



**U.S. Department of Housing and Urban  
Development  
Washington, DC**

**Moving to Work Demonstration Program**



Issue Date: September 27, 2013

Audit Report Number: 2013-PH-0004

TO: Dominique G. Blom, Deputy Assistant Secretary for Public Housing  
Investments, PI  
//signed//

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: HUD's Oversight of Its Moving to Work Demonstration Program Needs  
Improvement

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's monitoring and oversight of its Moving to Work Demonstration program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (215) 430-6729.



September 27, 2013

## HUD's Oversight of Its Moving to Work Demonstration Program Needs Improvement

# Highlights

Audit Report 2013-PH-0004

### What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of the Moving to Work Demonstration program based on the HUD Office of Inspector General's (OIG) initiative to focus HUD management's attention on problem areas on which we and others have reported over the years. Our objective was to determine whether HUD had implemented adequate program controls to effectively monitor participant agencies' performance and ensure that they met statutory program goals and requirements.

### What We Recommend

We recommend that the Deputy Assistant Secretary for Public Housing Investments establish and implement policies to improve HUD's administration of the program and ensure that agencies meet statutory goals and requirements before expanding the program.

### What We Found

HUD had implemented program monitoring procedures; however, its program oversight was inadequate because it had not (1) implemented programwide performance indicators, (2) evaluated agencies' programs according to its policy, (3) evaluated agencies' compliance with key statutory requirements, (4) verified agencies' self-reported performance data, and (5) performed required annual program risk assessments. As a result, HUD was unable to demonstrate program results. Also, HUD had limited ability to assess agencies' compliance with statutory program goals and lacked assurance that agencies met key statutory requirements.

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## BACKGROUND AND OBJECTIVE

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The Omnibus Consolidated Rescissions and Appropriations Act of 1996, dated April 26, 1996, authorized the Moving to Work Demonstration program. The program was established to give public housing agencies and the U.S. Department of Housing and Urban Development (HUD) flexibility to design and test innovative, locally designed strategies in pursuit of the national goal of delivering rental assistance more efficiently. The program's intent is to pursue three statutory objectives: (1) reduce cost and achieve greater cost effectiveness in Federal expenditures; (2) give incentives to families with children in which the head of household is working; seeking work; or preparing by participating in job training, educational programs, or programs that assist people to obtain employment and become economically self-sufficient; and (3) increase housing choices for low-income families.

In pursuit of these objectives, Moving to Work housing agencies are granted exceptions to many portions of the U.S. Housing Act of 1937 and combine funds received for the Housing Choice Voucher program and public housing capital and operating funds to use interchangeably. Agencies are required to

- Ensure that at least 75 percent of families admitted are very low income.
- Establish a reasonable rent policy designed to encourage self-sufficiency and employment.
- Continue to assist substantially the same number of eligible low-income families that they would have served had funding amounts not been combined.
- Maintain a mix of families comparable to those they would have served without the demonstration.
- Ensure that the housing provided meets HUD's housing quality standards.

HUD's Office of Public Housing Investments, within the Office of Public and Indian Housing at HUD headquarters, is responsible for program oversight. As of July 2013, there were 35 agencies participating in the program.

Our objective was to determine whether HUD had implemented adequate program controls to effectively monitor participant agencies' performance and ensure that they met statutory program goals and requirements.

## RESULTS OF AUDIT

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### Finding: HUD Did Not Adequately Oversee Its Moving to Work Demonstration Program

HUD generally conducted periodic visits to program participants according to its policy and maintained documentation to support its most recent admissions into the program. However, its program oversight was inadequate because it had not (1) implemented programwide performance indicators, (2) evaluated agencies' programs according to its policy, (3) evaluated agencies' compliance with key statutory program requirements, (4) verified agencies' self-reported performance data, and (5) performed required annual program risk assessments. These conditions occurred because HUD believed that implementing performance indicators would be difficult and contrary to the program's purpose. Also, HUD cited a lack of funding needed to perform critical evaluations and did not have adequate procedures to verify agencies' compliance with key statutory requirements. Additionally, HUD lacked procedures to verify agencies' self-reported performance data and was not aware of the requirement to perform annual program risk assessments. As a result, it was unable to demonstrate program results. Also, HUD had limited ability to assess agencies' compliance with statutory program goals and lacked assurance that agencies met key statutory requirements. Further, HUD lacked assurance that it had properly identified and addressed risks that might prevent participating agencies from meeting program goals and statutory requirements.

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#### **HUD Conducted Periodic Site Visits According to Its Policy**

HUD's Moving to Work desk guide states that it will conduct annual site visits to participant agencies to discuss their programs and provide technical assistance. HUD generally conducted annual site visits to agencies in accordance with its procedures. It prepared reports to document its annual site visits. We reviewed 21 site visit reports for 4 agencies in Region 3, including the Philadelphia Housing Authority, Housing Authority of Baltimore City, District of Columbia Housing Authority, and Housing Authority of the City of Pittsburgh, for the period January 2006 through October 2012. During the site visits, HUD met with agency officials to discuss program updates, agencies' short- and long-term program goals, current activities, and local issues. HUD provided technical assistance by providing verbal guidance on issues agencies encountered, such as entering data into HUD's Public and Indian Housing Information Center database. HUD also toured housing developments to verify agencies' progress.

Although HUD conducted annual site visits in accordance with its procedures, it did not validate the accuracy of agencies' self-reported performance data during these visits. According to HUD officials, HUD was working on developing procedures to verify the accuracy of self-reported data, either through audits or during annual site visits.

### **HUD Maintained Documents Supporting Its Most Recent Admissions Into the Program**

Section 232 of the Consolidated Appropriations Act of 2010 allowed HUD to select four new participant agencies, which were designated as “high performing” under the Public Housing Assessment System and administered no more than 5,000 aggregate housing vouchers and public housing units. Public and Indian Housing Notice 2012-16 required eligible agencies to submit an application containing an eligibility certification, evidence of capability, a Moving to Work plan, evidence of community support and involvement, and additional information regarding implementation of the Moving to Work plan. The notice also described HUD’s evaluation criteria for selecting the eligible agencies. The evaluation criteria required HUD to evaluate applications based on the following four rating factors: (1) demonstrated capability to effectively plan, implement, and administer the program; (2) feasibility of the Moving to Work plan; (3) degree of resident and community support and involvement; and (4) potential local and national impact of the Moving to Work plan. Each rating factor included a number of points attributed to the factor, with the possible number of points for all four factors totaling 100 points.

HUD received applications from 12 agencies seeking to participate in the program and selected the 4 with the highest scores. We reviewed the applications and related evaluations for the four agencies and found that HUD maintained adequate documentation to show that it made the selections according to its policy.

### **HUD Lacked Programwide Performance Indicators**

HUD had not established programwide performance indicators that would allow it to assess program results. The program was established to (1) reduce cost and achieve greater cost effectiveness in Federal expenditures, (2) incentivize families to become economically self-sufficient, and (3) increase housing choices for low-income families. The Government Performance and Results Modernization Act of 2010 requires Federal agencies to develop a performance plan for each program activity. The plan should establish a balanced set of performance indicators to be used in measuring or assessing progress toward each performance

goal, including efficiency, output, and outcome indicators. HUD's annual performance plans for fiscal years 2011 and 2012 established agencywide performance indicators; however, none of the indicators was specifically connected to the program.

HUD officials stated that programwide performance indicators were not implemented because the program lacked standard metrics related to program performance. Based on discussions with HUD officials and HUD's statements during an April 2012 U.S. Government Accountability Office (GAO) audit of the program, it appeared that HUD did not implement standard performance metrics because it believed doing so could be difficult and might be contrary to the nature of the program. Due to the lack of performance indicators, HUD was unable to demonstrate program results or show that the three main program objectives were met. We believe that HUD could establish policies to use the results from agencies' self-reported performance data to develop programwide performance indicators for assessing program results.

The U.S. Office of Management and Budget (OMB) recently issued a memorandum,<sup>1</sup> which noted the need to continually improve Federal program performance by applying existing evidence on successes, generating new knowledge, and using experimentation and innovation to test new approaches to program delivery. According to the memorandum, evidence would include evaluation results, performance measures, and other relevant data analytics and research studies, with a preference for high-quality experimental and quasi-experimental studies. For 2015 budget proposals, OMB urged agencies to (1) use credible evidence in formulating 2015 budget proposals and performance plans and (2) propose new ways to develop evidence to address policy challenges. OMB stated that agencies' budget requests would be more likely to be fully funded if they showed a widespread commitment to evidence and innovation. Therefore, it is vital that HUD develop programwide performance indicators to ensure that its future budget requests are fully funded.

### **HUD Failed To Evaluate Agencies' Programs According to Its Policy**

HUD did not evaluate agencies' programs according to provisions in its standard program agreement and as incorporated into its program monitoring policies. According to the agreement, HUD would evaluate agencies' programs during fiscal years 2011 and 2014 to determine whether the agencies should continue in the program. For the evaluations, HUD planned to use the following criteria: (1) the agency complies with the standard program agreement; (2) the annual program plans and reports have been satisfactorily completed and submitted in a

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<sup>1</sup> OMB Memorandum 13-17, Next Steps in the Evidence and Innovation Agenda, dated July 26, 2013

timely manner, consistent with the standard program agreement; and (3) the agency has demonstrated, through the annual program plan and report, that it used its program designation in accordance with Section 204 of the 1996 Appropriations Act.

HUD planned to hire an outside research consultant to perform the evaluations and use the results to determine whether the agencies would be allowed to continue to participate in the program or have their participation terminated. HUD preferred to hire an outside research consultant instead of performing the evaluation in-house because it wanted a third-party opinion regarding the program. However, HUD did not perform the 2011 evaluation and had not performed one since. HUD officials informed us that they did not perform the evaluation due to a lack of funding and the fiscal year 2014 evaluation might also be jeopardized for the same reason. As a result, HUD lacked assurance that agencies complied with the program agreement and whether the agencies should continue to participate in the program. Based on the lack of funding for these evaluations, HUD should not admit additional agencies into the program until the evaluations are performed.

HUD officials responsible for the program informed us that they had been requesting funds to perform the program evaluation through HUD's Transformation Initiative<sup>2</sup> since January 2010. HUD estimated a cost of approximately \$3 million to perform the evaluation. In February 2013, program officials met with HUD's Office of Policy Development and Research officials to further discuss the need for the evaluation. The Office of Policy Development and Research stated that it would investigate whether Transformation Initiative funds could be allocated to perform the evaluation in fiscal year 2013 or 2014. In July 2013, the Office of Policy Development and Research stated that it planned to award an evaluation contract in fiscal year 2014. It also stated that some funds had been reserved for the evaluation and that it planned to reserve additional funding in fiscal year 2014. Since there are indications that Congress is considering expanding the program to include more agencies, we believe HUD needs to evaluate the program participants to determine whether they comply with the program agreement before expanding the program.

### **HUD Failed To Verify Agencies' Compliance With Statutory Requirements**

HUD had not implemented controls to verify whether agencies met statutory requirements related to performance that were incorporated into the standard

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<sup>2</sup> In 2010, Congress enacted the Transformation Initiative, which makes up to 1 percent of program funds available for the following: (1) research, evaluation, and program metrics; (2) program demonstration; (3) technical assistance; and (4) information technology.

program agreement. The agreement required that agencies (1) ensure that at least 75 percent of assisted families were very low-income families as defined in the Housing Act of 1937, (2) serve substantially the same number of families that would have been served if they had not participated in the program, and (3) maintain a mix of families comparable to those that would have been served without the program. As part of agencies' annual report, the agencies would self-certify that they complied with the statutory requirements. Although the self-certification process served as a control measure to determine or ensure agencies' compliance with statutory requirements, the effectiveness of the control was limited because HUD had no policies or procedures to periodically verify the agencies' self-certifications.

We determined that HUD had taken steps to verify agencies' compliance with the statutory requirements. For the second statutory requirement, HUD issued guidance in January 2013, which described how it would determine agencies' compliance with the requirement annually.<sup>3</sup> For the first and third statutory requirements, HUD had implemented reporting requirements instructing agencies to self-report data to support compliance. HUD officials informed us that they would verify the accuracy of the self-reported data through an audit or during annual site visits. However, HUD had not finalized policies or procedures to verify the self-reported information and thereby fully verify agencies' compliance with the first and third statutory requirements.

### **HUD Did Not Verify Agencies' Self-Reported Performance Data**

HUD lacked policies and procedures to verify the accuracy of key information that agencies self-report. Attachment B of each standard program agreement required agencies to report in their annual reports on benchmarks, metrics, and performance information, such as reducing the number of homeless persons without housing, reducing the processing time during the annual recertification process, and increasing the number of housing choices for low-income households. The information reported by agencies related to the outcomes of ongoing activities included the number of homeless persons provided with housing, the number of program staff hours saved annually through the rent simplification process, and the number of units under contract to low-income households.

We reviewed 17 annual reports from the Moving to Work agencies located within Region 3's jurisdiction for the period 2007 through 2012. The agencies reported benchmarks, metrics, and performance information. However, HUD did not

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<sup>3</sup> Public and Indian Housing Notice 2013-02, Baseline Methodology for Moving to Work Public Housing Agencies, dated January 10, 2013

verify the accuracy of the self-reported information. As stated above, HUD officials stated that HUD planned to establish a means of verifying the accuracy of self-reported information, either through audits or during annual site visits. However, it had not finalized such procedures.

### **HUD Failed To Perform Critical Annual Program Risk Assessments**

HUD did not perform annual program risk assessments in accordance with its own policy. HUD Handbook 1840.1 required program offices to perform an annual risk assessment of their programs or administrative functions using a standard risk-assessment worksheet. HUD officials informed us that they did not perform annual program risk assessments because they were not aware of the requirement. Because HUD did not perform annual risk assessments, it lacked assurance that it properly identified and addressed risks that might prevent participating agencies from meeting program goals and statutory requirements.

HUD had taken steps to perform a program risk assessment. It recently performed an internal review of potential program risk areas. It planned to develop a basic risk assessment based on the internal review. The basic risk assessment would eventually feed into the Office of Public and Indian Housing's overall risk assessment. However, the basic risk assessment had not been finalized.

### **Prior GAO and OIG Reports Disclosed Similar Issues**

Prior HUD Office of Inspector General (OIG) and GAO audit reports on the program disclosed that HUD lacked (1) programwide performance measures to determine whether overall program objectives were met and (2) policies and procedures to verify the reliability of agencies' self-reported data. GAO also had previously reported that HUD failed to perform required program risk assessments.<sup>4</sup> We determined that HUD was working on resolving audit recommendations related to these findings. In conjunction with its audit resolution efforts, HUD had implemented revised reporting requirements for agencies as discussed in the paragraph below. Since some of our audit findings were consistent with findings from prior reports, HUD should continue its efforts to ensure that it has fully addressed all audit recommendations related to the program.

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<sup>4</sup> See the Follow-up on Prior Audits section of this report for details on prior HUD OIG and GAO audits.

## HUD Revised Its Standard Reporting Requirements

HUD Form 50900 specifies the elements that each agency must provide in its annual plans and reports.<sup>5</sup> It requires information such as an overview of the program goals and objectives for the year; planned capital expenditures by development; proposed activities requesting HUD approval with baselines, benchmarks, and metrics to assess outcomes; planned sources and uses of funds; and a description of planned or ongoing agency-directed evaluations of the demonstration. HUD uses the information to make determinations about the program and respond to congressional and other inquiries regarding program outcomes and positive practices learned throughout the program demonstration.

HUD revised Form 50900 in response to the prior GAO and HUD OIG reports. In May 2013, OMB approved the revised form. The form includes standard metrics for agencies to report on the progress of proposed and approved activities. The standard metrics are organized to assist HUD in determining agencies' compliance with the three statutory program objectives.

HUD's updated reporting requirements will improve its program oversight. However, it needs to implement a formal policy to develop programwide performance indicators using results from the data it collects from agencies. It also needs to complete its efforts to establish and implement policies to verify agencies' self-reported information to ensure the accuracy of data on which it relies for various purposes.

## Conclusion

HUD needs to improve its program oversight to ensure that participant agencies meet statutory program goals and requirements. Also, since there are indications that Congress is considering expanding the program, HUD needs to ensure that it has implemented effective evaluation processes before program expansion. We included four of GAO's recommendations in our audit because they are significant to the success of this program. In about 14 years, HUD has not shown that this demonstration program has met its objectives of achieving cost effectiveness, incentivizing families to become self-sufficient, and increasing housing choices for low-income families. GAO is reviewing HUD's revised reporting requirements in response to its prior report. HUD can provide us a copy of its planned actions communicated to GAO rather than developing separate management decisions for these four recommendations.

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<sup>5</sup> Attachment B to the amended and restated Moving to Work agreement between HUD and Moving to Work agencies

## Recommendations

We recommend that the Deputy Assistant Secretary for Public Housing Investments

- 1A. Develop programwide performance indicators based on the results from agencies' self-reported data.
- 1B. Ensure that the program is evaluated in accordance with the standard program agreement and program monitoring policies.
- 1C. If Congress expands the program, delay adding participants to the program until programwide performance indicators are in place and program evaluation results warrant program expansion.
- 1D. Continue to develop and implement procedures to verify agencies' compliance with key statutory requirements.
- 1E. Continue to develop and implement procedures to verify the accuracy of agencies' self-reported performance data.
- 1F. Ensure that annual risk assessments are completed as required.

## SCOPE AND METHODOLOGY

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We conducted the audit from November 2012 through June 2013 primarily at our office located in Philadelphia, PA. The audit covered the period October 2007 through September 2012 but was expanded as necessary to accomplish our objective.

To accomplish our objective, we

- Reviewed relevant background information, including prior HUD OIG audit reports and GAO reports.
- Interviewed headquarters staff of HUD's Office of Public Housing Investments and GAO personnel.
- Reviewed applicable HUD rules, handbooks, notices, and guidance.
- Reviewed HUD's organizational chart related to the program.
- Reviewed program agreements, annual plans, and reports for four agencies in Region 3.
- Reviewed site visit reports for four agencies in Region 3.
- Reviewed HUD's annual performance plans for fiscal years 2011 and 2012.
- Reviewed applications and related evaluations for the four agencies HUD recently selected to participate in the program.
- Reviewed proposed legislation to expand the program.

We nonstatistically selected as our sample four housing agencies within Region 3: the Housing Authority of Baltimore City, the District of Columbia Housing Authority, the Philadelphia Housing Authority, and the Housing Authority of the City of Pittsburgh.

We considered data in HUD's Public and Indian Housing Information Center database. We used the data obtained by HUD to determine whether agencies substantially served the same number of families as if they had not participated in the program. The data did not materially affect our results; thus, we considered the data adequate for our purposes.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Policies and procedures – Controls that HUD has implemented to ensure that housing agencies meet statutory goals and requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- HUD lacked controls to allow it to determine whether housing agencies met statutory goals and requirements.

## FOLLOW-UP ON PRIOR AUDITS

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**Moving to Work  
Demonstration: Opportunities  
Exist to Improve Information  
and Monitoring - Audit Report  
GAO-12-490, Dated April 19,  
2012**

GAO audited the program because Congress was considering expanding the program and asked GAO to examine the program's success in addressing the three primary program objectives, HUD's monitoring efforts, and the potential benefits of and concerns about expansion. GAO found that opportunities existed to improve HUD's methods for evaluating the program. GAO recommended that HUD (1) improve its guidance on reporting performance information, (2) develop a plan for identifying and analyzing standard performance data, (3) establish programwide performance indicators, (4) systematically identify lessons learned, (5) clarify key terms, (6) implement a process for assessing compliance with statutory requirements, (7) perform annual assessments of program risks, and (8) verify the accuracy of self-reported data.

HUD generally or partially agreed with seven of the recommendations. HUD disagreed with the recommendation that it establish programwide performance indicators. However, GAO believed performance indicators were critical to demonstrating program results and, thus, maintained its recommendation. In June 2013, GAO testified to Congress that HUD had revised agency reporting requirements since it issued its report. GAO is reviewing the new requirements.

HUD expects that its revised reporting requirements will address recommendations 1, 2, 5, 6, and 8. Although it initially disagreed with the recommendation to implement programwide performance indicators, HUD stated that its goal was to implement the recommendation by the end of fiscal year 2014. Also, as stated in the report, HUD had initiated steps to perform a program risk assessment and was working on determining an appropriate process to verify agencies' self-reported performance data. However, as of the date of this report, all of the recommendations remained open.

**Additional Details To  
Supplement Our Report on  
HUD's Fiscal Years 2012 and  
2011 Financial Statements -  
Audit Report 2013-FO-0003,  
Dated November 15, 2012**

HUD OIG audited HUD's consolidated financial statements in accordance with the Chief Financial Officers Act of 1990. Among the deficiencies found, HUD did not establish monitoring tools necessary to ensure that the Moving to Work statutory goals were met, finalize or implement performance measures and the methodology needed to evaluate the performance of agencies in achieving the program objectives, and establish adequate tools to verify the reliability of reported program data.

HUD OIG made the following related recommendations: (1) develop, implement, and document methodologies to calculate and track performance measures to enable comparability of data among agencies and ensure the reliability of reported data; (2) develop, implement, and document standardized reporting requirements for the program data and results for all participant agencies; (3) update the program plan and report review procedures to include steps to verify the reliability of presented data against HUD systems and retain all supporting documentation as evidence of controls performed; and (4) ensure that the staffing and funding levels for the program office are adequate to provide proper oversight of the program.

To resolve the audit recommendations, HUD proposed actions with target dates ranging from December 2013 to December 2014. HUD OIG agreed to HUD's proposed actions and target dates. All of the recommendations were open as of the date of this report.

# Appendix A

## AUDITEE COMMENTS AND OIG'S EVALUATION

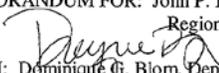
### Ref to OIG Evaluation

### Auditee Comments

  
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-5000  
OFFICE OF PUBLIC AND INDIAN HOUSING

August 29, 2013

MEMORANDUM FOR: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

FROM:  Dominique G. Blom, Deputy Assistant Secretary for Office of Public Housing Investments, PI

SUBJECT: Response to Discussion Draft Report: HUD Oversight of Its Moving to Work Demonstration Program Needs Improvement

We have reviewed the discussion draft report regarding the oversight of the Moving to Work (MTW) program. As our office and other leadership in the Office of Public and Indian Housing (PIH) has conveyed to you and your staff, many of the observations and recommendations made in the discussion draft were addressed in the General Accountability Office report (GAO-12-490 – Moving to Work Demonstration: Opportunities Exist to Improve Information and Monitoring) issued in May 2012. The Department has concurred with the GAO recommendations and is working to implement them. Many of those recommendations are repeated in this report.

Similarly, the Office of Inspector General (OIG) reviewed the MTW program as part of both its 2011 and 2012 review of the Department's financial statements. In particular, OIG issued several management recommendations in 2013-FO-0003 (Additional Details to Supplement Our Report on HUD's Fiscal Years 2012 and 2011 Financial Statements) which have been agreed to by the Office of Public and Indian Housing (PIH). PIH staff has continued to provide progress reports to the lead auditor on these management decisions, none of which have reached their final action target dates.

Consequently PIH's concern is less about the content of those recommendations, which for the most part it agrees with, but the fact that it is already working to implement management decisions that mirror these recommendations. Duplication of effort by program staff and reporting progress to different auditors in OIG neither advances the goals of the MTW program nor does it serve to advance the improvements recommended by GAO and OIG.

The OIG has also made recommendations that are outside the purview of my office and are better directed to other offices in the Department. Please note that should the report be issued with these recommendations, PIH will not accept them. Given that three recommendations are duplicative and three recommendations are outside the purview of my office, PIH is requesting that this audit not be issued.

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Comment 1  
Comment 2

Comment 3

Comment 4

Comment 1

Accordingly our responses to the specific recommendations are as follows:

**Comment 5**

Recommendation 1A. Develop program-wide performance indicators based on the results from agencies' self-reported data. Recommendation 2C of OIG Audit 2013-FO-0003 (develop, implement, and document methodologies to calculate and track performance measures to enable comparability of data among MTW PHAs and ensure the reliability of reported data) was issued on 11/15/12. HUD presented an action plan for implementing this recommendation on 2/7/13 and OIG concurred on the plan on 2/22/13. Since a plan to develop performance indicators is already underway under a separate audit, and which is more extensive than this audit recommendation, PIH believes this recommendation does not need to be issued.

**Comment 6**

Recommendation 1B. Continue to work with HUD's Office of Policy Development and Research to obtain funding to evaluate the program. PIH requested Transformation Initiative (TI) funds to perform a program evaluation in January 2010. No funding was forthcoming from that request. In subsequent discussions with the Office of Policy Research and Development (PD&R), it stated that it would investigate awarding an evaluation contract in fiscal year 2014.

At this point, there is no perceptible benefit to a recommendation to PIH that it continue to talk with PD&R, since such a recommendation does not advance the evaluation and is something that PIH intends to do in any event. If it is OIG's intention to ensure that an evaluation is performed, then this recommendation should not be issued to this office but instead directed to PD&R, since that office has the necessary funding and resources to conduct the study.

**Comment 7**

Recommendation 1C. Cease expansion of the program until program-wide performance indicators are in place and program evaluation results warrant program expansion. Currently MTW is limited to thirty-nine public housing authorities (PHAs). Only Congress is able to expand the demonstration program, notwithstanding any position, whether favorable or unfavorable, on the part of the Department. HUD does not believe that this recommendation serves any purpose, and in any event cannot be carried out by either the Deputy Assistant Secretary or program staff and so should not be issued as a part of this report.

**Comment 8**

Recommendation 1D. Continue to develop and implement procedures to verify agencies' compliance with key statutory requirements. At the time the GAO report was issued, the revised Annual MTW Plan and Report requirements (HUD-50900) had not been revised. With the completion of that revision and its implementation, HUD is now able to verify compliance with the statutory requirements, and this recommendation is now complete. HUD has taken the following actions regarding compliance with the key statutory requirements.

Statutory Requirement	Current Tracking/Monitoring
At least 75 percent of the families assisted by participating demonstration PHAs shall be very low-income families, as defined in section 3(b)(2) of the United States Housing Act of 1937.	<b>Completed.</b> The revised Attachment B/Form 50900 requires that agencies report additional verifiable information to confirm compliance with this statutory requirement. The Public Housing Information Center (PIC) also captures information about the income of assisted families. An initial assessment conducted by HUD confirms that at the present time approximately 90% of the residents at MTW agencies

	are very-low income.
Establish a reasonable rent policy, which shall be designed to encourage employment and self-sufficiency.	<b>Completed.</b> Each rent policy to encourage self-sufficiency is locally defined. This information can be verified in consultation with currently reported information in the MTW Plans and Reports (HUD-50900).
Continuing to assist substantially the same total number of eligible low-income families as would have been served had the amounts [of funding] not been combined.	<b>Completed.</b> HUD issued PIH Notice 2013-2 as part of an extensive effort to provide defensible and quantifiable evidence that MTW agencies are meeting this requirement both individually and as a whole. HUD determined a baseline number of families that the MTW agency was serving upon entry to the demonstration and subsequently adjusted the baseline according to a defined set of variables. Now HUD maintains information on the actual number of families that an MTW agency is serving each year as compared to the adjusted baseline.
Maintaining a comparable mix of families (by family size) as would have been provided had the amounts [of funding] not been used under the demonstration.	<b>Completed.</b> HUD has developed a systematic process for assessing compliance with this statutory requirement in the revised Attachment B/Form 50900. The revised Form 50900, requires MTW agencies to provide numerical information that verifies compliance with this statutory objective.
Assuring that housing assisted under the demonstration program meets housing quality standards established or approved by the Secretary.	<b>Completed.</b> This statutory requirement is assessed as it would be for any other non-MTW agency, as all agencies must meet this standard. A systematic process is managed by the Real Estate Assessment Center (REAC), which oversees on-site physical inspections. Scores for these physical inspections are recorded in HUD's Public Housing Assessment System (PHAS) module under the Physical Assessment Subsystem (PASS) section. While an MTW agency may elect not to be scored in the overall PHAS module (due to other aspects of the calculation that do not match how MTW agencies report information) PASS sub-scores for physical inspections are still recorded and monitored by REAC.

Since there is no additional work to be completed, PIH believes this recommendation does not need to be issued.

## Comment 9

Recommendation 1E. Continue to develop and implement procedures to verify the accuracy of agencies' self-reported performance data. HUD has revised the standard reporting requirements for MTW agencies so that to the greatest extent possible it utilizes information submitted in HUD's systems, as opposed to requiring the submission of duplicative and sometimes conflicting data. HUD has already developed a review methodology and checklist to ensure that plans and reports are submitted per the published submission requirements. Recommendation 2E of OIG Audit 2013-FO-0003 (update the MTW plan and report review procedures to include steps to

**Comment 10**

verify the reliability of presented data against HUD systems and retain all supporting documentation as evidence of controls performed) already addresses the issue of any remaining self-reported data. This recommendation is duplicative and does not need to be issued.

Recommendation 1F. Ensure that annual risk assessments are completed as required. The MTW program office and field offices have conducted joint assessments of MTW agencies to determine if there are any at higher risk. If necessary, follow up actions have been conducted as part of site visits.

If there is a concern that annual program risk assessments should be conducted, that recommendation should be directed to the Chief Financial Officer's office, since it has the responsibility and accountability to manage and oversee the Department's Management Control program, as set forth in its own Handbook 1840.1.

**Comments 1,  
2, 3, & 4**

In conclusion, we reiterate our position that the recommendations presented in the draft report are duplicative or are not under the direct control of this office. As such, this report should not be issued.

## OIG Evaluation of Auditee Comments

- Comment 1** We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we communicate the results of the audit. Accordingly, the report discusses the audit findings and related recommendations.
- Comment 2** As stated in the section on prior audit reports, GAO made eight recommendations related to the program. Four of the recommendations are included in this report. These four recommendations include the recommendation related to the need for programwide performance indicators, on which HUD initially disagreed with GAO. As acknowledged in the report, HUD is working on resolving most of these recommendations. However, we believe it is important to make these same recommendations because they have not been completely resolved, and about 14 years after the demonstration program was implemented to achieve cost effectiveness, incentivize families to become self-sufficient, and increase housing choices for low-income families, HUD has yet to demonstrate that the program has met the purposes for which it was established. To reduce the reporting burden, HUD can provide us a copy of its planned actions in place with GAO and we will track the resolution of these recommendations through GAO's report. We have revised the conclusion in the finding to clarify this in the report.
- Comment 3** We are encouraged that HUD agreed with the recommendations in OIG Audit Report 2013-FO-0003 and is working on resolving those recommendations. We are also pleased that HUD, for the most part, agrees with our audit recommendations and is only concerned that they appear duplicative. However, while the audit recommendations in this report appear to mirror recommendations from the prior audit referenced, the recommendations in this report are valid as explained in comments 5 and 9 below.
- Comment 4** We have considered management's comments and determined that all of the audit recommendations are appropriately directed to the Office of Public and Indian Housing. However, we have updated recommendation 1C, as explained in comment 7, to reflect reasonable action that HUD can take to address the related concern discussed in the audit finding.
- Comment 5** The referenced recommendation from the prior OIG audit is not the same as the recommendation in this report or the recommendation GAO issued. Implementing performance measures to enable comparability of data among agencies and ensuring the reliability of reported data is not the same as implementing programwide performance indicators to determine whether the program as a whole is meeting the purposes for which was established. HUD's action plan for implementing the recommendation from the prior OIG audit did not address the need for developing programwide performance indicators. HUD needs to establish programwide performance indicators that will allow it to determine whether the program has produced the intended results, particularly as

Congress considers whether to expand the program. Therefore, the recommendation in the prior OIG audit report should have a different management decision and needs to be addressed separately from GAO's recommendation.

**Comment 6** We acknowledged the Office of Public and Indian Housing's efforts to obtain funding for program evaluation. The Office of Public and Indian Housing is responsible for administering the program. Also, it was the Office of Public and Indian Housing that established, as a control, a plan to evaluate the program in 2011 and 2014 to determine whether agencies should continue in the program. We believe this is a critical control that the Office of Public and Indian Housing should implement. As stated in the report, the Office of Policy Development and Research told OIG that it had reserved funds for a program evaluation in 2014 and that it planned to reserve additional related funding in fiscal year 2014. Since it is responsible for program administration, the Office of Public and Indian Housing should coordinate with the Office of Policy Development and Research to ensure that program evaluation occurs in accordance with its program monitoring policies or determine another way to evaluate the program in fiscal year 2014. We updated the recommendation to reflect that the Office of Public and Indian Housing is responsible for ensuring that the program is evaluated.

**Comment 7** We recognize that HUD does not have the authority to expand the program. However, in a program report to Congress in August 2010, HUD recommended that the program be expanded by up to twice its size, or from 35 to 60 participating agencies.<sup>6</sup> Also, in its fiscal year 2014 budget request presented to Congress in April 2013, HUD proposed a substantial expansion of the program to high-capacity agencies. We have updated the recommendation to emphasize that the program must be evaluated before expansion and to delay adding program participants until it has implemented programwide performance indicators and determined that program evaluation results warrant program expansion.

**Comment 8** We evaluated HUD's revised Form 50900 during the audit. Although the form includes standard metrics that were organized to assist HUD in determining agencies' compliance with the statutory requirements, agencies will continue to self-report data to support compliance. However, HUD has not determined how it will verify the data for accuracy as required by recommendation 1E. During the audit, HUD officials stated that HUD planned to establish a means of verifying the accuracy of self-reported data, either through audits or during annual site visits. However, until HUD finalizes such procedures, the verification to determine compliance will not be reliable. Therefore, the audit recommendation will need to remain open until recommendation 1E is completed.

**Comment 9** As stated above, we evaluated HUD's revised Form 50900 during the audit and determined that HUD needs to implement additional verification procedures.

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<sup>6</sup> Moving to Work: Interim Policy Applications and the Future of the Demonstration, August 2010

The referenced recommendation from the prior OIG audit asked HUD to implement steps to verify the reliability of presented data against its systems. Our recommendation and GAO's recommendation did not ask for HUD to only implement a verification process for data it has in its systems. HUD still needs to address how it will verify self-reported information that it does not have in its systems. Therefore, the recommendation in the prior OIG audit report needs to be addressed separately from GAO's recommendation. Although HUD officials stated that HUD planned to verify agencies' self-reported data through audits or during annual site visits, HUD had not implemented or finalized such procedures.

**Comment 10** In the GAO report, HUD agreed that it needed to conduct an annual program risk assessment and described its plans to develop a formal risk-based strategy for monitoring. During our audit, HUD officials stated that HUD had not performed annual program risk assessments. According to HUD officials, the Office of Public and Indian Housing recently performed an internal review of potential program risk areas and planned to develop a basic risk assessment based on the internal review.

During the exit conference, HUD officials stated that the Office of Public and Indian Housing performed overall risk assessments that would cover the Moving to Work program. After we received HUD's response to the draft report, we asked it to provide documentation on the joint assessments it stated it had performed. HUD provided a writeup on issues related to five participant agencies it had classified as "at risk" as of October 2012. This writeup did not address the requirement for an annual program risk assessment as outlined in HUD Handbook 1840.1 and described in the report.

During the audit, the HUD Office of the Chief Financial Officer confirmed that each program office is required to perform an annual risk assessment of its programs and maintain related supporting documentation. Given the specific statutory goals and requirements related to the program and the flexibility awarded to participant agencies, we agree with GAO's recommendation and HUD's initial response, which recognized that annual program risk assessments were necessary. Accordingly, HUD needs to complete the program risk assessment it said it had started and ensure that it completes annual program risk assessments.