program with large housing authorities, such as the Authority, rather than objectively evaluating the performance history and the merits of the proposed programs, as outlined in the applications.

In December 2000, the Authority submitted an expression of interest to HUD along with a draft plan and agreement, and requested HUD consider the documents together as its formal application to participate in the Program. In January 2001, HUD concluded the Authority's application was highly responsive to its invitation for housing authorities to submit expressions of interest in the Program. HUD personnel told us they evaluated expressions of interest received in the second round of selections against the requirements in the notice with emphasis on the size of the authorities' programs and problems being experienced. Compliance with the requirements in the notice was mandatory. In other words, the Authority scored highly because of the way it completed its application rather than based on its content.

We found HUD had significant issues in accepting applications from some housing authorities because it considered their letters "weak". However, HUD also considered factors outside the scope of the applications. HUD questioned the management capacity of two other housing authorities applying for acceptance into the Program, but made no such notation for the Authority.

HUD Did Not Consider the Authority's Past Performance

In our prior audit, we found the Authority was not effectively administering its Section 8 Program. Based on the weaknesses noted in that audit, the Authority's poor utilization performance, and relaxation of requirements under Moving to Work, we believe HUD should have required the Authority to demonstrate it could effectively and efficiently manage its Section 8 Program before allowing it to participate in its Moving to Work Program.

Despite the Authority's poor performance record in utilizing its available Section 8 funding, HUD Headquarters staff accepted the Authority into the demonstration program without first identifying and analyzing the reasons why the Authority consistently underutilized its Section 8 resources. For example, in HUD's Office of Public Housing Investments' files we found an undated listing of the 50 housing authorities with the largest Section 8 utilization problems. The list, based on February 2001 data, showed the Authority had 4,042 "wasted units", the most of any housing authority. Further, the Authority's Section 8 Management Assessment Program scores showed it was not meeting HUD's minimum standard utilization rate of 95-percent. As noted earlier, at the end of its Fiscal Years 2001 and 2002, the Authority's utilization rate was only 78 and 77-percent respectively. Also, as noted later in this report, HUD's Philadelphia Field Office staff expressed concerns about the Authority's performance problems, although HUD did not solicit input from the field office until after it accepted the Authority into the Program.

Further, it appears the Authority tried to influence HUD's decision. In an August 2001 letter to HUD, the Authority made it known it wanted to participate in the Program with no restrictions based upon prior performance. Ultimately, HUD rewarded the Authority for its past poor performance by allowing the Authority to participate in the Program without determining the reasons for its performance problems or including restrictions in its Agreement. Although HUD had the authority to accept the Authority into the Program, by including a poorly performing housing authority without establishing more stringent controls, HUD incurred a higher risk.

HUD Did Not Solicit Input From the Field Office Before Accepting the Authority Into the Program

HUD should have consulted with the field office prior to making its decision to accept the Authority into the Moving to Work Program. The field office is responsible for general oversight of the Authority's operations, and therefore, would be most knowledgeable of the issues confronting the Authority.

Staff in HUD's Philadelphia Field Office said the headquarters staff solicited their input only after making the decision to allow the Authority to participate in the Program. Documentation in the headquarters and field office files supports this claim. According to written comments made by the field office staff in October 2001, after reviewing the Authority's draft Moving to Work Agreement, the staff had concerns about the

Authority's capacity to execute a successful Moving to Work Program. The field office staff expressed concern that some of the performance problems in the Authority's Section 8 Program were related to internal organizational issues rather than regulatory impediments. They believed that, without addressing these issues, the Authority's Moving to Work Program might encounter the same problems that developed during the Authority's attempt to administer the Section 8 Program according to conventional federal regulations. Further, in May 2002, field office staff expressed concerns about the monitoring process. They informed HUD Headquarters the Authority had a history of performance problems and HUD needed to be able to effectively evaluate the Authority's performance.

HUD Needs to Evaluate the Appropriateness of the Proposed Mix of Traditional and Non-Traditional Expenditures in the Authority's Moving to Work Plans

Despite awareness of the Authority's plans to use a significant portion of its Section 8 funding in non-traditional ways, HUD did not consider the appropriateness of the balance between the Authority's proposed traditional and non-traditional expenditures. A traditional use of the funds by the Authority would be to make housing assistance payments on behalf of its clients. A non-traditional use would be to fund capital improvements.

HUD hired a consultant to provide support services, including to review and comment on the Authority's Moving to Work Annual Plans. HUD used the review comments as a basis for conditionally approving the Authority's plans. Based on its review of the Authority's Moving to Work Annual Plans for year one and year two under the Program, the consultant determined the Authority planned to lease-up only 74-percent of its available vouchers by March 2002. The consultant questioned how the Authority established this goal and why it was lower than HUD's generally accepted lease-up rate. In its review of the Authority's Plan for year three, the consultant questioned whether the Authority's plan to lease-up 14,700 of the 16,696 vouchers available, by March 2004, met HUD's expectations and noted the plan did not include details on how the Authority planned to use voucher funding not used to lease-up vouchers. The consultant recommended the Authority provide HUD more information. However, although HUD identified nearly all of the comments made by the consultant as exceptions, or technical corrections and clarifications to its approval of the Authority's plans, HUD did not address the number of vouchers to be leased-up in its approval letters in any way.

An official in HUD's Office of Public Housing Investments said HUD would be reluctant to comment on the allocation of traditional versus non-traditional spending in the Authority's Plans because HUD's interference would be contrary to the philosophy of the demonstration program. However, by not ensuring the Authority was leasing-up an appropriate number of its vouchers, HUD, in effect, rewarded the Authority for its poor performance.

Typically, a high performing housing authority would have five-percent, or less, of its voucher funding available for innovative uses under Moving to Work, but because the

Authority was not fully utilizing its voucher funding under its Section 8 Program, it realized a windfall. Based on allocations in the Authority's first three Annual Plans, we estimate the Authority will have $81.5 million available to spend in non-traditional ways under Moving to Work, and an additional $52.8 million over the remaining four years of its Agreement. The following table shows the details.

Fiscal Year Ending[4]	Amount of Funds Available for Non-traditional Expenditures (in Millions)	Percentage of Budgeted Funds Available
3/31/02	$ 33.1	26%
3/31/03	$ 26.3	20%
3/31/04	$ 22.1	17%
3/31/05	$ 13.2	10%
3/31/06	$ 13.2	N/A
3/31/07	$ 13.2	N/A
3/31/08	$ 13.2	N/A
Total	**$134.3**[7]	

HUD's Plan for Monitoring the Authority Is Not Adequate

HUD's primary method for overseeing the Moving to Work participants, including the Authority, was through remote monitoring and annual on-site reviews. The Deputy Assistant Secretary of HUD's Office of Public Housing Investments said a lack of resources compromised HUD's ability to perform more vigorous reviews. In HUD's view, remote monitoring provided ample information to identify potential problems, correct errors and minor problems, and provide some assurance the participants were performing at an acceptable level. However, under the demonstration program, HUD no longer required the Authority to report program performance data as it normally would under the rules and regulations of its traditional programs.

HUD now must rely solely on the self-certified data the Authority provides in its Moving to Work Annual Reports. There are weaknesses inherent in this method of monitoring the Authority's performance. Moreover, we found HUD did not place sufficient emphasis on receiving the reports in a timely manner. In the Moving to Work Agreement, HUD required the Authority to file an initial Annual Report by June 2003. However, the Authority missed this required deadline. Documentation in HUD's files showed the Authority submitted the initial report to HUD in July 2003 and HUD received delivery of it in the same month. However, staff in HUD's Office of Public Housing Investments

[7] Although the Authority has not submitted Annual Plans for fiscal years ending 3/31/06 through 3/31/08, we expect it to continue allocating funds for non-traditional uses.

said they did not receive that report and had to request another copy from the Authority, which they received in October 2003. Given HUD's reliance on the Authority to provide information for which to monitor its activities, it is crucial for HUD to ensure the Authority provides its Annual Reports according to the terms of its Agreement.

HUD guidance states the on-site monitoring review is the critical point in the review process. However, limited staffing and travel funds, coupled with workload demand in HUD's Office of Public Housing Investments, limited the amount of time for on-site reviews. HUD contracted with a private consulting firm for on-site monitoring services. The Authority impeded the review process because it initially objected to HUD's consultant performing the review. HUD previously hired this same consultant to perform a review involving the Authority and the consultant's analysis was highly critical of the Authority. To accommodate the Authority, HUD and the consultant arranged to subcontract with another consulting firm to perform the on-site review. As a result of the delays, the consultant did not perform the on-site review until December 2003; almost two years after the Authority's Moving to Work Agreement went into effect.

The consultant performed the review according to HUD's Moving to Work Monitoring Guide. We reviewed the Guide and the consultant's monitoring report. According to the protocol in the Guide, the on-site review lasted only two days and it limited the review to meetings and interviews with Authority staff, a review of documents assembled by the staff, and a tour of public housing facilities undergoing renovation. The review team did not test or verify any of the information submitted by the Authority in its Annual Plans and Reports. In our opinion, two days is not sufficient time to assess the sufficiency of the Authority's program or the accuracy and completeness of the data reported to HUD, especially in the absence of HUD's ability to monitor the Authority's performance through traditional reporting systems and in view of the deficiencies noted in our prior audit report.

As noted earlier, the field office staff also raised this concern about effectively monitoring the Authority's performance. Given the Authority's past performance and reporting problems, and the inherent risks associated with having the Authority self-certify its performance measurements in such a de-regulated environment, we believe HUD needs to conduct timely comprehensive on-site reviews of the Authority's Program.

The Authority Has Demonstrated It Can Significantly Increase Its Section 8 Utilization by Improving Its Program Management

Under the Moving to Work Program, we estimate the Authority will potentially have more than $134 million of HUD funds available to spend in non-traditional ways. These funds otherwise would have been earmarked to provide rental housing vouchers to needy families on the Authority's waiting lists. The Authority's position is that the lack of affordable housing and blight in Philadelphia made it difficult for it to achieve full utilization of its Section 8 funding. However, in our September 2003 audit of the Authority's Section 8 Program, we found the Authority's poor utilization was largely attributed to its Program administration and not the lack of affordable housing or blight.

Further, we asserted the local housing market could absorb most if not all of the unused vouchers because in the Census 2000, the U.S. Census Bureau reported there were 71,887 vacant housing units in Philadelphia, of which 18,101 were habitable, vacant, and for rent. Also, we highlighted the fact that a March 2003 University of Pennsylvania study concluded that the federal government should increase the number of Section 8 housing choice vouchers, and Philadelphia should improve the performance of the Section 8 Program because it is the most cost-efficient form of housing subsidy.

The Authority recently provided data to HUD that strongly supports our position that, with improved management, it could likely achieve full utilization of its Section 8 funds under the traditional program. The un-audited data showed the Authority had 14,236 vouchers under lease as of September 2003. Essentially, this means that an additional 2,000 eligible families received housing assistance over the last 18-month period. If the data is accurate, we believe this significant increase is attributable, in large part, to improvements the Authority made in the management of its Section 8 Program, just prior to and during our previous audit of its Section 8 Program, rather than from the elimination of blight or an increase in the number of affordable housing units in the city of Philadelphia. More specifically, the Authority took corrective action to improve its management of the Program by: improving its waiting list administration; establishing data quality controls; increasing its landlord outreach efforts; and improving its management information system. As the Authority has demonstrated, with improved management, it can provide thousands of needy families with suitable housing rapidly, and maximize its efficiency in using its Section 8 resources by using housing vouchers.

In summary, in accordance with Congressional expectations for voucher utilization, HUD's strategic objective to expand access to affordable rental housing, and the conclusions of the University of Pennsylvania study, the Authority could put $50.2 million[8] to better use over the remaining four years of its Moving to Work Agreement by maximizing the number of Section 8 vouchers it leases-up to eligible families on its waiting lists. To accomplish this goal, HUD must properly plan, schedule, and perform comprehensive on-site reviews of the Authority's Moving to Work Program to ensure the Authority's Annual Plans continue to reflect significant voucher increases.

AUDITEE COMMENTS

We provided the Office of Public Housing Investments with a draft of this report on January 30, 2004, and discussed the issues presented in the report with them at an exit conference on February 13, 2004. HUD officials said the Department was reluctant to interfere with the Authority's Moving to Work Plans because it viewed this action as contrary to the philosophy of the demonstration program. Also, they said a lack of resources hindered HUD's ability to adequately monitor the Authority's performance under the Program. Based on this discussion, we made a number of minor revisions to the report and on March 1, 2004 we re-issued the draft report to them for their written

[8] Amount computed by multiplying $13.2 million (the estimated value of the vouchers the Authority does not plan to lease-up) by 95-percent and extending that amount over the remaining four years of the Authority's Moving to Work Agreement.

comments. As of the issuance date of this report, HUD had not provided us with any written comments to the report.

RECOMMENDATIONS

We recommend the Office of Public Housing Investments:

1A. Routinely monitor the Authority's Moving to Work Plans to ensure the Authority continues to increase the number of vouchers it leases-up at levels comparable to the increases it reported to HUD during the 18-month period ending September 30, 2003. This should allow up to $50.2 million in remaining funds to be put to better use.

1B. Develop, plan, and execute comprehensive on-site reviews of the Authority's Moving to Work Program to ensure it accurately reports its progress and accomplishments, and complies with the approved Moving to Work Plans.

1C. Direct the Authority to lease-up all its remaining unused vouchers if the on-site reviews of the Authority's Moving to Work Program indicate it failed to comply with its approved Moving to Work Plans.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered HUD's management controls to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined policies, procedures, control systems, and other management tools implemented by HUD to ensure the Authority's Moving to Work Program delivered effective, efficient housing assistance to as many families as possible, were relevant to our audit objective. A significant weakness exists if management controls do not provide reasonable assurance the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review, we identified the following significant weaknesses:

HUD did not:

- Adequately review the Authority's Moving to Work application.

- Determine why the Authority was underutilizing its Section 8 funds before agreeing to allow the Authority to participate in the Moving to Work Demonstration Program.

- Solicit input from the field office in the decision making process.

- Adequately evaluate the appropriateness of the Authority's proposed alternative uses of Section 8 funds in its Annual Plans.

- Have an effective monitoring plan to track the Authority's progress and performance in implementing its new Program.

FOLLOW-UP ON PRIOR AUDITS

This is the first audit of HUD's oversight of the Philadelphia Housing Authority's Moving to Work Program by HUD's Office of Inspector General.

Appendix A

Schedule of Questioned Costs

Recommendation Number	Type of Questioned Cost - Funds Put to Better Use 1/
1A	$50,160,000

1/ Funds Put to Better Use are federal funds not expended by a non-HUD entity for a specific purpose. These funds can be reprogrammed by the entity for another purpose and not returned to HUD.