
AUDIT REPORT



DESIGN AND IMPLEMENTATION OF THE PUBLIC HOUSING/SECTION 8 MOVING TO WORK DEMONSTRATION PROGRAM

OFFICE OF PUBLIC HOUSING INVESTMENTS

2005-SE-0001

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OFFICE OF AUDIT, NORTHWEST/ALASKA REGION
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TO: Milan M. Ozdinec, Deputy Assistant Secretary
Office of Public Housing Investments, PI

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit
Northwest Region, OAGA

SUBJECT: Office of Public Housing Investments
Design and Implementation of the Public Housing/Section 8 Moving to Work
Demonstration Program

HIGHLIGHTS

What We Audited and Why

We reviewed the U.S. Department of Housing and Urban Development's (HUD) design and implementation of the Public Housing/Section 8 Moving to Work Demonstration program. We wanted to know whether (1) the program tested ways to provide and administer housing assistance that reduced costs, promoted self-sufficiency, and increased housing choices, and (2) HUD had the authority to approve housing authority requests to make tenants enter new contracts with time-limited housing assistance.

What We Found

HUD struggled to balance flexibility and accountability in the design and implementation of the Public Housing/Section 8 Moving to Work Demonstration program and relied on an existing system to collect tenant information. The existing system could not accept tenant information and was not adapted in time

to support the interim evaluation, and as a result, HUD was not able to collect tenant information needed to measure interim program impacts on costs, family self-sufficiency, and housing choices as planned. In addition, HUD relied on existing assisted housing rules modified by Public Housing/Section 8 Moving to Work Demonstration requirements. However, the modified rules did not ensure HUD (1) consistently monitored Moving to Work Demonstration housing authority activities and performance, and (2) obtained required Office of Management and Budget approval when collecting program information.

HUD obtained a legal opinion affirming its authority to approve housing authority requests to make tenants enter new contracts with time-limited housing assistance.

What We Recommend

We recommend the Office of Public Housing Investments (1) develop a means for evaluating Public Housing/Section 8 Moving to Work Demonstration program performance, (2) require field offices to monitor program activities, and (3) obtain Office of Management and Budget approval for annual plans and reports.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Office of Public Housing Investments a discussion draft on January 27, 2005, and held an exit conference with the Office of Public Housing Investments on March 2, 2005. We received written comments from the Office of Public Housing Investments on March 28, 2005. We evaluated the Office of Public Housing Investments comments and made appropriate changes to the report. The Office of Public Housing Investments generally agreed with the recommendations and provided management decisions and target dates for completion of pending actions. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

TABLE OF CONTENTS

Background and Objectives	5
Results of Audit	
Finding: HUD Has Not Adapted Its System and Rules to Best Evaluate and Monitor the Public Housing/Section 8 Moving to Work Demonstration Program	6
Scope and Methodology	12
Internal Controls	13
Appendixes	
A. Auditee Comments and OIG's Evaluation	15

BACKGROUND AND OBJECTIVES

The Public Housing/Section 8 Moving to Work Demonstration program, established by Public Law 104-134, Section 204 (April 26, 1996), tasked the U.S. Department of Housing and Urban Development (HUD) with identifying replicable models for reducing cost and achieving greater cost effectiveness, providing work incentives to promote resident self-sufficiency, and increasing housing choices for low-income families.¹ To accomplish this task, HUD offered up to 30 public housing authorities the unprecedented authority to design and test, with HUD approval, housing and self-sufficiency strategies that had not been possible under the existing programs.

HUD's Office of Policy, Program, and Legislative Initiatives designed and implemented the Public Housing/Section 8 Moving to Work Demonstration program and administered the program until 2002. In 2002, HUD transferred administrative responsibility for the program to the Office of Public Housing Investments.

HUD entered Moving to Work Demonstration Agreements with 26 housing authorities between 1998 and 2004. Those agreements were for 5 to 12 years. As the agreements expire, the program activity will be phased out, with the final Moving to Work Demonstration Agreement expiring December 31, 2011.

This audit covers HUD's design and implementation of the Public Housing/Section 8 Moving to Work Demonstration program. Our objective was to determine whether (1) HUD's design and implementation of the program tested ways to provide and administer housing assistance that reduced cost, promoted self-sufficiency, and increased housing choices, and (2) HUD had the authority to approve housing authority requests to make tenants enter new contracts with time-limited housing assistance.

¹ Public Law 104-134, Section 204, notes the purpose of the Public Housing/Section 8 Moving to Work Demonstration is to give public housing agencies and the Secretary of Housing and Urban Development the flexibility to design and test various approaches for providing and administering housing assistance that reduce cost and achieve greater cost effectiveness in Federal expenditures; give incentives to families with children in which the head of household is working, seeking work, or preparing for work by participating in job training, educational programs, or programs that assist people to obtain employment and become economically self-sufficient; and increase housing choices for low-income families. Section 204 b requires the Secretary to provide training and technical assistance during the demonstration and conduct detailed evaluations of up to 15 such agencies in an effort to identify replicable program models promoting the purpose of the demonstration.

RESULTS OF AUDIT

Finding: HUD Has Not Adapted Its System and Rules to Best Evaluate and Monitor the Public Housing/Section 8 Moving to Work Demonstration Program

In designing and implementing the Public Housing/Section 8 Moving to Work Demonstration program, HUD struggled to balance the program's flexibility with the need for accountability and performance measurement. HUD officials relied on an existing system to collect tenant information for use in evaluating the program. However, the existing system could not accept tenant information and was not adapted in time for the evaluation. Consequently, HUD was not able to collect tenant information needed to measure interim program impacts on costs, family self-sufficiency, and housing choices as planned. In addition, HUD relied on existing assisted housing rules modified by Moving to Work Demonstration requirements and agreements to ensure program requirements were met. However, the modified rules did not ensure HUD (1) consistently monitored Moving to Work Demonstration housing authority activities and performance, and (2) obtained required Office of Management and Budget approval when collecting program information.

HUD Needs To Adapt Its System To Better Evaluate the Public Housing/Section 8 Moving to Work Demonstration Program

HUD's System Did Not Collect Tenant Information

HUD's Multifamily Tenant Characteristics System was not able to collect information about tenants needed for the planned evaluation of the Public Housing/Section 8 Moving to Work Demonstration program. Without the tenant information, HUD was not able to measure interim program impacts on costs, family self-sufficiency, and housing choices as planned. HUD chose to use the existing system to collect the information in an effort to balance the flexibility and deregulation granted under the Demonstration program with HUD's need to collect information for the program evaluation. However, the system was not able to collect the information because the Moving to Work Demonstration allowed income and rent calculations that were different from HUD's standard programs.

The Multifamily Tenant Characteristics System collects tenant demographic data, including family composition, income, and addresses. HUD's initial Moving to Work Demonstration program monitoring and evaluation plan provided for use of the Multifamily Tenant Characteristics System demographic data. The planned use included information on tenants working, increases in tenant income, income of working and nonworking tenants, tenants losing assistance, tenant turnover,

project income mix, ethnic and racial diversity, spatial dispersion of assisted housing, and tenants paying unaffordable rents.

When the Moving to work Demonstration began, HUD planned an evaluation design and monitoring methodology that relied heavily on the tenant information included in the existing Family Report and collected by the Multifamily Tenant Characteristics System. However, in 1999, shortly after approval of the first Moving to Work Demonstration Agreements, HUD learned the system would not accept reports from Moving to Work Demonstration housing authorities and instructed housing authorities to continue collecting the data but suspend transmitting it to the Multifamily Tenant Characteristics System.

HUD's efforts to complete other priority system updates delayed work on the Moving to Work Demonstration program version. As a result of the delay, HUD had to redesign the evaluation methodology for the Moving to Work Demonstration program. The redesigned methodology recognized that outcome information would not be available to evaluate program accomplishments and instead focused on the types of demonstration activities and experience of participating housing agencies. Although helpful, this information did not provide measurable and comparable results showing how activities reduced costs, promoted self-sufficiency, and increased housing choice.

Without the Multifamily Tenant Characteristics System to collect tenant information, HUD was not able to provide the measurable and comparable results initially planned to support answers to the question posed by the Moving to Work Demonstration legislation. HUD's evaluation could not cite (1) statistics showing Moving to Work Demonstration activities could be considered models for reducing costs and achieving greater cost effectiveness, promoting resident employment and self-sufficiency, and increasing housing choices for low-income households, and (2) comparative analyses intended to show the impact of program activities and importance of individual policy changes.

HUD Needs to Adapt Its Rules to Better Monitor the Public Housing/Section 8 Moving to Work Demonstration Program

HUD Did Not Consistently Monitor Housing Authority Activities and Performance

HUD did not consistently perform comprehensive onsite monitoring to determine whether Moving to Work Demonstration housing authorities were performing in accordance with their agreements. As a result, HUD lacks assurance the housing authorities complied with their agreements. Our audit of one housing authority identified significant performance deficiencies. HUD officials told us that field offices were instructed to monitor Public Housing/Section 8 Moving to Work

Demonstration housing authorities. However, HUD did not provide official instructions for HUD field offices to monitor these housing authorities.

During our audit of the Seattle Housing Authority's Public Housing/Section 8 Moving to Work Demonstration program, field office officials told us they were not responsible for monitoring the housing authority and had not done any monitoring. In addition, Office of Inspector General (OIG) audits of the Pittsburgh Housing Authority's Public Housing/Section 8 Moving to Work Demonstration program and HUD's oversight of the Philadelphia Housing Authority's Moving to Work Demonstration program showed the field office staff were not monitoring these housing authorities.

In the absence of HUD onsite monitoring, program performance deficiencies can go undetected. Our audit of the Seattle Housing Authority's Moving to Work Demonstration program disclosed significant performance deficiencies, including the lack of environmental reviews for project-based assistance. Neither annual Moving to Work Demonstration program plans and reports submitted for HUD monitoring nor periodic contractor monitoring of the housing authority had identified these deficiencies. The Seattle Housing Authority did not include the issues in its annual Moving to Work Demonstration program plans and reports because it believed its practices complied with the Moving to Work Demonstration Agreement. Also, contractor monitoring would not be expected to identify the issues since the monitoring field guide states HUD field office staff are responsible for monitoring these requirements.

We inquired about environmental reviews from the other eight Moving to Work Demonstration housing authorities with planned project-based assistance and learned that five had started project-based assistance activities. Officials at four of the five housing authorities told us that environmental reviews were not performed for their project-based assistance. The Moving to Work Demonstration Agreements for these housing authorities require the housing authorities to get assurance from HUD or another responsible entity that environmental review requirements under 24 Code of Federal Regulations, part 50 or 58, were met. The agreements require such assurance before Moving to Work Demonstration program funds are committed.

HUD officials said they told field offices to monitor Moving to Work Demonstration housing authorities on a number of occasions; however, HUD did not officially require field offices to monitor Moving to Work Demonstration housing authority activities and performance. In the absence of instructions processed in accordance with HUD's Directives System, field office officials did not always know they were required to monitor Moving to Work Demonstration housing authority programs, and HUD officials told us that field offices did not consistently monitor housing authorities for compliance with Moving to Work Demonstration program requirements.

HUD Did Not Follow Technical Office of Management and Budget Requirements for Information Collection

Office of Management and Budget approval was not obtained for annual Moving to Work Demonstration program plans and reports from 14 housing authorities. This occurred because HUD officials did not adequately plan for changes in the number of participants required to submit annual plans and reports.

The regulations at 5 Code of Federal Regulations, section 1320.5(a), state an agency shall not conduct or sponsor a collection of information unless specified requirements are met, including receipt of Office of Management and Budget approval for the proposed collection of information. The regulations at 5 Code of Federal Regulations, section 1320.3(c), define a collection of information as

“ . . . obtaining, causing to be obtained, soliciting, or requiring the disclosure to an agency, third parties or the public of information by or for an agency by means of identical questions posed to, or identical reporting, recordkeeping, or disclosure requirements imposed on, ten or more persons, whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit.”

Without the Office of Management and Budget’s approval HUD cannot require the housing authorities to submit the annual Moving to Work Demonstration program plans and reports intended to replace reporting and monitoring under the Public Housing Management Assessment Program and Section 8 Management Assessment Program. HUD officials did not realize the number of Moving to Work Demonstration block grant housing authorities had reached 10 when entering Moving to Work Demonstration Agreements with housing authorities selected under a second invitation for applications.

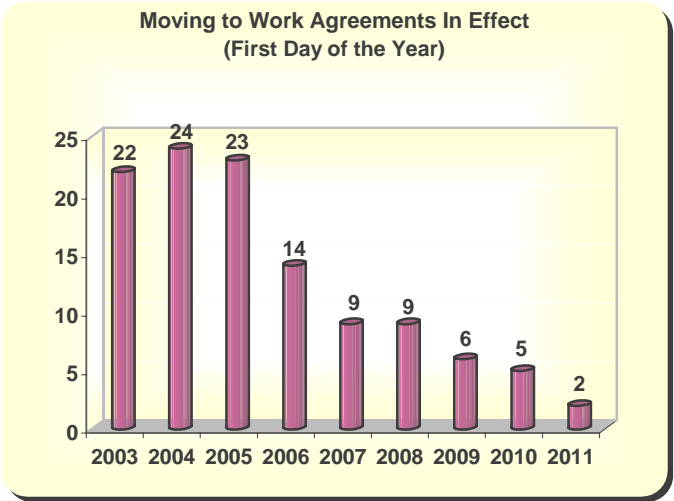
HUD selected Moving to Work Demonstration housing authorities under two requests for applicants, spaced about 4 years apart. After the initial selection only seven Moving to Work Demonstration block grant housing authorities were required to submit annual Moving to Work Demonstration program plans and reports. However, 14 were required to submit annual Moving to Work Demonstration program plans and reports after the second selection.

When processing the initial Moving to Work Demonstration Agreements, HUD officials determined that Office of Management and Budget approval was not required for the annual Moving to Work Demonstration program plan and report because it would never be required from 10 or more housing authorities. Accordingly, when HUD decided to make a second selection, it did not have a mechanism to monitor the number of Moving to Work Demonstration block grant housing authorities required to submit annual plans and reports or a process under

the program to determine whether Office of Management and Budget approval was required for the annual plans and reports. A former HUD official responsible for program administration at the time told us he did not recall the specifics but thought the number of housing authorities required to submit annual Moving to Work Demonstration plans and reports would be less than 10.

Conclusion

HUD lacks the tenant information needed to evaluate Public Housing/Section 8 Moving to Work Demonstration housing authority accomplishments as originally planned, clear procedures for field office program monitoring, and Office of Management and Budget approval needed to require annual Moving to Work Demonstration program plans and reports. However, although HUD completed the initial program evaluation in January 2004, it can perform a follow up evaluation since at least nine housing authority programs run into 2008. Likewise, it has time to address the monitoring and Office of Management and Budget information collection issues.



Recommendations

We recommend the Office of Public Housing Investments

- 1A. Develop a means to collect performance information needed to evaluate Public Housing/Section 8 Moving to Work Demonstration housing authority accomplishments and determine whether any replicable models exist.
- 1B. Require field offices, in accordance with HUD requirements, to monitor Public Housing/Section 8 Moving to Work Demonstration housing authorities.

1C. Obtain Office of Management and Budget approval to collect the information required by the annual Moving to Work Demonstration program plan and report.

The Office of Public Housing Investments provided a management decision and target date for completing the pending actions addressing each of the recommendations above. The management decisions and target dates are included in the comments contained in appendix A.

SCOPE AND METHODOLOGY

The audit covered HUD's Public Housing/Section 8 Moving to Work Demonstration program design and implementation from passage of the enabling legislation on April 26, 1996, through October 31, 2004.

To determine whether HUD's design and implementation of the program tested ways to provide and administer housing assistance that reduced costs, promoted self-sufficiency, and increased housing choices, we interviewed Office of Public Housing Investments staff, reviewed Federal regulations and HUD policies and procedures, and evaluated HUD's internal controls. We also reviewed information on HUD's Public Housing/Section 8 Moving to Work Demonstration program design and implementation and evaluation of the program after 3 years of operations. In addition, to determine whether HUD's management controls for monitoring were effective, we (1) contacted the nine housing authorities with Moving to Work Demonstration programs that included project-based assistance to ask if environmental reviews were conducted before committing funding and (2) incorporated results on HUD monitoring from three other OIG Moving to Work Demonstration program audits.

To determine whether HUD approved time-limited housing assistance and mandatory participation consistent with its authority, we reviewed available information on the decision to allow time-limited housing assistance and interviewed current and former HUD officials. We also reviewed requirements and agreements for both the Public Housing and Housing Choice Voucher programs and contacted the three housing authorities with mandatory time-limited housing assistance programs for tenants that were there when the Moving to Work Demonstration program started. We asked whether any tenant assistance had been terminated because tenants reached the time limit.

We performed audit work from May through October 2004. The audit was performed in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- HUD's Rule Making Policies and Procedures - HUD's process for formulating and issuing rules designed to (1) implement, interpret, or prescribe law or policy or (2) describe the Department's organization or its procedure or practice requirements.
- HUD's Directives System - HUD's system for providing HUD program managers with the means to effectively convey departmental instructions to users and to document agency policies and procedures.
- HUD's Departmental Management Control Program - HUD's process for establishing and maintaining a cost-effective system of management controls to provide reasonable assurance that programs and activities are effectively and efficiently managed and to protect against fraud, waste, abuse, and mismanagement.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- HUD did not issue Public Housing/Section 8 Moving to Work Demonstration program rules interpreting provisions of the enabling legislation, prescribing policy, or describing its procedures or practices in accordance with the rule making policies and procedures.
- HUD did not issue and document Public Housing/Section 8 Moving to Work Demonstration program instructions to users in accordance with the directives system.
- HUD did not establish a system of management controls for the Public Housing/Section 8 Moving to Work Demonstration program in accordance with the management control program.

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

MAR 24 2005

TO: Frank E. Baca, Regional Inspector for Audit, OAGA

FROM: Milan M. Ozbilic, Deputy Assistant Secretary, Office of Public Housing Investments/PI

SUBJECT: Comments on the final audit report of the review of the design and implementation of the Public Housing/Section 8 Moving to Work Demonstration program

Thank you for taking the time to meet with us on Wednesday, March 2, 2005 to discuss the findings contained in the draft audit report of your review of the design and implementation of the Public Housing/Section 8 Moving to Work (MTW) Demonstration Program and for taking our comments into consideration when preparing the final audit report.

Per your subsequent emails, we have revised our response to several of the audit findings to include dates for proposed actions, in the hopes that we will be able to come to management decision on at least three of four audit findings.

Audit Result #1 – HUD Has Not Adapted its Systems and Rules to Best Evaluate and Monitor the Public Housing/Section 8 MTW Demonstration Program

HUD's System Did Not Collect Tenant Information

As we discussed, though the above statement is true and did have an impact on the evaluation HUD submitted to Congress (as mandated by the statute), we do not believe that the absence of data had as big an impact on evaluation outcomes as indicated by the finding. The design of the demonstration itself (again, mandated by statute), limited our ability to evaluate the demonstration. Furthermore, per the statute, the demonstration was evaluated after many participants had completed only three years of participation, further limiting what we could learn at the time. Therefore, we believe that the demonstration was evaluated correctly given the existing constraints, with appropriate recommendation provided to legislators.

Recommendation 1A. Develop a means to collect the performance information needed to evaluate the Public Housing/Section 8 MTW Demonstration housing authority accomplishments and determine whether any replicable models exist

Notwithstanding our general opinion that the Department carried-out the appropriate level of evaluation given the inherent constraints, we agree that future evaluation is necessary, particularly the sites that were not included in the initial evaluation. However, an increase in the amount of tenant characteristic data is not going to really change the outcome or our ability to conclude which flexibilities should be (or could be) replicated.

Comment 1

Comment 2

Comment 3

Our ability to collect has further limitations. First, the Department does not have the funding to fully collect all MTCS-50058 MTW tenant characteristic data. Also, it would not be possible to collect historical data for tenants of MTW participants, limiting its usefulness. Finally, any other alternative data collection effort would require OMB approval and a system to maintain the data.

An effort to collect some tenant characteristic data is currently underway – the module has been developed and we are working with the implementation staff in order to begin collection data as quickly as possible. Plans to evaluate participants not included in the initial evaluation are also underway, and a contractor is in place to complete the task. However, given the design constraints, the Department will still not be able to conclude with any greater certainty than in its prior evaluation, which flexibilities were “successful” and should or could be replicated.

These efforts will be substantially underway by September 30, 2005

HUD Did Not Consistently Monitor Housing Authority Activities and Performance

We believe that HUD did regularly perform on-site monitoring, primarily through the use of contractors, did instruct the field office on several occasions that monitoring MTW demonstration participants was one of their responsibilities, and provided a guidebook for use in this task. We also believe that the current review process is based on both housing authority input and independent review, and not just housing authority input. While it is true that many field offices do not actively monitor MTW participants and that some participant activities have gone un-noticed, we do not believe that lack of adequate directive is to blame. Because of its comprehensive nature, the demonstration is complicated to monitor, and field offices can legitimately determine that monitoring MTW participants is a relatively low priority for them given the extensive workload and conflicting priorities.

Recommendation 1B, Develop program procedures for monitoring Public Housing/Section 8 housing authorities in accordance with HUD requirements

HUD is currently trying to improve the monitoring of MTW participants, by transferring the program to an office with more staff and resources, and by trying again to increase the monitoring responsibilities in the field offices. The monitoring tools and guidebook are being revised to reflect IG audit and other assessment findings. For example, confirmation of environmental review compliance has been added to the review and approval of MTW Plans. Additionally, in response to the auditors comment that current monitoring is based more on housing authority input than independent review, more independent assessment is being added to the on-site monitoring process.

These efforts will be substantially underway by September 30, 2005

Comment 4

HUD Did Not Follow Office of Management and Budget Information Collection Requirements

1D. Obtain Office of Management and Budget approval to collect the information required by the annual Public Housing/Section 8 MTW Demonstration Plan and Report

While HUD is willing to start the process of obtaining OMB approval for these submissions, we are concerned about how to address the interim problem of data collection and monitoring during the time it takes to receive OMB approval. As you outline in your memo, the number of PHAs submitting MTW plans exceeded the threshold only after the demonstration had been underway for 5 years when, contrary to our original estimates, a larger number than originally anticipated opted for the block grant. Some of the most recent MTW PHAs are very large and present the potential for significant risk. We would not want to be in a position where we would not be allowed to collect and review their MTW Annual Plans and Reports. This would further hamper our ability to adequately monitor this complex demonstration. However, if we cannot reach agreement, the Department will complete the necessary paperwork to begin the approval process.

These efforts will be substantially underway by June 30, 2005

OIG Evaluation of Auditee Comments

Comment 1 The absence of performance data had a definite impact on the evaluation of the program. Planned comparison analyses were not feasible without the Multifamily Tenant Characteristics System data. The comparison analyses planned included efforts to sort out the effects of the Moving to Work program waivers from other possible causes of such changes and to gain some insight into the relative importance of individual policy changes pursued by housing authorities.

Comment 2 We did not recommend that HUD collect Multifamily Tenant Characteristics System data. We specifically avoided recommending HUD collect the data because HUD abandoned the evaluation methodology incorporating that data and because of the volume of data HUD would have to input into the system. We wanted to provide HUD the flexibility to develop a realistic means for collecting performance information.

Comment 3 On-site monitoring by contractors cannot be expected to fulfill HUD's monitoring role given the guidance provided. The guidebook for monitoring participants defines the field office role as follows.

"Field Office staff remains responsible for standard PHA compliance issues. HUD Field Offices will remain responsible for the general oversight of PHA operations. The monitoring procedures in this handbook do not exempt PHAs from standard and routine monitoring and performance assessments conducted by HUD Field Office staff. Field Offices will continue to handle elements that are part of the traditional HUD monitoring review, such as environmental reviews and FHEO compliance. The HUD Field Office staff will also remain responsible for the monitoring of standard HUD requirements, such as wage rates, environmental reviews, and fair housing and equal opportunity practices."

In addition, we believe the lack of directive plays a part in the lack of monitoring since officials at the Seattle and Pittsburgh field offices told us they were not required to monitor Moving to Work Demonstration program participants.

Comment 4 The Office of Public Housing Investments is responsible for developing an information collection method that complies with Office of Management and Budget requirements. Those requirements include provisions for emergency processing.