



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

August 26, 2015

MEMORANDUM NO:
2015-CH-0802

Memorandum

TO: Dominique Blom
Deputy Assistant Secretary, Office of Public Housing Investments, PI

//signed//

FROM: Kelly Anderson
Regional Inspector General for Audit, Chicago Region, 5AGA

SUBJECT: HUD's Office of Public Housing Investments Could Improve Its Oversight of the Chicago Housing Authority's Exception Payment Standards Under Its Moving to Work Housing Choice Voucher Program

INTRODUCTION

We reviewed the U.S. Department of Housing and Urban Development's (HUD) oversight of the Chicago Housing Authority's Moving to Work program based on a congressional request¹ and media attention regarding the Authority's exception payment standards. Our objective was to determine whether HUD provided adequate oversight of the Authority's Moving to Work exception payment standards.

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 HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the review.

METHODOLOGY AND SCOPE

We performed our review from March through June 2015 at the HUD Office of Inspector General's (OIG) Chicago and Columbus offices located at 77 West Jackson Boulevard, Chicago, IL and 200 North High Street, Columbus, OH, respectively. The review covered the period January 2009 through February 2015, and was expanded as determined necessary.

¹ The congressional request was from former Congressman Aaron Schock.

To accomplish our objective, we reviewed

- Applicable laws and regulations, including the Omnibus Consolidated Rescissions and Appropriations Act of 1996, the United States Housing Act of 1937 as amended, 2 CFR (Code of Federal Regulations) Part 225 (Office of Management and Budget Circular A-87), 24 CFR Part 982, and HUD's Office of Public and Indian Housing Notices 2011-45 and 2000-46.
- HUD's amended and restated Moving to Work program agreement with the Authority and its amendments 1 through 6, Review Procedures for Annual Moving to Work Plans and Reports, Moving to Work Desk Guide, Moving to Work Report to Congress (August 2010), Moving to Work site visit notes for the Authority for 2010 through 2013, and the organizational chart for its Office of Public Housing Investments.
- The Authority's Moving to Work program annual plans for 2009 through 2013, amended Moving to Work program annual plan for 2014, and Moving to Work program annual reports for 2009 through 2014.

We also interviewed the appropriate staff at HUD's Office of Public Housing Investments.

We performed our review in accordance with generally accepted government auditing standards, except that we did not assess the effectiveness of internal controls. These facts do not affect the significance of the conditions identified in this memorandum. Further, we believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our review objective.

We provided our review results to HUD's Deputy Assistant Secretary for the Office of Public Housing Investments during the audit. We asked HUD to provide written comments on the memorandum by August 17, 2015. HUD agreed with the results of the review and the recommendation, but chose not to provide formal written comments on the memorandum.

BACKGROUND

The Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134, 110, Statute 1321, 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 for providing and administering housing assistance that: (1) reduce cost and achieve greater cost effectiveness in Federal expenditures; (2) give incentives to families with children in which the head of the household is working; seeking work; or participating in job training, educational programs, or programs that assist people in obtaining employment and becoming economically self-sufficient; and (3) increase housing choices for low-income families.

In pursuit of these objectives, Congress exempted Moving to Work housing agencies from many portions of the U.S. Housing Act of 1937 and associated regulations. In addition, the agencies were authorized to combine funds for the Housing Choice Voucher program and

public housing capital and operating funds interchangeably. The Chicago Housing Authority was approved to participate in the program on February 20, 2000. The Moving to Work agreement requires the Authority to abide by the statutory requirements in Section 8 of the Act and the annual contributions contract, except as necessary for the implementation of its Moving to Work Demonstration initiatives.

Through a previous audit of the Chicago Housing Authority's Moving to Work exception payment standards, we identified that the Authority lacked documentation to support that its policy increasing the exception payment standards up to 300 percent of HUD's 50th percentile rents was reasonable and cost effective. According to the Authority's Moving to Work agreement with HUD, a goal of the Moving to Work program is to design and test innovative methods of providing housing and delivering services to low-income households in an efficient and *cost-effective* manner. In addition, the agreement authorized the Authority to adopt and implement any *reasonable* policy to establish payment standards, rents, or subsidy levels for tenant-based assistance.² However, the Authority was unable to support that its policy increasing the exception payment standards up to 300 percent of HUD's 50th percentile rents was reasonable and cost effective (see Office of Inspector General audit report 2015-CH-1001, issued February 24, 2015).

RESULTS OF REVIEW

HUD's Office of Public Housing Investments could improve its oversight of the Authority's Moving to Work exception payment standards to ensure that expenditures for related activities in the Authority's annual Moving to Work plans and reports are reasonable and cost effective.

The Authority, in its pursuit of meeting the statutory objective of increasing the housing opportunities for low-income individuals, requested HUD's approval in its 2010 Moving to Work plan to increase its exception payment standards up to 300 percent of HUD's fair market rents. In September 2010, HUD approved the Authority's plan with the caveat that the approval was not an endorsement of the policies and procedures contained in the plan. According to HUD, although it had authorized the Authority to establish exception payment standards up to 300 percent of HUD's 50th percentile rents, it believed that this activity would be a small part of the Authority's program with a *low number* of participating households. Therefore, HUD believed that the Authority's policy was reasonable and cost effective at the time.

After the Authority received approval for the increased payment standards, it established criteria to self-certify³ the exception payment standards and in January 2011, it began providing housing assistance to low-income households using the increased standards. By the end of the Authority's 2011 fiscal year, nine households had received assistance using exception payment standards. At the end of fiscal year 2014, the number of households using the standards had

² Moving to Work agreement, attachment C, section D.2.a

³ In accordance with 24 CFR (Code of Federal Regulations) 982.503, public housing agencies have the ability to establish rents between 90 and 110 percent of HUD's fair market rents. HUD may approve exception payment standard amounts above 110 percent *if justified and supported*. However, since HUD approved the Authority to increase its exception payment standards up to 300 percent of HUD's 50th percentile rents, the Authority could approve exception payment standards above 110 percent without HUD's review and approval.

increased to 985. According to HUD, it had met informally with the Authority and communicated its concerns regarding the rapid increase in the number of households participating in the Authority's program using exception payment standards.⁴ However, the Moving to Work program was designed to allow authorities the flexibility to experiment and test new approaches or strategies in administering their programs as long as they met one of the three statutory objectives. In the Authority's case, that objective was to increase the housing choices for low-income households. According to HUD, if the Authority's increased exception payments provided additional housing choices, the Authority complied with the statute.

The Authority's Moving to Work agreement authorized it to adopt and implement any *reasonable* policy to establish payment standards, rents, or subsidy levels for tenant-based assistance that differed from the program requirements in the 1937 Act and its implementing regulations. Because the Authority was granted the authority to self-certify its exception payment standards, HUD assumed that the Authority had completed an appropriate analysis⁵ before it requested approval to increase its exception payment standards. However, our previous audit of the Authority's Moving to Work exception payment standards identified that the Authority could not (1) explain why the Authority decided to use 300 percent as the maximum exception payment standard percentage or (2) recall whether an analysis was completed to determine that the percentage was reasonable and cost effective.⁶ Therefore, HUD could benefit from improving its oversight of the Authority's Moving to Work exception payment standards by implementing additional review policies and procedures, which would ensure that activities included in the Authority's plans and related reports were justified, reasonable, and cost effective; in the context of the program statute and agreements.

RECOMMENDATIONS

We recommend that the Deputy Assistant Secretary of HUD's Office of Public Housing Investments

- 1A. Implement adequate policies and procedures to ensure that the activities included in Authority's plans are (1) allowable under the Moving to Work statutory purposes, (2) described in sufficient detail to convey anticipated impacts (including financial impact), and (3) in accordance with the terms and authorizations set forth in the Moving to Work agreements.⁷

⁴ HUD's internal notes from its July 31, 2013 onsite monitoring visit indicated that HUD and the Authority agreed that the Authority would provide support to show that the increased exception payment standards were necessary and not excessive.

⁵ An analysis would include a survey, study, or similar research that evaluated costs and benefits.

⁶ See the Background section of this audit report for report details.

⁷ This recommendation should apply to all public housing agencies under Moving to Work agreements to ensure consistency within the program.

Appendix A

HUD's MOVING TO WORK AGREEMENT BETWEEN HUD AND THE AUTHORITY

The amended and restated Moving to Work agreement between HUD and the Authority, executed February 20, 2000, states that the program was established to give public housing agencies and 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 the household is working; seeking work; or participating in job training, educational programs, or programs that assist people in obtaining employment and becoming economically self-sufficient; and (3) increase housing choices for low-income families. In pursuit of these objectives, Congress exempted Moving to Work housing agencies from many portions of the U.S. Housing Act of 1937 and associated regulations.

The amended and restated Moving to Work agreement between HUD and the Authority, executed February 20, 2000, states that it is a goal of this program to design and test innovative methods of providing housing and delivering services to low-income families in an efficient and cost-effective manner and that HUD and the Authority agree to fully cooperate with each other to make this program a success.

The amended and restated Moving to Work agreement between HUD and the Authority, executed February 20, 2000, attachment C, section D.2.a, states that the Authority is authorized to adopt and implement any reasonable policy to establish payment standards, rents, or subsidy levels for tenant-based assistance that differ from the program requirements in the 1937 Act and its implementing regulations.⁸

⁸ According to HUD, public housing agencies under Moving to Work agreements are required to meet at least one of the three objectives cited in the statute for activities included in their annual plans.