AUDIT REPORT

SEATTLE HOUSING AUTHORITY'S
ADMINISTRATION OF THE
WELFARE-TO-WORK
SECTION 8 TENANT-BASED ASSISTANCE PROGRAM
SEATTLE, WASHINGTON

2003-SE-1003

MAY 29, 2003

OFFICE OF AUDIT, REGION 10
SEATTLE, WASHINGTON

audit report

Issue Date
May 29, 2003
Audit Case Number
2003-SE-1003

TO: Stephanie Avery, Acting Director for the Supportive Services and Grant Programs Division, Office of Public Housing and Voucher Programs, PE

//Signed//

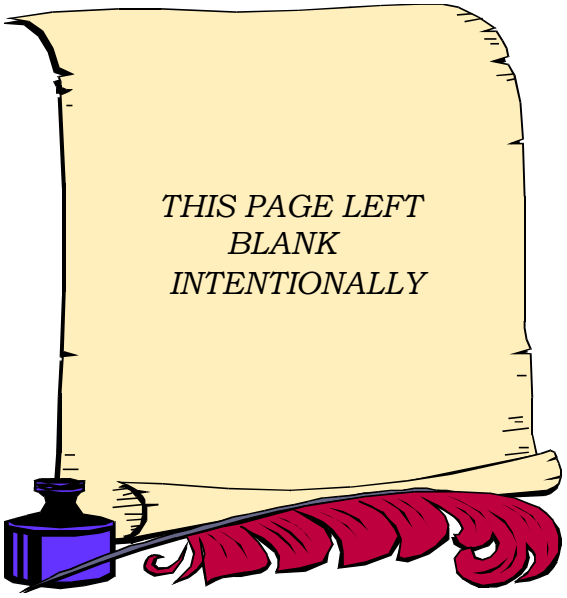
FROM: Frank E. Baca, Regional Inspector General for Audit, 0AGA

SUBJECT: Final audit report of the Seattle Housing Authority's Administration of the Welfare-to-Work Section 8 Tenant-Based Assistance (WtW) Program, Seattle, Washington

In response to a citizen's complaint, we conducted an audit of the Seattle Housing Authority's administration of its HUD-subsidized Welfare-to-Work Section 8 Tenant-Based Assistance (WtW) Program. The audit resulted in three findings, discussed in this report.

Within 60 days, please give us, for each recommendation in this report, a status report on: (1) the corrective actions taken; (2) the proposed corrective action and the date to be completed; or (3) why action(s) is considered unnecessary. Also, please furnish us with copies of any correspondence or directives because of the audit.

Should you or your staff have any questions, please call me at (206) 220-5360.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Executive Summary

In response to a citizen's complaint, we conducted an audit of the Seattle Housing Authority's administration of its HUD-subsidized Welfare-to-Work Section 8 Tenant-Based Assistance (WtW) Program. The complaint alleged that the Seattle Housing Authority (Authority) is not properly administering its WtW program when selecting program voucher recipients, and procuring the services of nonprofit organizations to assist and recruit prospective WtW program applicants. Our overall objective was to determine if the complaint was valid: whether the Authority administered its WtW program in accordance with program requirements and its own policies and procedures. Specifically, we wanted to determine if the Authority properly selected its WtW program participants, and followed HUD's procurement requirements and its own procurement policies and procedures.

We found that the complaint was generally valid. We believe that in its haste to get its Welfare-to-Work program vouchers leased up by the deadline, the Authority disregarded program requirements, and did not provide adequate management oversight over program implementation. Specifically, the Authority improperly selected families for the WtW program, and did not meet its responsibilities under the program in that it did not have adequate policies, procedures, and resources, and did not properly oversee the program. Further, the Authority disregarded its Section 8 Waiting List applicants when it made a commitment of 31 WtW program vouchers to Fremont Public Association's (FPA's) Solid Ground Program clients. As a result, the Authority did not achieve the objective of the WtW program to assist eligible families in transitioning from welfare to work. In addition, the Authority denied many long-time Section 8 Waiting List applicants the opportunity to participate in a program that would help them transition from welfare to work. Also, although the Authority followed its procurement requirements, it spent $130,391 of WtW funds on ineligible costs.

Selection of WtW Program Participants

The Authority improperly selected families for the WtW program when it did not (1) determine for each family that tenant-based housing assistance was critical to their ability to obtain or retain employment, (2) select Section 8 Waiting List applicants, (3) determine Temporary Assistance for Needy Families (TANF) eligibility of families, (4) select families from its Section 8 Waiting List by application date and time, and (5) adequately support the TANF eligibility of the families as required. We are recommending that HUD require the Authority to take corrective action to comply with WtW program requirements and reimburse the program for ineligible costs. Also, we are recommending that HUD review the Authority's performance as a designated Moving-to-Work (high performer) authority (see Finding 1).

In addition, the Authority disregarded its Section 8 Waiting List applicants when it awarded 31 WtW program vouchers to Fremont Public Association's (FPA's) Solid Ground Program clients. We are recommending that the Authority reimburse the program for ineligible costs (see Finding 2).

As a result, the Authority did not achieve the objective of the WtW program to assist eligible families in transitioning from welfare to work. In addition, the Authority denied many long-time Section 8 Waiting List applicants the opportunity to participate in a program designed to help them transition from welfare to work.

Procurement of Services

We did not find any significant issue on the Authority's procurement of services from three nonprofit organizations; however, we found that the Authority spent funds on ineligible services. Specifically, the Authority spent $130,391 of the WtW program's Housing Assistance Payment funds in contracting with three nonprofits for ineligible housing counseling and referral services. The Authority could have used these funds to assist WtW program eligible families. We believe this occurred because the Authority misunderstood program requirements, and are recommending that HUD require the Authority to reimburse the program for ineligible costs and comply with WtW program cost requirements.

The Authority Disagreed with the Draft Report

We provided the Authority Board and management officials with a draft report a week prior to our exit conference on March 17, 2003, and discussed the findings with them. The Authority Executive Director responded with written comments to the draft report on April 21, 2003, generally disagreeing with our findings but agreeing there is need for improvement. The findings section of this report summarizes and evaluates the Authority's comments. A copy of the Authority's full response is included in Appendix B.

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Abbreviations

Authority	Seattle Housing Authority
CFR	Code of Federal Regulations
DSHS	Department of Social and Health Services
FPA	Fremont Public Association
HAP	Housing Assistance Payment
HUD	Housing and Urban Development
IDHA	International District Housing Alliance
IT	Information Technology
MOU	Memorandum of Understanding
MtW	Moving-to-Work
NOFA	Notice of Funding Availability
OIG	Office of Inspector General
SHA	Seattle Housing Authority
TANF	Temporary Assistance for Needy Families
TDHE	Tribally Designated Housing Entities
WtW	Welfare-to-Work
YWCA	Young Women's Christian Association

Introduction

Background

The Welfare-to-Work Program. The United States Department of Housing and Urban Development (HUD) has long maintained that stable affordable housing is a critical but often missing factor in a family's transition from welfare to economic independence. The large number of working families that continue to have worse case housing needs suggests that simply obtaining a job will neither resolve a family's housing problems nor provide economic stability. Thus, Congress appropriated $283 million in Fiscal Year 1999 to fund 50,000 Welfare-to-Work Rental Voucher Program units. The program was intended to reduce some of the barriers that low-income families face as they move towards self-sufficiency, including:

- Overcrowded, unstable or unsafe living conditions that make it difficult for family members to arrive at work each day on time to perform their best,

- Housing far from work, childcare, and public transportation, making it difficult for the family to get to work,

- Escalating rents, which leave families at risk of missing rent payments, facing eviction, and having to move. This instability negatively affects their ability to work, and

- Working wages that are disproportionate to the rising costs of housing, leaving little disposable income for basic needs and employment-related expenses such as transportation, childcare, and clothing.

The Section 8 rental assistance is to be provided in connection with programs where the Housing Agency has demonstrated that tenant-based rental assistance is critical to the success of eligible families to obtain or retain employment.

Of the $283 million appropriated for the program, $248.2 million was made available to housing agencies, tribes or Tribally Designated Housing Entities (TDHEs) through the national competition under HUD's Notice of Funding Availability in the Federal Register (64 FR 4496) dated January 28, 1999. The funding was only for Section 8 Welfare-to-Work rental voucher housing assistance and regular Section 8 administrative fees for administration of such housing assistance. HUD awarded 121 Welfare-to-Work grants to 129 agencies. One of the recipients for the award is the Seattle Housing Authority who applied jointly with King County Housing Authority.

Seattle Housing Authority. The Seattle Housing Authority administers its public housing programs through HUD under the provisions of the United States Housing Act of 1937, as amended. The Authority currently manages over 11,000 HUD-assisted public housing units. The primary purpose of the Authority is to provide decent, safe and sanitary, and affordable housing to low-income and elderly families in Seattle, Washington, and to operate its housing programs in accordance with federal and state laws and regulations. Although not a component unit of the City of Seattle, the Authority's seven-member Board of Commissioners was

appointed by the Mayor of the City of Seattle. Mr. Harry Thomas, Executive Director, is in charge of the Authority's day-to-day operations.

HUD recognized the Authority as a high performing large housing authority and subsequently selected the Authority as one of the twenty-five participants in its Moving-to-Work (MTW) Demonstration Program effective on January 13, 1999. The MTW program allowed the Authority an exemption from certain HUD regulations and reporting requirements and flexibility to combine its HUD funding for reallocation among the Authority's operating, capital and development grants' activities.

In November 1999, HUD granted more than $4.5 million to the Authority in Welfare-to-Work Section 8 Tenant-Based Assistance Program funding for 700 WtW program vouchers for a 20-month period. This initial grant was followed by two additional funding renewals for 7 and 12 month-periods, respectively. Total funding for the 39 months amounted to $14,919,950.

Effective Date	Expiration Date	Amount Funded
11/1/99	6/30/01	$ 4,564,687
7/1/01	1/31/02	3,130,414
2/1/02	1/31/03	7,224,849
TOTAL		$14,919,950

HUD allowed housing authorities to issue more WtW program vouchers than the number stated on the grant, although funding remained fixed. As of April 2002, the Seattle Housing Authority had 922 vouchers used (leased up) by program participants, including all 895 Authority administered and 27 of the FPA administered vouchers.

Audit Objectives, Scope and Methodology

We performed an audit of the Authority's housing program administration and operations to address allegations of mismanagement. Our audit objective, based on the allegations, was to assess the validity of the complaint indicating that the Authority is not properly administering its HUD-funded WtW program. Specifically, we wanted to determine whether the Authority (1) properly selected its WtW program participants, and (2) followed HUD procurement requirements and its own procurement policies and procedures when it contracted for the services of three nonprofits to recruit and assist prospective WtW program participants.

To achieve our objectives, we performed audit procedures that included:

Obtaining and reviewing:

- HUD's Notice of Funding Availability for the Welfare-to-Work Section 8 Tenant-Based Assistance Program for Fiscal Year 1999 and the applicable consolidated Annual Contributions Contract to determine and understand:
    - The program purpose,
    - The Housing Agency's responsibilities under the program, and
    - The program requirements the families must meet to be selected for the program.
- 24 Code of Federal Regulations 982 and HUD's Guidebook 7420.10G to understand the family eligibility and re-certification requirements, and the Housing Agency and family responsibilities under the Section 8 Tenant-Based Assistance (housing choice voucher) program.
- HUD files and other related records of the Authority's WtW program grant to determine the Authority's funding for the program.
- The HUD-approved funding application to determine the Authority's planned admission and selection process and steps for ensuring a family's progress to self-sufficiency, how it would implement the program, and the organizational capacity to successfully and timely implement the program.
- The Authority's procurement policy to understand the applicable Authority's policies and procedures for contracting.
- Authority procurement and accounting records related to contracts with three nonprofit organizations for

providing services under the WtW program to determine if the contracts were proper and the costs eligible.

- The Authority's September 1998 Section 8 Administrative Plan to determine the Authority policies and procedures for determining applicant or family eligibility, selecting applicants, briefing applicants and documenting supporting data, and whether the policies and procedures are adequate and consistent with program requirements.

- The available lists of applicants that the Authority submitted to the Washington State Department of Social and Health Services (DSHS) for screening under the Temporary Assistance for Needy Families (TANF) program and the corresponding match lists that the DSHS sent to the Authority to determine if a sample of applicants on the Authority's Section 8 Waiting List were on the lists the Authority provided to DSHS.

- A statistically drawn sample of 67 out of 895 WtW voucher participants (excluding the 27 WtW voucher participants partly administered by the Fremont Public Association) to determine if the participants were properly selected and eligible for the program.

- The 27 WtW program participants' applications partly administered by the Fremont Public Association from May to June 2001 to determine if the Authority properly awarded the vouchers to FPA and its clients were eligible.

- The vouchers issued to the WtW program participants and other related documents the Authority used for the program to identify and obtain an understanding of the family obligations for the WtW program.

Interviewing:

- HUD program staff to obtain an understanding of the requirements the Authority must follow when administering its WtW program, the prescribed standards the Authority must adhere to when reporting program results to HUD, and the reports the Authority must submit to HUD and how often these reports are submitted.

- Authority staff involved with its WtW program to understand their roles and responsibilities, and obtain information about how the Authority implemented the WtW program, and management's instructions for implementing the program.

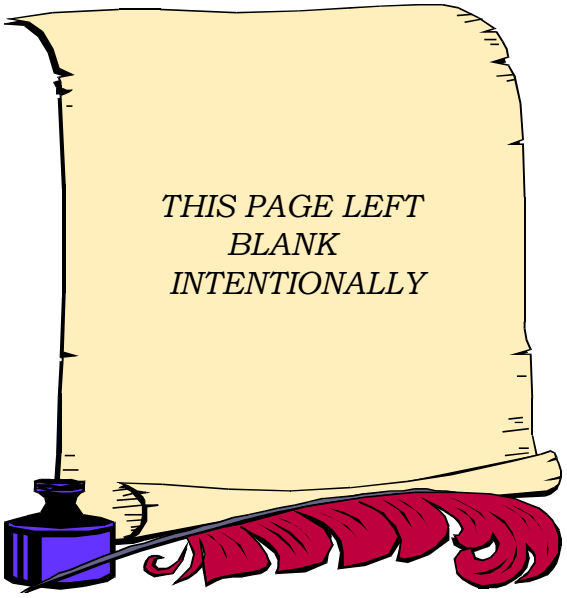
- The Authority's nonprofit contractors to obtain an understanding of the types of services they provided to the Authority under the WtW program, and to obtain copies of contracts or agreements and other related records.

- The WorkFirst Coordinator and the Customer Relations Manager of the Washington State Department of Social and Health Services (DSHS) to obtain an understanding of the functions the DSHS performed for the Authority's WtW program.

- Some current WtW participants to obtain their views on how the program is working.

Our audit generally covered the period from October 1998 to September 2001, although we extended this period as appropriate. We performed audit fieldwork from March 2002 to February 2003 at the offices of the Authority and its nonprofit contractors, and at the housing units of some current WtW program participants in Seattle, Washington.

We conducted the audit in accordance with generally accepted government auditing standards.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The Authority Did Not Achieve the Objective of the Welfare-to-Work Section 8 Program

We believe that in its haste to get its Welfare-to-Work program vouchers leased up by the deadline, the Authority disregarded program requirements, and did not provide adequate management oversight over program implementation. Specifically, the Authority neither properly selected families for the WtW program nor met its responsibilities under the program in that it did not have adequate policies, procedures, and resources, and did not properly oversee the program. As a result, the Authority did not achieve the objective of the WtW program to assist eligible families in transitioning from welfare to work. In addition, the Authority did not give consideration to many long-time Section 8 Waiting List applicants, therefore denying them the opportunity to participate in a program that would help them transition from welfare to work.

Program and Authority Requirements

HUD's Notice of Funding Availability (NOFA) for the Welfare-to-Work Section 8 Tenant-Based Assistance Program for Fiscal Year 1999. The NOFA provides the family eligibility requirements as well as the responsibilities of a Housing Agency under the WtW program. Specifically, Section IV(A) of the NOFA includes the following family eligibility requirements:

- "Section 8 Welfare-to-Work Rental Voucher eligible family" means a family that, in addition to meeting the eligibility requirements of the normal tenant-based Section 8 assistance program, also meets the following additional requirements:

    - When initially selected for welfare-to-work rental voucher assistance, families must be eligible to receive, be currently receiving, or shall have received within the preceding two years, assistance or services funded under the Temporary Assistance for Needy Families (TANF) program[1],

[1] The U.S. Department of Health and Human Services oversees the Temporary Assistance for Needy Families program. TANF provides assistance and work opportunities to needy families by granting states the federal funds and wide flexibility to develop and implement their own welfare programs. In Washington, the Department of Social and Health Services (DSHS) administers the TANF program.

- Tenant-based housing assistance must be determined to be critical to the family's ability to successfully obtain or retain employment, and

- The family shall not already be receiving tenant-based assistance under Section 8 of the United States Housing Act of 1937 (1937 Act – 42 U.S.C. 1473f).

- To be eligible for selection for the Section 8 Welfare-to-Work Rental Voucher Program, families must be on the Waiting List used by the Housing Agency for its tenant-based Section 8 program.

In addition, Section IV(B) of the same NOFA states that a Housing Agency must:

- Modify its selection system to require the selection of Section 8 Welfare-to-Work Rental Voucher Program eligible families for the program,

- Select families on the Section 8 Waiting List in accordance with the established selection policies in the Housing Agency's Administrative Plan,

- Administer the rental assistance in accordance with applicable voucher program regulations and requirements and the Housing Agency's Section 8 Administrative Plan, and

- Provide rental assistance to another Welfare-to-Work eligible family selected from its Section 8 Waiting List if, during the term of the Welfare-to-Work funding, Section 8 rental assistance for a family under this program is terminated.

Code of Federal Regulations (CFR). The federal regulations at 24 CFR 982.54 require the Authority to modify its Section 8 Administrative Plan to cover policies on special rules for use of funds for a special purpose, which included funding for specified families or a specified category of families.

HUD-approved WtW program Funding Application. The Authority promised HUD it would implement the WtW program by following the admission and occupancy

process, the steps for a family's progress to self-sufficiency, and the implementation process that it described to HUD in the funding application.

The Authority's Section 8 Program Administrative Plan. The Authority's September 1998 Section 8 Program Administrative Plan contains the policies and procedures that were in effect prior to and during its implementation of the WtW program. This Administrative Plan requires the Authority to:

- Determine the eligibility of families on the basis of income and family composition,
- Select applicants from its Section 8 Waiting List by the date and time of their application,
- Determine the applicant's qualification for any of the statutory federal preferences as well as any ranking preferences prior to issuing a voucher, and
- Not issue Section 8 vouchers to any applicant initially receiving assistance unless that applicant is income eligible and qualifies for statutory federal preferences and/or ranking preferences.

Under its WtW program, the Authority executed a Memorandum of Understanding with the Washington State Department of Social and Health Services

Prior to applying jointly for HUD's WtW program funding in April 1999, the Seattle Housing Authority and King County Housing Authority executed a Memorandum of Understanding (MOU) with the Washington State Department of Social and Health Services or DSHS (the state's administrator of Temporary Assistance for Needy Families (TANF) program). Under this MOU, the DSHS agreed to screen the list of names of persons who were currently receiving TANF or have received TANF in the past two years. The Authority would provide to DSHS an initial list of names and families on its Section 8 Waiting List. The number of names would be dependent on the amount of vouchers awarded to the Authority. The names would be provided in electronic format. The DSHS would review the names and inform the Authority within 30 days of receipt of each list whether a family is currently receiving or has received within the two preceding years, assistance or services under the TANF program.

The Authority, on a quarterly basis, would provide DSHS additional names of families on the Section 8 Waiting List. If a family were to be identified as not having received any TANF assistance either currently or within the preceding two years, DSHS would determine whether a family is eligible to receive TANF assistance by requiring individual families to apply for TANF assistance at a DSHS Community Service Office. DSHS would make the determination within 30 days of the date it receives a complete application.

From the DSHS's screened list, the Authority would start making contact with participants who appeared to be eligible for the WtW program. Once the eligible recipient had been notified of the availability of a WtW program voucher, the Authority would provide the individual forms to complete for the Authority to verify his/her eligibility for the WtW program. The Authority would use the Section 8 orientation session to provide prospective residents with information about the availability of WtW program.

Organization and duties of staff that implemented the Authority's WtW program

The former Director of Resident Services, who later became the Admissions Director, oversaw the overall implementation of the WtW program until about October 2000. After HUD granted a WtW funding increment to the Authority in November 1999, the Authority developed a group of staff from its Admissions and Section 8 (Occupancy) departments. The group consisted of:

- Two Eligibility Specialists who reviewed the files of applicants for family eligibility and selection;
- An Admission Manager who managed the implementation of the program;
- A Section 8 Review Specialist who performed an audit of applicant files for accuracy and completeness; and
- Section 8 staff that prepared and issued the vouchers.

One of the two Eligibility Specialists was involved in the implementation of the WtW program from February 2000 to April 2001, and the other was involved from April 2000 to September 2001. The two Eligibility Specialists determined the eligibility of applicants and selected

participants for the Welfare-to-Work program. Starting from the top of the DSHS match (or screened) list, the two Eligibility Specialists performed the following:

- Prior to May 2000, they sent 2,000 notification letters to applicants listed on the DSHS match or screened list to inform them of the availability of the WtW program and invite them for orientation and interview.

- Between May 2000 and November 2000, the two Eligibility Specialists interviewed 1,102 applicants (out of 2,000) who showed up. Of the 1,102 applicants interviewed, 874 were issued vouchers.

- Between November 2000 and December 2000, they interviewed 147 applicants assisted and referred by three nonprofits: namely, Fremont Public Association (FPA), International District Housing Alliance (IDHA), and Young Women's Christian Association (YWCA).

- Upon receiving completed forms from the applicants, they verified the income of the applicants, and determined if the applicants were income eligible, and were eligible for federal preferences for homelessness, substandard housing, rent burden[2], and involuntary displacement.

The Authority did not properly select WtW program participants

The Authority improperly selected families for the WtW program when it did not (1) determine for each family that tenant-based housing assistance was critical to their ability to obtain or retain employment, (2) select Section 8 Waiting List applicants, (3) determine TANF eligibility of families, (4) select families from its Section 8 Waiting List by application date and time, and (5) adequately support the TANF eligibility of the families as required.

No determination that tenant-based housing assistance was critical to the families' ability to obtain or retain employment

The Authority improperly selected families for the WtW program when it did not determine for each family that tenant-based housing assistance was critical to the families' ability to obtain or retain employment. The WtW program

[2] An applicant family is rent burden preference-eligible if the family's total rent and utilities exceeds 50 percent of the total family income.

applicant/participant files and other Authority WtW program records did not show that the Authority performed such a determination. Interviews with some WtW participants indicated that the determination of applicant's ability to obtain or retain employment was not a significant part of the Authority's WtW program.

One of the Eligibility Specialists said they did not know they had to determine that tenant-based housing assistance is critical to the families' ability to obtain or retain employment. Since they did not know that this was a requirement, they did not determine the families' eligibility based on this program requirement.

Interviews with five current WtW program participants indicated that assessing applicants' ability to obtain or retain employment was not a significant part of the Authority's WtW program. None of the five participants knew they were participating in the Welfare-to-Work program, but instead thought they were receiving regular Section 8 assistance. Also, none of the five gave any indication that the rental assistance was critical to their ability to obtain or retain employment.

In addition, the Authority had stated it would follow up and evaluate the success of the WtW program. The Authority would measure the actual WtW program outcomes by adding two to four brief, targeted questions to the annual re-certification to determine whether the WtW program housing assistance had supported each participant's ability to move towards self-sufficiency. However, the Authority did not follow through with this evaluation. Instead, the Authority annually re-certified both normal Section 8 and WtW program participants in the same manner.

Applicants not always selected from Section 8 Waiting List

The Authority did not always select Welfare-to-Work applicants from its Section 8 Waiting List as required. We statistically selected and reviewed the files of a sample of 67 of 895 WtW program participants who received WtW program vouchers through April 2002 (excluding 27 participants from Fremont Public Association's Solid Ground Program as discussed in Finding 2). Our review results indicated that of the 67 participants, 56 were initially listed and 10 were not initially listed on the

Authority's Section 8 Waiting List. We could not determine if one applicant was initially listed on the Authority's Section 8 Waiting List prior to selection because the file did not indicate the actual date of application. Of the 10 not initially listed, 9 were added to the Section 8 Waiting List after their applications were processed. One applicant was never on the Section 8 Waiting List because this applicant was initially on King County Housing Authority's Section 8 Waiting List and was ported out to the Seattle Housing Authority to receive a WtW program voucher.

TANF eligibility of families not determined

The Authority did not always determine the eligibility of families for Temporary Assistance for Needy Families (TANF) assistance. Specifically, the Authority did not always determine the TANF eligibility of Section 8 Waiting List applicants who did not have a match (or were skipped over) during the Washington State Department of Social and Human Services' (DSHS) TANF screening or matching process because of either incorrect applicants' data or information in the Authority's Section 8 Waiting List. In addition, the Authority did not perform TANF eligibility for applicants that were not currently or had not received TANF assistance for the past two years.

The DSHS WorkFirst Coordinator and the Customer Relations Manager said DSHS did not determine if an applicant who did not have a match was eligible to receive TANF assistance. The Authority knew that DSHS performed a match only for those applicants currently receiving or who had received TANF assistance for the past two years, but did not perform TANF eligibility determination for those who might have been eligible for TANF.

Although the DSHS, under a Memorandum of Understanding with the Authority, agreed to determine eligibility of WtW program applicants not currently receiving or who had not received TANF assistance in the past two years, the Authority still was responsible under program requirements to determine TANF eligibility for the WtW program applicants.

HUD issued WtW program guidance that instructed housing authorities to develop a workable and efficient procedure with the TANF agency such as partnering to conduct TANF eligibility verification, and training Authority staff to verify TANF eligibility in-house. However, the Authority did not follow these guidelines. The current Authority Resident Services Administrator said that the Authority did not have a mechanism in place to determine if a family or an applicant was TANF eligible. The two Eligibility Specialists involved in the implementation of the WtW program stated that they determined TANF eligibility of applicants who were skipped over during DSHS matching process by calling DSHS, but only for those families who called about the status of their WtW program applications.

Families not selected from Section 8 Waiting List by application date and time

The Authority's Administrative Plan provides that families are first selected according to the applicant's claimed preference (such as homeless or rent burdened). Applicants with the same preference are selected according to the date and time of the initial application. However, the Authority did not follow this process in selecting WtW families off the Waiting List. We determined the Waiting List positions of 66 out of the 67 sampled WtW program participants using the Section 8 Waiting List covering the period July 1990 to August 2002. For 66 of the 67 sampled WtW program participants, the Authority did not select these participants from the Section 8 Waiting List in date and time order, or in federal preference-eligibility order. Our results showed that the Section 8 Waiting List positions of the 66 WtW program participants ranged from 3,667 to 16,375. The Waiting List did not have enough information to determine the position on the List for one of the 67 sampled participants.

Inadequate support for the TANF eligibility of the WtW program participants

A review of the files for the 67 sampled WtW program participants found that the Authority did not have adequate support for the TANF eligibility of 13 participants. Specifically, the Authority had no support at all for 8 participants and inadequate support for 5 participants.

The Authority did not meet its responsibilities under the program

The Authority did not meet its responsibilities under the program in that it did not have adequate policies, procedures, and resources, and did not properly oversee the program. The Authority was not fully prepared for administering a time-sensitive program with a large voucher allocation.

Specifically, the Authority did not ensure that (1) operating procedures were established to successfully implement the program, (2) its Section 8 Program Administrative Plan complied with program requirements prior to implementing the WtW program, (3) adequate staff resources were allocated to successfully and timely implement the WtW program, (4) families were informed of their obligations under the WtW program, (5) Authority officials assigned to oversee the implementation of the program knew of the Authority's responsibilities for administering the WtW program, (6) its Administrative Plan containing written policies and procedures were communicated to the staff involved in the implementation of the WtW program, and (7) its Section 8 Waiting List contained accurate and complete information of Section 8 housing program applicants.

Operating procedures to successfully implement the program were not established

As described in its funding application, the Authority promised HUD it would successfully achieve the WtW program objectives by following the implementation steps and the process for family's progress to self-sufficiency, and by using its experience in administering HUD-assisted housing programs. We determined that the Authority did not prepare an adequate design for successfully implementing a time-sensitive program with a large voucher allocation. Specifically, it did not establish written operating procedures aligned with what they promised HUD to successfully implement the program. Also, the Authority did not follow through the process for each of the family's progress to self-sufficiency. Further, our review results indicated that, although HUD considered the Authority a high performing Housing Agency, the Authority did not perform as such when it implemented its WtW program.

Administrative Plan did not comply with program requirements prior to implementing the WtW program

Federal regulations require the Authority to modify its Section 8 Administrative Plan to cover policies on special rules for use of funds for a special purpose, which included funding for specified families or a specified category of families. The Notice of Funding Availability for the WtW program indicated special rules or requirements on family eligibility and selection. We found that the Authority did not modify its Administrative Plan to include the special rules or requirements for selecting WtW program participants; therefore, its Plan was not consistent with program requirements.

Inadequate staff resources were allocated to successfully and timely implement the WtW program

Although it initially recognized in its HUD-approved funding application that the program was time-sensitive and thus extra staff was needed, the Authority did not actually allocate adequate staff resources to ensure proper and prompt implementation of the program within HUD's timeframe. Also, after HUD funded the Authority's WtW program, the Authority had requested HUD to change the effective date of the grant to January 2000 instead of November 1999 because the Authority needed to hire and train extra staff considering such a large allocation of program vouchers. However, according to the staff involved in the implementation of the program, the Authority did not hire additional staff to help implement the WtW program.

The former Admissions Manager said that without enough staff, the Authority pressured the Admissions department to get the WtW program implemented before the budget Authority expired. Also, the Authority's lack of adequate staff resources appeared to have contributed in untimely accomplishing its leasing schedule that it initially planned. Per the HUD-approved funding application, the Authority had planned on placing all 700 WtW program families at the end of 12 months, but had actually placed only 454 (65 percent).

Families not informed of their obligations under the WtW program

HUD regulations (24 CFR 982.552(d)) require housing authorities to provide the family with a written description of family obligations under a voucher program. Although HUD did not identify any mandatory family obligations under the WtW program other than the family responsibilities identified for the regular Section 8 program, it had given the Authority the discretion to develop policies related to family obligations for the WtW program. The Authority did not develop any policies related to family obligations under the WtW program. Therefore, during family briefings Authority staff did not inform WtW families of their family obligations under the program, other than their normal Section 8 program obligations. Because the Authority did not have policies related to family obligations and did not inform the WtW families of any WtW-related obligations, the Authority could not deny or terminate the WtW program assistance of the families for not meeting any WtW obligations. Also, the HUD-prescribed vouchers that the Authority issued to the WtW families indicated that these families were not contractually obligated under the WtW program, but were only contractually obligated under the normal Section 8 program. The HUD-prescribed voucher is one of the prescribed forms that HUD required housing authorities to use for the voucher program.

Management assigned to oversee the implementation of the program were misinformed about the Authority's responsibilities for administering the WtW program

The former Resident Services or Admissions Director said that when she was overseeing the implementation of the WtW program, they tried initially to help program participants move from welfare to work by informing them during briefings of job resources under the Job Connection program that the Authority was administering for the United States Department of Labor. However, she stated that this was stopped because the former Authority Deputy Director (who subsequently replaced her) said it was taking so much time to do this. She said that the former Deputy Director told her that the role of the Authority was to issue the program vouchers and not to help program voucher

holders in leasing and transitioning from welfare to work because these were nonprofits' responsibilities. The former Deputy Director said that the Authority needed non-profits' services, such as finding housing for the WtW program voucher holders.

Policies and procedures were not communicated to the staff involved in the implementation of the WtW program

The two Eligibility Specialists were not aware of any Administrative Plan. One of the Eligibility Specialists said that they never received any direction or plans from anyone about how to determine if applicants on the Authority's Section 8 Waiting List were missed during DSHS data matching.

Section 8 Waiting List did not have accurate and complete information about Section 8 housing program applicants

We found indications that the Authority's Section 8 Waiting List contained inaccurate and incomplete applicant information.

- The Authority Information Technology (IT) staff responsible for preparing the lists for DSHS's TANF eligibility screening said she found out from the DSHS's first match list that the applicant information on the Authority's Section 8 Waiting List was not always accurate and complete.

- The two Eligibility Specialists told us that some Section 8 Waiting List applicants were missed during DSHS's TANF matching or screening because of misspelled applicants' names and incorrect applicants' social security numbers in the Authority's Section 8 Waiting List. The Eligibility Specialists did not do anything to verify the correct names and social security numbers of all applicants because they had so many names in the Section 8 Waiting List to go through.

- The former Authority Admissions Manager who managed the implementation of the program acknowledged that they encountered some delays in implementing the program primarily because of matching problems.

We believe the Authority disregarded program requirements in its haste to get the WtW program vouchers leased up by the deadline

In our opinion, the Authority disregarded program requirements in its haste to get the WtW program vouchers leased up by the deadline, even though HUD had provided the Authority additional time at the start and end of the implementation. In November 1999 when HUD allocated WtW program vouchers to housing agencies that applied for funding, HUD granted the Authority a January 2000 effective start date of its WtW Consolidated Annual Contributions Contract. Also, HUD had granted the Authority a six-month extension of its WtW program implementation due date from December 2000 to June 2001. The Authority had the opportunity to ask HUD for another extension of its implementation due date.

As a result, the Authority did not achieve the WtW program objective, and may have denied Section 8 Waiting List applicants the opportunity to get selected for affordable housing assistance

The Authority did not achieve the objective of the Welfare-to-Work program to assist eligible families in transitioning from welfare to work when it (1) did not determine that the assistance was critical to the families' ability to obtain or retain employment, and (2) improperly selected families for the WtW program. Also, the Authority may have denied many long-time Section 8 Waiting List applicants the opportunity to participate in the WtW program.

Overall Auditee Comments

The Authority concurred with some of the findings in the draft report, but strongly disagreed with others. It acknowledged there were mistakes in management and administration and was taking steps to correct, but firmly believed that it successfully, and in good faith, implemented the WtW program according to program requirements. The Authority conceded to a number of areas where improvement was needed and indicated it had addressed several of the issues. Also, the Authority stated it met the overall objectives of the program in a timely manner, thus allowing applicants to live closer to their work and succeed in reaching their employment goals. Overall, the Authority said it felt that management and administrative errors identified in the audit led the audit staff to overlook the genuine successes that it achieved through the program.

OIG Evaluation of Overall Auditee Comments

We disagree with the Authority's contention that it implemented its WtW program in accordance with program requirements and maintain the validity of the findings. Further, we disagree with the Authority's contention that it met the overall objectives of the program in a timely manner. The intent of the WtW program was to determine if rental assistance to qualified participants was critical to their ability to obtain or retain employment. The Authority's hasty and improper implementation of the program did not achieve this objective, but instead only resulted in the leasing up WtW vouchers that did not differ significantly from regular Section 8 vouchers without adhering to Waiting List requirements.

Auditee Comments on Finding 1, and OIG Evaluations of the Comments

The Authority improperly selected families for the WtW program:

(1) No determination that tenant-based housing assistance was critical to the family's ability to obtain or retain employment

Auditee Comments

The Authority believed that the basic premise of the finding, "the Authority improperly selected families for the WtW program when it did not determine for each family that tenant-based housing assistance was critical to their ability to obtain or retain employment" is faulty. It went on, stating that there was no program requirement to screen each individual applicant for this specific criterion but rather that the Notice of Funding Availability (NOFA) specified that each housing authority would determine how applicants were selected. The Authority also said it provided vouchers to DSHS-identified TANF recipients, and that there wasn't any statute, regulation or HUD guideline which mandated that the determination of need be made individually for each applicant.

In its response, the Authority states "The primary concern raised by the investigation relates to SHA's implementation and overall administration of the Welfare-to-Work program. The basis of this concern is a fundamental difference between SHA and the IG over Program requirements. SHA's understanding, since the Program began, has been that Welfare-to-Work applicants referred by DSHS are, by definition, qualified for the program."

The Authority stated that in its HUD-approved funding application it explained in detail why tenant-based assistance is critical to the success of assisting eligible families to obtain or retain employment. The Authority's responsibility was to provide vouchers and find housing for those participants under the DSHS' WorkFirst Program because the WtW housing subsidy was critical to all participants in the WorkFirst Program as they attempted to obtain or retain employment. Once referred by DSHS' WorkFirst, the Authority said it would process applications for the WtW program as it did any other Section 8 applicant. In its written comments, the Authority stated that: "Under the terms of a Memorandum of Understanding between SHA and the State Department of Social and Health Services (DSHS), DSHS and WorkFirst were responsible for identifying TANF eligible WorkFirst participants. All WorkFirst Program participants were employed or seeking employment and, according to the housing market conditions described in SHA's Welfare-to-Work application, were in critical need of subsidized housing to obtain or retain that employment."

OIG Evaluation of Auditee Comments

We disagree with the Authority's contention that no statute or HUD guidelines and regulations existed mandating that such determination be made individually for each applicant. The NOFA had four criteria that WtW participants must meet. TANF participation or eligibility was only one of four criteria. The NOFA makes no assumption that TANF eligibility automatically qualifies an applicant for participation in the WtW program. If TANF eligibility automatically qualified applicants for the WtW program, then the NOFA would not have had to include the second criteria, which requires that, *in addition to* TANF eligibility, "Tenant-based assistance must be determined to be critical to the family's ability to successfully obtain or retain employment." The word "family's" used in this criteria and elsewhere in the NOFA clearly refers to an individual rather than a collective eligibility determination.

We further dispute the Authority's contention regarding the WorkFirst program. The Memorandum of Understanding between the Authority and DSHS only states that WtW clients "…will have the choice to fully avail themselves of this assistance, which includes employment services." Also, as stated in the finding, none of the five WtW

participants we interviewed knew they were participating in the WtW program, nor did they give any indication that the rental assistance was critical to their ability to obtain or retain employment.

(2) Applicants not always selected from Section 8 Waiting List

Auditee Comments

The Authority stated in its response that it appropriately selected from its Section 8 Waiting List. With respect of the nine who were added to the Section 8 Waiting List after their applications were processed, the Authority said it initially exhausted the Section 8 Waiting List with respect to TANF eligible applicants. The Authority also stated that "Time was the essence, given the leasing deadlines imposed on the program, so applications were sometimes accepted and processed before the Waiting List data elements were entered into the Section 8 Waiting List database."

OIG Evaluation of Auditee Comments

We disagree with the Authority when it said it appropriately selected its WtW program participants from its Section 8 Waiting List. Based on our review results, the Authority did not comply with the WtW NOFA requirements and its Section 8 Administrative Plan when it did not select all families from its Section 8 Waiting List. The Authority's comment that it initially exhausted the Waiting List with respect to TANF *eligible* applicants is incorrect. The Authority might have exhausted the list of TANF *matches* from DSHS, but there were thousands of other Waiting List applicants that were not TANF matches, and the Authority did not determine whether these applicants were TANF eligible. Further, by stating that it sometimes processed applications before data elements were entered in the Waiting List, the Authority admits that it did not always make selections from the Waiting List.

(3) TANF eligibility of families not determined

Auditee Comments

The Authority stated that it was not its responsibility to screen TANF eligibility of applicants because under its Memorandum of Understanding with DSHS, the DSHS had the responsibility for such a determination. "Full responsibility for determining TANF eligibility was delegated to DSHS…" The Authority also stated that it "…made no commitment to make independent TANF

eligibility determinations for Section 8 applicants rejected by DSHS, nor was such an obligation imposed by any statute, regulation or guideline. The findings do not specify the standard that SHA violated by not determining whether these rejected Section 8 applicants might have been eligible for Welfare-to-Work vouchers."

In addition, the Authority indicated that examining each applicant for which there was no DSHS match would have been an unreasonable administrative burden, that the objective of the WtW program was to provide needed housing as quickly as possible, and that if it had been required to take the time to review every applicant, it is unlikely the WtW program objectives would have been realized. The Authority stated: "The concerns raised by this finding elevate Section 8 procedures above the substance of the Welfare-to-Work program."

OIG Evaluation of Auditee Comments

We disagree with the Authority's contention that it was not its responsibility to determine the TANF eligibility of families. The Authority cannot absolve itself from its obligation to ensure that TANF eligibility was properly determined simply by stating in its application that DSHS would perform certain functions of the WtW eligibility process. Ultimately, the Authority had the sole responsibility for ensuring that the TANF eligibility of all applicants was determined. Further, the Authority did not bring to DSHS's attention the fact that DSHS was not performing all what it promised to the Authority under the Memorandum of Understanding even though Authority staff knew that the DSHS did not perform TANF eligibility determination for those who might have been eligible for TANF (i.e., those that resulted with no matches during DSHS TANF screening).

The Authority violated NOFA requirements that require the grantee to (1) modify its selection system to require the selection of Section 8 Welfare-to-Work Rental Voucher Program eligible families for the program (which includes families that are eligible to receive TANF assistance), and (2) select families on the Section 8 Waiting List in accordance with the established selection policies in the Housing Agency's Administrative Plan. The Authority did not modify its Section 8 selection system, determine TANF eligibility for DSHS non-matches (except for applicants that called the Authority), or select families in accordance with its Waiting List policies.

The Authority may have encountered a heavy and unexpected administrative burden in determining TANF eligibility. However, the Authority might have tried to discuss these difficulties with HUD or DSHS, and possibly arrive at feasible resolutions to the difficulties. Instead, in our opinion the Authority's priority became that of leasing up the WtW vouchers quickly, without adequate regard for eligibility or Waiting List requirements. We do not consider these issues to be simply a matter of placing Section 8 procedures above the substance of the Welfare-to-Work program.

(4) Families not selected from its Section 8 Waiting List by application date and time

Auditee Comments

The Authority contends it appropriately selected families from the Section 8 Waiting list by application date and time of application. Families are selected first according to claimed preference (such as homeless, rent burdened, victim of domestic violence). Applicants with the same preference are taken off the Waiting List according to the date and time of initial application.

OIG Evaluation of Auditee Comments

The Authority is correct in stating that its Administrative Plan selects families by preference first, and we have revised the finding to reflect this. However, this does not change our audit results because the Authority still did not adhere to its policies in selecting WtW families. There were many active and federal preference-eligible applicants listed higher than the 66 out of the 67 sampled WtW participants (excluding the WtW participant that was ported in from King County Housing Authority). The Waiting List positions of the 66 WtW program participants ranged from 3,667 to 16,335.

(5) Inadequate support for the TANF eligibility of the WtW program participants

Auditee Comments

The Authority stated that DSHS made the overwhelming majority of TANF eligibility determinations and that without reviewing the files in question it cannot determine what level of data was available to support the eligibility determinations made by the Authority.

OIG Evaluation of Auditee Comments

Based on the Authority's response, OIG staff reviewed the 51 applications where all items on the forms were not completed, and determined that 5 of the 51 applications involved major deficiencies and 46 had minor deficiencies. We revised the finding accordingly; nevertheless, we still consider 13 of 67 files with inadequate eligibility determination (8 with no support and 5 with major deficiencies) to be significant.

(6) Family income not properly verified
(7) Inadequate documentation supporting federal preference eligibility and citizenship or immigration status
(8) Family background checks not timely

Auditee Comments

The Authority's general comments indicated that these deficiencies were not significant, the issue related to Section 8 rather than Welfare-to-Work, or that it would need to review files to make a determination regarding the reported finding.

OIG Evaluation of Auditee Comments

The OIG concurs that these issues relate more to the regular Section 8 program and, while not unimportant, are less serious than the other issues that relate more directly to the WtW program. We revised the report to take the issues out of the finding and include them in the "Issues Needing Further Study and Consideration" section.

The following were the Authority comments to the causes of our Finding 1, and OIG evaluation of the comments:

(1) Operating procedures to successfully implement the program were not established

Auditee Comments

The Authority stated in its response that the operating procedures that it established to implement the program were set forth in the HUD-approved funding application and the Memorandum of Understanding with the DSHS. These procedures resulted in successfully providing Section 8 Welfare-to-Work vouchers to more than 750 low-income people who needed housing assistance to gain or maintain employment.

OIG Evaluation of Auditee Comments

We disagree with the Authority. The audit results clearly show that the Authority's implementation of its WtW program was characterized by the hasty and improper lease

up of vouchers, and that the intent and objectives of the program were not achieved.

(2) Administrative Plan did not comply with program requirements prior to implementing the WtW program

Auditee Comments

The Authority stated in its response that the finding indicating that the Authority failed to amend its Administrative Plan was based upon the false assumption that the Authority was required to amend its Administrative Plan to implement the WtW program. The Authority said the procedure that it established for administering the WtW program, and the procedure approved by HUD, required the Authority to provide Section 8 vouchers to Welfare-to-Work applicants using the same Section 8 procedures that it used to provide vouchers to other Section 8 applicants. Because no new procedures were used or adopted, no amendment of the Administrative Plan was required. As criteria, the Authority cited federal regulations at 24 CFR 982.54(a) and 24 CFR 982.54(b).

OIG Evaluation of Auditee Comments

We disagree with the Authority's comments. Section IV (B) of the WtW NOFA plainly states that grantees have to "Modify the Section 8 selection system to require the selection of Welfare-to-Work eligible families for the program." Additionally, 24 CFR 982.54(d)(3) requires the Authority to modify its Section 8 Administrative Plan to cover policies on special rules for use of funds for a special purpose, which included funding for specified families or a specified category of families such as occupancy policies including a definition of what group of persons may qualify as a "family." The WtW NOFA specified four criteria, in addition to the eligibility requirements of the normal Section 8 program, that need to be met to satisfy family eligibility under the WtW program. As required by the WtW NOFA and 24 CFR 982.54, the Authority needed to amend its Section 8 Program Administrative Plan to address these additional criteria.

(3) Inadequate staff resources were allocated to successfully and timely implement the WtW program

Auditee Comments

The Authority stated that it implemented the WtW program successfully and timely. It said that the finding is based on the assumption that an independent eligibility

determination was required for *each individual*, and since the Authority did not perform individual determinations, it was able to timely and successfully implement the WtW plan with available staff.

OIG Evaluation of Auditee Comments

We disagree with the Authority and maintain that it did not have adequate staffing resources to implement its WtW program. If the Authority had hired additional staff as it said it would in its HUD approved WtW NOFA application, then it might have been able to properly implement its plan. As it was, the Authority was hard pressed to lease the WtW vouchers in the time available. Faced with the prospect of failing to meet its WtW obligations, the Authority violated eligibility determination and Waiting List requirements to assure that its commitment would be met. We should also note that, when the Authority asked HUD to change the effective date of the grant to January 2000 instead of November 1999, the reason given was to hire and train extra staff, considering such a large allocation of program vouchers; however, no extra staff was ever hired or trained.

(4) Families not informed of their obligations under the WtW program

Auditee Comments

The Authority indicated in its response it properly briefed all WtW voucher recipients about their obligations as participants of the Section 8 Housing Choice Voucher program, which was all that was required by the WtW NOFA. The Authority concedes that it did not specifically inform WtW participants of their opportunities for job counseling and job search assistance as outlined in its WtW application, but instead relied on the recipients' job support providers to monitor employment progress and connect them with employment resources available to them as WorkFirst families.

OIG Evaluation of Auditee Comments

We disagree with the Authority's contention that it properly briefed the WtW program participants of their obligations under the WtW program. As stated in the finding, HUD regulations at 24 CFR 982.552(d) require housing authorities to provide the family with a written description of family obligations under a voucher program. Also, the Authority acknowledged it did not follow its HUD-approved funding application when it did not specifically inform the WtW program participants of opportunities to take advantage of job counseling and job search assistance. Further, as stated in the

finding, none of the five WtW participants we interviewed were aware that they were part of the WtW program.

(5) Management assigned to oversee the implementation of the program were misinformed about the Authority's responsibilities for administering the WtW program

Auditee Comments

The Authority stated that nothing in the WtW NOFA or regulations specifically imposes an obligation upon housing authorities to help program voucher holders in leasing and transitioning from WtW. Under its HUD-approved funding application, the Authority said that its sole responsibilities in administering the WtW program involved issuing program vouchers.

The Authority's implementation role included: (1) hiring staff; (2) identifying and certifying Section 8 participants; (3) orienting tenants and issuing vouchers; (4) conducting outreach to assist in locating available units; (5) providing support for unit lease up; (6) making linkages with Welfare-to-Work partner agencies; and (6) following up and evaluating success (NOFA Application, Tab 3A, Page 7). Nowhere in the application did the Authority would take on the responsibility for helping program voucher holders in transitioning from welfare to work.

OIG Evaluation of Auditee Comments

We disagree that the Authority had no responsibility in leasing and transitioning WtW program participants from welfare to work. Although the Authority relied on job support providers to monitor employment progress and connect participants with employment resources, the Authority still had the ultimate responsibility to ensure that the objective of the WtW program (transitioning program participants from welfare to work or to self-sufficiency) was met. As discussed above, the Authority conceded it did not provide information to WtW program participants about the opportunities of job counseling and job search assistance as called for in its HUD-approved funding application. Further, the Authority promised HUD it would follow up and evaluate the success of the WtW program to determine whether the WtW program housing assistance had supported each participant's ability to move towards self-sufficiency. However, the Authority did not follow through with this evaluation.

(6) Policies and procedures were not communicated to the staff involved in the implementation of the WtW program

Auditee Comments

The Authority stated that the Eligibility Specialists followed the procedures prescribed by their supervisors, which are consistent with the admissions policies described in the Authority's Section 8 Administrative Plan. The Authority emphasized again that it was not required to modify its Section 8 Administrative Plan or adopt of an Administrative Plan for the WtW program.

OIG Evaluation of Auditee Comments

We determined that the Authority did not communicate its Section 8 Administrative Plan to the staff involved in the implementation of the program. Neither of the Authority Eligibility Specialists knew of any Section 8 Administrative Plan, and one of them told us they never received any direction or plans from anyone about how to determine if applicants on the Authority's Section 8 Waiting List were missed during DSHS data matching. Also, as previously stated, the WtW NOFA specifically required the grantee to modify its Section 8 selection system (Administrative Plan).

(7) Section 8 Waiting List did not have accurate and complete information about Section 8 housing program applicants

Auditee Comments

The Authority stated that its Section 8 Waiting List did not have accurate and complete information about Section 8 housing program applicants. It said it is already working to implement changes.

OIG Evaluation of Auditee Comments

The OIG supports the Authority's efforts to improve its Section 8 Waiting List.

Auditee Comments – Recommendation 1A

The Authority said that per its HUD-approved funding application, it was presumed that each participant referred by DSHS was eligible for the WtW program. Reimbursement for the costs paid for any participants referred by DSHS would therefore be inappropriate. Participants not referred by DSHS were properly screened for eligibility, so reimbursement for those participants would also be inappropriate. Also, the Authority said that even if it is now decided that certain of these participants were ineligible,

the Authority should not be required to make reimbursement because the Authority, in good faith relied upon the implementation plan in the HUD-approved WtW funding application. It would be unfair to change the rules and impose new requirements, without notice, after the program has been in operation for more than two years, and then insist the Authority reimburse the program because it failed to comply with rules and requirements of which it had no knowledge.

OIG Evaluation of Auditee Comments – Recommendation 1A

We disagree with the Authority's contention that participants referred or not referred by DSHS were properly screened for eligibility and so reimbursement for those participants would be inappropriate. As explained in Findings 1 and 2, the Authority did not follow program requirements and other federal rules and regulations, or its Section 8 Administrative Plan and HUD-approved funding application when it selected participants for its WtW program. This resulted in the selection of ineligible participants.

Auditee Comments – Recommendation 1B

The Authority stated in its response letter that if its current Administrative Plan is determined to be inconsistent with WtW program requirements, the Authority would immediately revise its Section 8 Administrative Plan to incorporate any lawfully imposed by program requirements.

OIG Evaluation of Auditee Comments – Recommendation 1B

We already determined based on program requirements that the Authority's Section 8 Administrative Plan was inconsistent with program requirements.

Auditee Comments – Recommendation 1C

The Authority stated in its response letter that if its current oversight of the Program were found to be inadequate, the Authority would do whatever was needed to establish adequate oversight procedures.

OIG Evaluation of Auditee Comments – Recommendation 1C

As discussed in the finding, we determined that the Authority did not provide adequate oversight over its WtW program.

Auditee Comments – Recommendation 1D

The Authority acknowledged that it has deficiencies in documentation to support the eligibility of WtW program participants. It stated that it has already adopted measures, to assure that adequate documentation is available to demonstrate the eligibility of program participants and that it welcomes any suggestions in this area.

OIG Evaluation of Auditee Comments – Recommendation 1D

The recommendation remains open until HUD's and OIG's confirmation.

Auditee Comments – Recommendation 1E

The Authority said that it, without question, has the ability to properly determine and house eligible WtW families. If the Authority has not been properly implementing the WtW program, it would do whatever is necessary to comply with WtW program requirements.

OIG Evaluation of Auditee Comments – Recommendation 1E

Based on our finding, the Authority did not properly determine the eligibility of WtW families. We are recommending that HUD require the Authority to take action to properly determine and house eligible WtW program families and that if the Authority cannot properly accomplish this, then consider terminating the Authority's WtW program.

Auditee Comments – Recommendation 1F

The Authority indicated it received no audit findings during the State Auditor's last five annual audits as well as numerous awards including a special HUD award for "Changing the Face of Public Housing." The Authority also said that the WtW program is a relatively new program, and like all new programs it has had start-up problems. The Authority was already aware of some of these problems and had taken steps to correct them prior to the audit. The Authority is now adopting measures to address the problems of which it was not aware that were revealed by the audit.

The Authority further stated that the primary concern raised by the investigation relates to a fundamental difference between the Authority and the IG over program requirements. The Authority's understanding, since the program began, has been that WtW applicants referred by DSHS are, by definition, qualified for the program, and no further determination of their eligibility is, or was required. The IG takes the position that a separate, individual inquiry is needed to determine whether a WtW voucher is truly

critical to the applicant's ability to get or maintain employment. The Authority said that if the IG is right, and the Authority is wrong, the Authority's Moving-to-Work status should not be questioned simply because it implemented the WtW program based upon a misunderstanding of the program's requirements.

OIG Evaluation of Auditee Comments – Recommendation 1F

We consider the numerous serious issues raised in the audit to be more than a matter of start-up problems or differences of opinion between the Authority and the OIG regarding program requirements. In our opinion, the audit results clearly show that the Authority hastily implemented the WtW program, giving priority to voucher lease-ups, and without adequate regard for program oversight, requirements, or resources. We believe the seriousness of the audit results justifies HUD reviewing the Authority's participation in the Moving-to-Work Demonstration Program.

Recommendations

We recommend that HUD require the Authority to:

1A. Reimburse the WtW program grant funds for the costs paid to all ineligible WtW program participants (based on HUD determination on Recommendation 1E).

1B. Establish and implement a Section 8 Program Administrative Plan consistent with program requirements to ensure that new WtW program participants and leasing meet program requirements.

1C. Provide adequate oversight over the WtW program to ensure that:
   a. Program requirements are met,
   b. The program is run efficiently and effectively, and
   c. The Section 8 Waiting List is properly maintained and used.

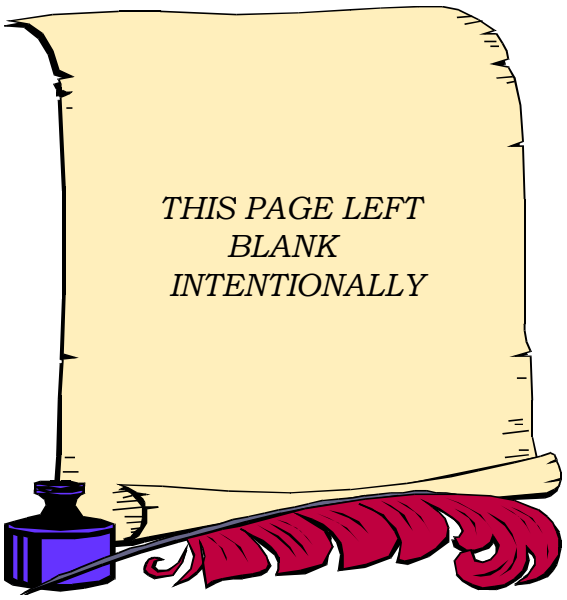
1D. Maintain adequate documentation to support eligibility of program participants.

We also recommend that HUD:

1E. Determine the costs paid to ineligible WtW program participants.

1F. Ensure that the Authority has adequate controls for selecting eligible WtW program families. If the Authority cannot properly accomplish this, then consider terminating the Authority's WtW program.

1G. Determine if the Authority still has the ability to administer HUD-subsidized programs under the Moving-to-Work Demonstration Program.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The Authority Disregarded Its Section 8 Waiting List Applicants When It Committed WtW Program Vouchers to a Nonprofit's Clients

In addition to the improper selection of Welfare-to-Work program participants discussed in Finding 1, the Authority disregarded its Section 8 Waiting List applicants when it made a commitment of 31 WtW program vouchers to Fremont Public Association's (FPA's) Solid Ground Program clients. As a result, the Authority did not consider many long-time Section 8 Waiting List applicants for affordable housing assistance. The Authority PorchLight Housing Director said that by not going through the normal admission and selection process, the Authority could timely lease up all its Welfare-to-Work program units; however, our review found the Authority had leased up the 700 vouchers HUD funded at the time it awarded the 31 vouchers to FPA.

Program and Authority Requirements

The 1999 HUD Notice of Funding Availability (NOFA) for the Welfare-to-Work program requires the Authority to select families from its Waiting List for its tenant-based Section 8 program. The NOFA also requires the Authority to administer its Welfare-to-Work program in accordance with its Section 8 Administrative Plan.

Section 10 of the consolidated Annual Contributions Contract states that the Authority must comply, and must require owners to comply, with the requirements of the U.S. Housing Act of 1937 and all HUD regulations and other requirements, including any amendments or changes in the law or HUD requirements. Federal regulations at 24 CFR 982.54 require the Authority to adopt a written Administrative Plan that establishes local policies for administration of the program in accordance with HUD requirements. The Administrative Plan must state Authority policy on matters for which the Authority has discretion to establish local policies.

The Authority's Section 8 Administrative Plan contains policies and procedures for admitting and selecting Section 8 housing program applicants. The Authority

is required by its own policies and procedures to select applicants from its Section 8 Waiting List.

The Authority disregarded its Section 8 Waiting List applicants when it committed WtW program vouchers to Fremont Public Association's (FPA's) Solid Ground Program clients

In May 2001, the (then) Authority Occupancy Manager met with FPA staff and discussed WtW program vouchers for fiscal year 1999. The former Authority Occupancy Manager provided information to FPA staff about the target dates for submitting applications for the remaining WtW program vouchers to the Authority and for leasing up the units. The Authority also provided FPA staff application packages to use when assisting its Solid Ground Program clients.

On June 12, 2001, the former Authority Occupancy Manager wrote a memorandum to the Authority PorchLight Housing Director seeking permission to commit 33 Welfare-to-Work Section 8 vouchers to FPA. The Authority PorchLight Housing Director, without following the proper admission and selection process, permitted the former Authority Occupancy Manager to commit the vouchers to FPA.

Subsequently, the former Authority Occupancy Manager assigned the Review Specialist to process the applications completed by FPA's Solid Ground Program clients. The Review Specialist said the WtW program applicants should have been first added to the Section 8 Waiting List; however, she did not follow the normal process because she was instructed to process the applications as best and as fast as she could.

Our review of the 33 WtW program applications found that 19 of the 33 applicants from FPA's Solid Ground Program were not listed on the Authority's Section 8 Waiting List. Of the 14 initially listed, all were issued vouchers. All except 2 of the 19 not listed were issued vouchers. Of the two that were not issued vouchers, one did not meet HUD's income requirements, and the other did not respond to the Authority's request.

The PorchLight Housing Director stated there was a two to three-month period when applicants were being put on the Section 8 Waiting List, but because it would take too long to go through the entire admission and selection process, she said these applicants were passed up and the "extra" vouchers were given to FPA's homeless (or Solid Ground Program) clients.

Using the Section 8 Waiting List covering the period July 1990 to August 2002, we determined the positions of all 33 applicants except one whose name was not added to the Section 8 Waiting List. The positions of the 14 applicants who were initially listed on the Section 8 Waiting List ranged from 11,196 to 18,920, and the positions of the 18 who were not initially listed on the Section 8 Waiting List ranged from 17,956 to 18,924.

The Authority Porchlight Housing Director stated that, by not going through the normal admission and selection process the Authority could timely lease up all its Welfare-to-Work program units

The PorchLight Housing Director said that the Authority was under pressure to meet HUD's June 20, 2001 deadline for leasing up all the 700 units under the WtW program. She said that if the Authority could not lease up the 700 units by the deadline date, it would have to give any unused vouchers back to HUD. However, during the period when the Authority was processing the 33 WtW program applications from FPA Solid Ground Program clients, it had already leased the required number (700) of WtW vouchers (701 units were leased up as of June 22, 2001). The Authority issued vouchers to 31 of the 33 applicants, and of these, 27 were used (leased up) by participants; however, 25 of these 27 WtW program vouchers were leased up after the deadline date.

The Review Specialist told us she felt uncomfortable processing the applications, especially since the Authority had already more than 700 WtW program lease ups. She said she raised her concern to her immediate supervisor (the former Authority Occupancy Manager), who told her he had conveyed her concern to the PorchLight Housing Director.

According to the former Occupancy Manager, the PorchLight Housing Director instructed him to give the vouchers to FPA, whereas the PorchLight Housing Director said it was the former Occupancy Manager's idea. Regardless, the PorchLight Housing Director approved the commitment of vouchers to FPA.

As a result, the Authority did not consider many Section 8 Waiting List applicants for affordable housing assistance

The Authority did not give consideration to many long-time Section 8 Waiting List applicants when it processed the applications of the FPA's Solid Ground Program clients. Therefore, these applicants were not given the opportunity to participate in the WtW program.

Auditee Comments

The Authority stated that both the YWCA and the FPA were identified as nonprofit contractors in its HUD-approved funding application. It stated that since FPA fulfilled its referral commitment, the Authority offered FPA an additional opportunity to refer families for the WtW vouchers. The Authority further stated that under the circumstances at the time, issuing vouchers to FPA applicants were reasonable, prudent and lawful. The Authority noted that all FPA referrals for vouchers were ultimately issued under its regular Moving-To-Work, which is not subject to the WtW rules for family selection.

OIG Evaluation of Auditee Comments

Although the Authority stated in its HUD-approved funding application that it would contract with FPA under the WtW program, this did not mean that the Authority should not process FPA referrals or other referrals in accordance with its Section 8 Administrative Plan and the WtW NOFA requirements. The NOFA and its own policies and procedures require the Authority to select families from its Section 8 Waiting List. When the Authority processed the applications of those referred by FPA, it did not follow its policies and procedures. Specifically, the Authority issued vouchers to FPA Solid Ground Program clients, and then added their names into the Section 8 Waiting List. Thus, not only the Authority bypassed many long time applicants listed in the Section 8 Waiting List but also intentionally disregarded program requirements.

The Authority indicated these families now have vouchers under its regular Section 8 program. If so, and the Authority reimbursed the WtW program for the costs associated with those vouchers, then this finding and recommendation can be resolved.

Recommendations

We recommend that HUD require the Authority to:

2A. Reimburse WtW program funds used to assist Fremont Public Association's Solid Ground Program clients.

The Authority Spent $130,391 in WtW Program Funds For Ineligible Contracting Services

The Authority spent $130,391 of the Welfare-to-Work program's Housing Assistance Payment funds for ineligible contracting services. The Authority should have used these funds to provide WtW program assistance to eligible families. This occurred because the Authority misunderstood program requirements.

Program Requirements

The Notice of Funding Availability (NOFA) for the Welfare-to-Work Section 8 Tenant-Based Assistance Program states in Section III(A) that no additional funding is provided under this NOFA for Welfare-to-Work services for families. Funding is only for Section 8 Welfare-to-Work rental voucher housing assistance and regular Section 8 administrative fees for administration of such housing assistance. Also, Section IV(B) of the same NOFA states, "You must administer the rental assistance in accordance with applicable voucher program regulations and requirements and your Section 8 Administrative Plan."

Federal regulations at 24 CFR 982.4 defines "Housing Assistance Payment (HAP)" as the monthly assistance payment by a Public Housing Agency, which includes:

- A payment to the owner for rent to the owner under the family's lease, and
- An additional payment to the family if the total assistance payment exceeds the rent to owner.

The Authority spent $130,391 of the WtW program's Housing Assistance Payment funds for ineligible contracting services

The Authority spent $130,391 in contracting with nonprofit organizations for housing counseling and referral expenses, and accounted for these costs under "Other HAPs." Although some of the services provided by the three nonprofits were related to the WtW program, the costs for such services do not meet federal regulations' definition of a Housing Assistance Payment. The Authority therefore spent $130,391 of the WtW program's Housing Assistance Payment funds for ineligible contracting services.

Nonprofits	Amounts Paid to Nonprofits
Fremont Public Association	49,386
Young Women's Christian Association	31,027
International District Housing Alliance	49,978
Total Amount the Authority Paid Nonprofits Against WtW HAP funds	**$130,391**

The Senior Accountant said the former Authority Occupancy Manager told him during a meeting to charge WtW HAP funds for counseling and referral service costs such as those billed by the three nonprofits.

We believe that the Authority misunderstood program requirements when it misused its WtW program HAP funds by using these funds to pay for ineligible WtW program costs. The Authority should have used the $130,391 to provide WtW program assistance to eligible families.

Auditee Comments

The Authority stated that it spent funds for eligible contracting services but charged those services to the wrong account. The Authority acknowledged this accounting error and had taken funds from its reserves to reimburse the WtW account. The Authority concurred with our recommendation to comply with HUD requirements regarding eligible costs for its WtW program's Housing Assistance Payments.

OIG Evaluation of Auditee Comments

We concur with the Authority's response.

Recommendations

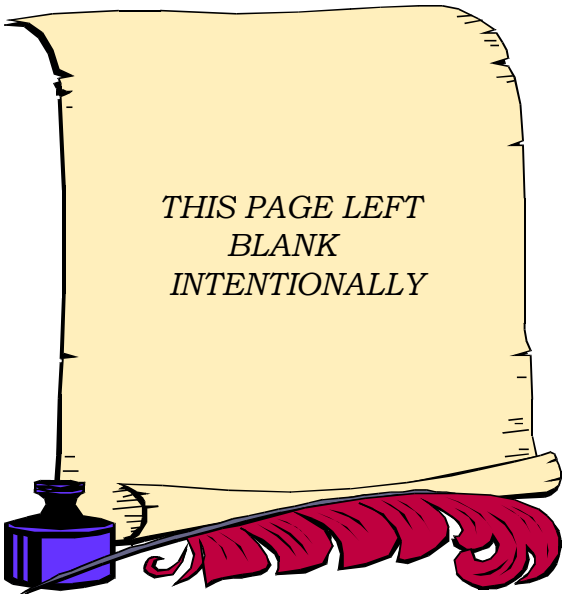
We recommend that HUD require the Authority to:

3A. Reimburse the Welfare-to-Work program's Housing Assistance Payment Funds $130,391 for ineligible costs charged against these funds.

3B. Comply with HUD requirements regarding eligible costs for its Welfare-to-Work program's Housing Assistance Payment funds.

Regarding Recommendation 3A, the Authority's accounting records show repayment to the WtW

program for the ineligible costs. We need to confirm the repayment through HUD Financial Management Center. Upon confirmation, we will close Recommendation 3A and no further action relating to this recommendation would be necessary.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Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

Scope of Work

We assessed all of the relevant controls identified above.

Significant Weaknesses

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

We identified the following significant weaknesses in the Authority's management controls.

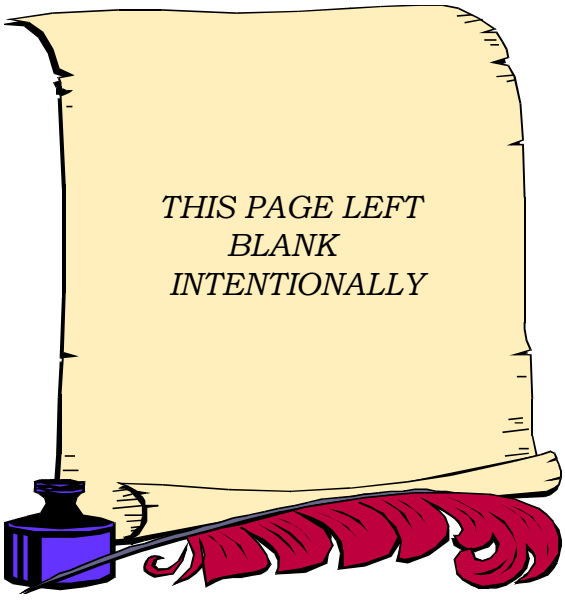
- The Authority selected ineligible families for its WtW program (Findings 1 and 2).

- The Authority misused its WtW program's Housing Assistance Payment funds for ineligible program costs (Finding 3).

Issues Needing Further Study and Consideration

Although not directly related to our audit objectives, our review of Welfare-to-Work files disclosed issues that warrant further consideration by HUD officials.

Family income not properly verified	The Authority did not always properly verify income of the families as required. Of the 67 WtW program participants, the Authority properly verified the income of 55, and did not properly verify the income of the other 12. The Authority verified income of 10 of the 12; however, the documents supporting their income were not current. For the remaining two, the Authority did not verify the employment benefits of one and the employment income of another.
Inadequate documentation supporting federal preference eligibility and citizenship or immigration status	The Authority did not adequately support the federal preference-eligibility for four of the 67 sampled families. Also, the Authority did not have adequate documentation to support the citizenship or immigration status of 29 of the 67 families. Of the 29 not adequately supported, 18 did not have any support at all, 9 had supporting documents more than a year after the voucher was issued, 1 had expired immigration documents, and 1 had immigration documents still under process.
Family background checks not timely	The Authority did not perform timely background checks for 12 of the 67 sampled families. Of the 12, 2 background checks were done after the units were leased up; 3 were performed more than a year prior to voucher issuance; and 7 did not have background checks done.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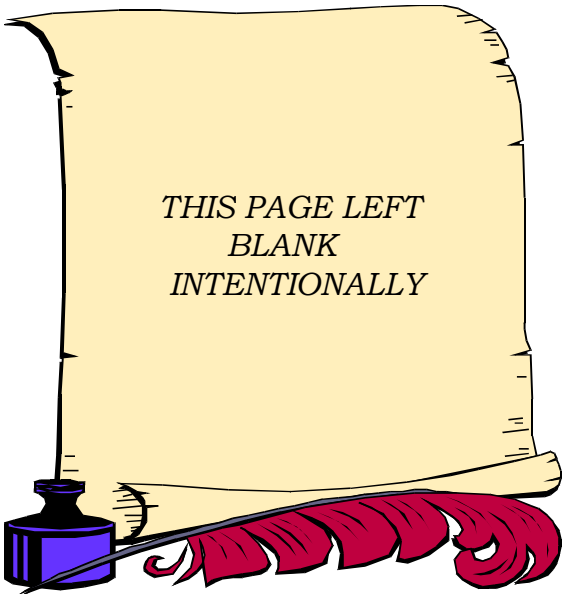
Schedule of Questioned Costs

Recommendation Number	Ineligible Costs
3A	$130,391
Total	$130,391

Ineligible Costs are costs that are clearly not allowed by law, contract, or HUD regulations or requirements.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Auditee Comments

April 21, 2003

Frank E. Baca
Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of the Inspector General for Audit, Region 10
909 First Avenue, Suite 126
Seattle, WA 98104-1000

Subject: Formal response to your audit of Seattle Housing Authority's Welfare-to-Work Section 8 Tenant-Based Assistance Program

Dear Mr. Baca:

Our formal response to your draft audit report of our administration of the Welfare-to-Work program is attached. This response carefully addresses each of the assertions made in your report and demonstrates our successful commitment to the goals and objectives of the Welfare-to-Work program, and to Seattle's low-income residents.

SHA takes this audit seriously. We welcome the opportunity to review our internal processes and address any of HUD's questions or concerns. We are proud of our record of excellent service, but we strive constantly to better serve those Seattle residents who are in need of subsidized housing. As you may be aware, SHA has received numerous awards and commendations, including five consecutive commendations from the Government Finance Officers Association for Excellence in Financial Reporting, for the fiscal years 1997 through 2001. SHA was designated a "high performer" by HUD for six straight years, and for the second year in a row earned a perfect score of 100 percent for the fiscal year ended Sept. 30, 1999. SHA is the largest public housing authority in the nation ever to earn a perfect score. SHA was awarded four "Best Practices" awards by HUD in 2000, the last year they were awarded. The management and staff of the Seattle Housing Authority understands and is committed to the importance of our mission, and we are eager to work with HUD staff to correct any errors identified in this audit.

While we concur with some of the findings in your report, we strongly disagree with others. There were mistakes in management and administration that we acknowledge and have taken steps to correct, but we firmly believe that we successfully, and in good faith, implemented the Welfare to Work voucher program according to the program requirements at the time. Overall we feel that management and administrative errors identified by the audit staff led them to overlook the genuine successes that we achieved through this program.

Within the deadline set by HUD, the Seattle Housing Authority, working quickly *and* deliberately, succeeded in providing needy and qualified applicants with all 700 of the Welfare-to-Work vouchers we contracted to administer. We met the overall objectives of the program in a timely manner, thus allowing applicants to live closer to their work and succeed in reaching their

employment goals. We concede that your staff identified a number of areas where process improvement was needed, and we have already addressed several of these issues. Even so, we believe that our own records demonstrate our success in serving suitable applicants who deserved and benefited from these vouchers.

SHA has benefited from the scrutiny this audit has provided. We have taken the opportunity to review our internal processes and compliance systems, and we have already made the following improvements:

1. We have instituted a system of "peer audits" to improve the accuracy and integrity of our wait list information. This change was instituted over a year ago.
2. We have updated our Section 8 administrative plan, using the update process to establish new partnerships with non-profit community partners.
3. The Section 8 division is currently being reorganized to include the Section 8 admissions process (up until now part of a different division). In the new organizational structure, eligibility determination and voucher issuance is part of one continuous process, insuring that both income documentation and background check information is current at the point of voucher issuance.

To assist us in this matter we have retained former U.S. Attorney Mike McKay to review the Findings and our internal procedures, processes and activities for compliance with applicable regulations and ethical standards. We have also asked for his advice concerning recommended procedural and policy changes to address identified inadequacies or deficiencies.

Throughout our implementation of the Welfare-to-Work Program, we have relied on SHA's institutional expertise and skilled employees to ensure that the Program was administered with great care and with respect for the objectives outlined in the NOFA. We carefully outlined our Program in our HUD-approved application, and we carried out that Program as specified. It would be unfair to hold SHA to standards that HUD may have subsequently requested in order to further assure that Congress' initial hopes for the program were met.

We respectfully request that you carefully consider our response. Thank you for your vigilance in helping us succeed in our mission.

Sincerely,

Harry Thomas
Executive Director

cc: SHA Board of Commissioners
Michael McKay, McKay Chadwell, PLLC

Seattle Housing Authority Response to Formal Draft Audit Report Concerning Seattle Housing Authority's Administration of the Welfare-to-Work Section 8 Tenant-Based Assistance Program

The Seattle Housing Authority has a long history of exceptional service to Seattle's low-income residents. Our award-winning staff is recognized for its high level of skill and competence. As an integral part of our pursuit of excellence, we welcome the opportunity to improve our internal processes with the help of this audit.

We welcomed the opportunity to administer special vouchers that would assist our residents in achieving their employment objectives and thus move toward self-sufficiency. We prepared a careful application for the Welfare-to-Work Voucher Program and took advantage of the opportunity to forge partnerships with the Department of Social and Health Services and local non-profit organizations. That application was approved by HUD. We then carefully and expeditiously administered the program, and succeeded in leasing all our vouchers.

While we concur with some of the findings in your report, we strongly disagree with others. There were mistakes in management and administration that we acknowledge and have taken steps to correct, but we firmly believe that we successfully, and in good faith, implemented the Welfare to Work voucher program according to the program requirements at the time. Overall we feel that management and administrative errors identified by the audit staff led them to overlook the genuine successes that we achieved through this program.

Our specific comments regarding each finding are detailed in the following response. This summary will serve to highlight our main issues.

Finding 1.

The Authority Did Not Achieve the Objective of the Welfare-to-Work Section 8 Program.

A. SHA properly selected Welfare-to-Work participants

The Findings assert that SHA "improperly selected families for the WtW program when it did not determine for each family that tenant based housing assistance was critical to their ability to obtain or retain employment." We believe that the basic premise of this finding is faulty. There was no program requirement to screen each individual applicant for this specific criterion. Rather, the NOFA to which SHA responded in applying for this program specified that each housing authority would determine how applicants were selected.

The Seattle Housing Authority elected to contract out this determination to the State's Department of Social and Health Services. We went to considerable length to establish at

the outset that those low-income residents who qualified for Section 8 assistance **AND** were designated by DSHS to be TANF-eligible would qualify for the special vouchers. This correspondence was established by carefully analyzing the difficulties faced by this population in securing stable housing which would pave the way to job success.

SHA in cooperation with its partners determined, on the front end, based upon the conditions in the local economy and the local housing market, that Section 8 Housing Vouchers were critical to all participants in the DSHS Workfirst Program, and proceeded to provide vouchers to those recipients. Nothing in any statute, regulation or HUD Guideline mandated that the determination of need be made individually for each applicant. In implementing the Welfare-to-Work program SHA relied upon its HUD-approved plan, its institutional expertise and its skilled employees to ensure that the WtW voucher program was administered with great care and with respect for the objectives outlined in the NOFA.

B. SHA met its responsibilities under the Program

In the next portion of the Findings, SHA is charged with not meeting its responsibilities under the Program because various aspects of its management of the program were lacking in accuracy or completeness.

We maintain that SHA did, in fact, meet its management responsibilities. The operating procedures that SHA established to implement the program are set forth in the NOFA application and the agreement with the DSHS. These procedures resulted in SHA successfully providing Section 8 Welfare-to-Work vouchers to more than 700 low-income people who needed housing assistance to gain or maintain employment.

We also acknowledge that the auditors pointed out some inaccuracies and shortcomings in our systems. SHA has benefited from the auditor's scrutiny of internal processes and has taken the opportunity to review its compliance efforts. As a result we are already working to implement several changes. For example, beginning in April 2002, the staff responsible for creating wait list records in the SHA database conduct a peer audit of essential data elements. That is, they check each other's work against the applicant's written pre-application form. Their work is further audited by their supervisor, and unacceptable error rates in data entry are subject to performance review and discipline.

Finding 2.

> **SHA ignored its Section 8 wait list applicants when it committed Welfare-to-Work Program Vouchers to a nonprofit's clients**.

Two concerns are raised in this Finding: (1) that SHA issued Welfare-to-Work vouchers to applicants referred by the Fremont Public Association (FPA) who were not on the SHA Section 8 wait list; and (2) that the PorchLight Housing Director's previous

relationship with the FPA might have influenced the decision to issue the vouchers, or might be seen as having influenced here decision

When SHA submitted its original WtW NOFA Application, both the YWCA and the FPA were identified (Tab3A, page 8) as nonprofit contractors that would help with housing search and assistance. The qualifications of both organizations to partner with SHA in assisting eligible families were well established.

In mid-May 2001, when SHA needed a partner to help identify eligible families, FPA had reached the limit of the referrals it had committed to provide. The YWCA had not fulfilled its referral commitment. SHA, therefore, based upon FPA's demonstrated performance in identifying and assisting qualified eligible applicants and getting them leased up within a very short time frame, and based upon the recommendation of the Section 8 Occupancy Manager, offered FPA an additional opportunity to refer families for vouchers. The agreement with the FPA was therefore a natural outgrowth of a previous contractual relationship between FPA and SHA. Under the circumstances that existed at the time, issuing vouchers to FPA applicants was reasonable, prudent and lawful.

It should also be noted that the thirty-one vouchers issued to clients of the FPA were not, ultimately, Welfare-to-Work vouchers. The Findings correctly point out that 700 households were leased under the Welfare-to-Work program by June 22. As it turned out SHA did not need to contract with FPA to meet its goal of leasing 700 Welfare-to-Work vouchers by June 30th 2001; but in May 2001 it was impossible to predict that this would happen. As a consequence, the vouchers issued to families who leased units after June 22nd (that is all the families referred by FPA) were not supported by Welfare-to-Work budget authority. These vouchers were issued under SHA's regular Move to Work budget authority, which is not subject to Welfare-to-Work's rules regarding selection of families.

As was clearly demonstrated in the previous section, the decision to accept referrals from the FPA was based upon: 1) SHA's need to fulfill its Welfare-to-Work objectives; 2) a working relationship with FPA that predated the PorchLight Director's employment with SHA; and 3) the recommendation of the SHA Occupancy Manager. Furthermore, neither the PorchLight Director nor the FPA received any monetary or other material benefit from the agreement. The primary, if not exclusive, beneficiaries of the FPA referral agreement were the homeless people who secured housing vouchers that might have otherwise been lost.

Although it is true that the PorchLight Director has supported FPA's work with personal contributions for many years, she has also supported the work many other non-profit organizations as well. In no statute, regulation, ethical standard, or case has it ever been said that a government official is precluded from approving contracts for organizations for which the official has provided charitable support.

A close reading of SHA's policies on conflict of interest does not support the Finding asserted here. The Finding suggests that perhaps the PorchLight Director's approval of the FPA agreement might appear to a reasonable person to be in conflict with the discharge of her duties. We completely disagree. In our opinion the PorchLight Director's approval of the FPA contract was completely compatible with the discharge of her official duties.

Finding 3.

SHA spent $130,391 in WTW Program Funds for Ineligible Contracting Services.

Although this finding asserts that SHA "spent $130,391 of the WtW program's Housing Assistance Payment funds for ineligible contracting services," in reality SHA spent funds for eligible contracting services but charged those services to the wrong account. SHA acknowledges this accounting error and has take funds from SHA reserves to reimburse the Welfare-to-Work account.

Response to Recommendations.

SHA's responses to the Findings' recommendations are as follows:

1. SHA should reimburse the WtW program for costs paid to ineligible WtW program participants.

   According to SHA's HUD-approved Welfare-to-Work plan, it was presumed that each participant referred by DSHS was eligible for the Program. Reimbursement for the costs paid for any participants referred by DSHS would be inappropriate. It would be unfair to change the rules and impose new requirements, without notice, after the Program has been in operation for more than two years, and then insist that SHA reimburse the Program because it failed to comply with rules and requirements of which it had no knowledge.

2. SHA should establish and implement a Section 8 Administrative Plan consistent with program requirements.

   If SHA's current Administrative Plan is determined to be inconsistent with Welfare-to-Work program requirements SHA will immediately revise its Section 8 Administrative Plan to incorporate any lawfully imposed Program requirements.

3. Provide adequate oversight of the Welfare-to-Work Program.

   If SHA's current oversight of the Program is found to be inadequate, SHA will do

whatever is needed to establish adequate oversight procedures.

4. SHA should maintain adequate documentation to support eligibility of program participants.

   SHA acknowledges deficiencies in this area and has already adopted measures, as specified above, to assure that adequate documentation is available to demonstrate the eligibility of program participants. SHA also welcomes any suggestions in this area.

5. SHA's Welfare-to-Work program should be terminated if it cannot properly determine and house eligible Welfare-to-Work families.

   SHA, without question, has the ability to properly determine and house eligible Welfare-to-Work families. If SHA has not been properly implementing the Welfare-to-Work program, it will do whatever is necessary to comply with Welfare-to-Work program requirements.

6. A determination should be made concerning SHA's ability to administer HUD-subsidized programs under the Moving-to-Work Demonstration Program.

   SHA has been a Moving to Work housing authority for over four years and a high performing housing authority since 1992. During that time SHA has administered dozens, of subsidized programs. Also, during that time, SHA has been subject to dozens of audits, formal and informal, by federal, state and local auditors.

   In the last ten years no concern has been raised about SHA's administration of any subsidized housing program, federal, state or local. In fact, the state auditor recently presented SHA with an award from having no audit findings in its last five annual audits. In addition, SHA has received numerous awards for its progressive redevelopments. Most recently, SHA has been singled out for a special HUD award, given in cooperation with the Congress of New Urbanism, for "Changing the Face of Public Housing." SHA, by any measure, is an extremely well run housing authority.

   The primary concern raised by the investigation relates to SHA's implementation and overall administration of the Welfare–to-Work program. The basis of this concern is a fundamental difference between SHA and the IG over Program requirements. SHA's understanding, since the Program began, has been that Welfare-to-Work applicants referred by DSHS are, by definition, qualified for the program. No further determination of their eligibility is, or was, required. The IG takes the position that a separate, individual inquiry is needed to determine whether a Welfare-to-Work voucher is truly critical to the applicant's ability to get or maintain employment. This position appears to be based, in part, upon the fact that some housing authorities participating in the Welfare-to-Work Program

interpreted the guidelines to require that screening be done on this factor on a case-by-case basis.

Even if the IG is right and SHA is wrong, SHA's Moving to Work status should not be questioned simply because it implemented this program based upon a misunderstanding of the program's requirements. This is especially relevant when considered in the light of the fact that: (1) no statute, regulation, or guideline in effect at the time the Program was implemented imposed such a requirement; (2) HUD approved SHA's implementation plan which has no mention of any individual determination of eligibility; (3) no HUD official ever suggested that an individual determination of eligibility was required; and (4) SHA conscientiously and effectively implemented the Program as it said it would do in the approved NOFA application. Had SHA understood that an individual determination of eligibility was required it would have created and implemented a program that included such a determination. That it did not create such a program in no way reflects upon SHA's ability to properly administer this program or any other HUD program.

7. SHA should reimburse Welfare-to-Work program funds for the 27 vouchers issued to applicants referred by the Fremont Public Association.

   As was previously explained, the FPA referred applicants were taken instead of applicants from the Section 8 wait list in order *to assure that the Welfare-to-Work objectives were accomplished*. It was also explained that these applicants did not deprive anyone on the Section 8 wait list of the opportunity to participate in the Program because the referrals came when it was no longer possible to lease up wait list applicants in the time available. Faced with the prospect of failing to meet its Welfare-to-Work obligations, SHA took reasonable steps to assure that its commitment would be met. To now penalize SHA for attempting to assure the success of the Program would be perverse and unfair.

   In any event, reimbursement is unnecessary because, as explained above, the FPA voucher applicants did not, in fact, lease up until after the 750 Welfare-to-Work vouchers had been committed. All the FPA applicants, therefore, received conventional Section 8 vouchers.

8. SHA should render an opinion as to whether the PorchLight Director's actions in approving the FPA vouchers were consistent with its code of conduct.

   SHA's ethics policy prohibits any employee from approving contracts with any organization in which they or any close relative have a personal interest. "Personal interest" is defined in the policy as an economic or business interest. Although the PorchLight Director had previous *involvement* with FPA, neither she nor any close relative had any *personal interest* in FPA. Nothing in the SHA ethics policy, and nothing in any federal, state or local ethics policy prohibits

employees from reviewing or approving contracts with organizations with which they have, or may have had, a *personal involvement*. In our opinion this recommendation lacks arguable merit and should be deleted.

9. SHA should reimburse the Welfare-to-Work program $131,391 for ineligible costs.

These costs were reimbursed on March 17, 2003.

10. SHA should comply with HUD requirements regarding eligible costs for its Welfare-to-Work program.

    SHA agrees with and will comply with this recommendation.

Draft Finding 1.

The Authority Did Not Achieve the Objective of the Welfare-to-Work Section 8 Program.

In Draft Finding No. 1, the Seattle Housing Authority (SHA) is criticized for its administration of the Section 8 Welfare-to-Work Voucher Program. In general, the Draft Findings suggest that SHA did not properly select Welfare-to-Work participants and did not meet its responsibilities to adequately oversee the program. Specifically, the Draft Findings assert that SHA failed to properly select Welfare-to-Work participants because it did not:

(1) attempt to determine that housing assistance was critical to an applicant's ability to obtain or retain employment;
(2) always select applicants from the Section 8 wait list;
(3) determine the TANF[3] eligibility of wait list applicants;
(4) select families from the Section 8 wait list by date and time of application;
(5) provide adequate support for TANF-eligibility of WTW program participants;
(6) properly verify family income;
(7) adequately document federal preference eligibility and citizenship or immigration status; and
(8) always have adequate supporting data for the TANF eligibility of the participants; and
(9) perform timely background checks.

Each of these criticisms will be addressed under separate headings below.

A. SHA properly selected Welfare-to-Work participants

1. <u>SHA legitimately determined that housing assistance was critical to Welfare-to-Work participants' ability to obtain or retain employment.</u>

The objective of the Welfare-to-Work Rental Voucher program (the "Program"), as described in the Department of Housing and Urban Development's Notice of Funding Availability (NOFA), "is to provide tenant-based rental assistance that will help families make the transition from Welfare to Work." No statutory or regulatory rules or guidelines mandate or explain how this objective is to be realized or how the program is to be administered. Instead, the Program is administered by individual housing authorities based upon proposals submitted to, and approved by, the Department of Housing and Urban Development (HUD) in response to a Notice of Fund Availability (NOFA).

The NOFA for the Welfare-to-Work Section 8 Tenant-based Assistance Program for Fiscal Year 1999 describes the framework of the Program and the responsibilities of the

[3] Temporary Aid to Needy Families

participating housing authorities. Section III (C) of the NOFA defines "Eligible Activities" as "all normal rental voucher program activities" provided that "families that meet the normal Section 8 program requirements . . . also meet the specific requirements of the Welfare-to-Work Voucher Program." Section IV (A)(1) of the NOFA explains that to be eligible for the Program families must meet the following criteria:

1. They must be eligible to receive, be currently receiving, or shall have received in the preceding two years, assistance or services funded under the TANF program;

2. Tenant-based housing assistance must be determined to be critical to the family's ability to successfully obtain or retain employment;

3. The family cannot already be receiving Section 8 tenant-based assistance; and

4. The family must be on the waiting list used by the Housing Authority for its tenant-based Section 8 program.

Section IV (B) of the NOFA states the obligations and responsibilities of Housing Authorities under the Program as follows:

1. Modify the Section 8 selection system to require the selection of Welfare-to-Work eligible families for the program;

2. Select families on the Section 8 waiting list in accordance with the established selection policies in the Housing Authority's administrative plan;

3. If the Section 8 Wait List is closed and there are an insufficient number of Program eligible families on the Section Wait List, re-open the Wait List to accept applications from Program eligible families not currently on the list;

4. Administer rental assistance in accordance with applicable Section 8 voucher program regulations and the requirements of the Section 8 Administrative Plan; and

5. Provide Program assistance to another eligible family whenever assistance to a family in the Program is terminated.

Five rating factors for the Section 8 Welfare-to-Work NOFA are set forth in section V(C) of the NOFA. Two of these factors are relevant to this enquiry. The first factor relates to Program need in the local community and requires applicant Housing Authorities to:

> " . . . provide evidence of the housing need of the eligible population that will be served by this program and demonstrate that tenant-

> based assistance is essential to assist these families obtain/retain employment."

To demonstrate this need each applicant was required to " . . .submit a narrative that documents that tenant-based rental assistance for which you are applying is necessary to assist Welfare-to-Work eligible families to obtain/retain employment."

The second factor tests the soundness of the applicant's Program approach. It called for applicants to:

> " . . . describe in narrative form the proposed program developed in coordination with the TANF program and other welfare-to-work programs. And how the proposed program design encourages and aids Welfare-to-Work eligible families to move from Welfare to Work. In evaluating this factor, *HUD will consider the extent to which your application demonstrates that tenant-based assistance is critical to the success of assisting eligible families to obtain or retain employment.* HUD will also consider the extent to which your application lays out an effective plan, with a fully developed strategy of outreach to eligible families to ensure that all Welfare-to-Work vouchers are under lease within a year of award." (Emphasis added)

In support of this section of the application, housing authorities were required to submit:

> "A detailed narrative describing your proposed Welfare-to-Work voucher program developed in coordination with the TANF program and other welfare-to-work programs; the specific tasks and subtasks to be performed, including innovative approaches and plans for tenant counseling, housing search and landlord outreach.
>
> A discussion of how your application *demonstrates that tenant-based assistance is critical to the success of assisting eligible families to obtain and retain employment.* (Emphasis added)
>
> A discussion of how your proposed activities address the goal and purposes of the Welfare-to-Work voucher program including how the program design encourages and aids the move to self-sufficiency, and the criteria for selecting among eligible families."

In response to the NOFA, the SHA submitted an application that explained in detail why tenant-based assistance is critical to the success of assisting eligible families to obtain or retain employment. The application describes the grim circumstances of low-income people seeking housing in Seattle and King County. According to the application (Tab 2, pages 1-4), most of the affordable housing in the region is outside the urban centers and

away from employment centers. Rental vacancy rates since the mid-1990's were between 1 percent and 4 percent. Fewer than 1 percent of market rate rental units in the county were affordable to potential Program participants. As regards potential Program participants, the application explains:

> "Eligible families are expected to be participating in Washington State's WorkFirst program. The program offers only limited exceptions for care of children under the age of one and permanently disabled children. . . . Wages are often very low in jobs accepted by WorkFirst recipients. These low wages limit the availability of housing for participants. At the same time, as illustrated below, wait lists for public housing or section 8 certificates are lengthy. As a result, *families are in constant states of housing instability*." (Emphasis added)

As evidence that the Program subsidy is essential to families participating in the WorkFirst program who are seeking or attempting to retain employment, SHA's application explained that:

> Tenant or project-based assistance is essential to assist families in obtaining or retaining employment. Stable, affordable housing provides the foundation from which adults and their families can find work.
>
> 1. On a practical level, having a place to live allows adults who are looking for work to provide potential employers with an address and a phone number. Without these, looking for and securing work is almost impossible.
>
> 2. Basic needs are shelter, food and clothing. When any one of these goes unfulfilled, it is impossible to devote meaningful time and energy to other, higher level needs like education, training, work, and relationships.
>
> 3. Affordable housing provides families with safety from the dangers of homelessness, the streets, and those who prey on the less fortunate. The security of a home provides children with the chance to begin to form healthy relationships, devote energy to learning, and see the world as a place in which they can thrive and succeed.
>
> 4. As adults and children in the family connect with others, they reinforce a sense of community around them. Crimes are less likely to happen in stable neighborhoods with long-term residents.

Based upon the proof submitted that the Welfare-to-Work housing subsidy provided is critical to *all* participants in the WorkFirst Program as they attempt to obtain or retain employment, the application proposed a collaboration between SHA, WorkFirst (Washington State's welfare reform program), the Coordinated Funder's Group, the Seattle Jobs Initiative, and a variety of other training and jobs programs to implement the Section 8 Welfare-to-Work Voucher Program (See, Application, Tab 3A).

Under the terms of a Memorandum of Understanding between SHA and the State Department of Social and Health Services (DSHS), DSHS and WorkFirst were responsible for identifying TANF-eligible WorkFirst participants. All WorkFirst Program participants were employed or seeking employment and, according to the housing market conditions described in SHA's Welfare-to-Work application, were in critical need of subsidized housing to obtain or retain that employment.

SHA's sole responsibility in the proposed Welfare-to-Work implementation plan was to provide vouchers and find housing for the participants referred by WorkFirst. SHA's proposed leasing process (Tab 3B of the NOFA application) makes no mention of any special interview or review process by SHA of Welfare-to-Work applicants. Once referred by WorkFirst, SHA would process Program applicants as it did any other Section 8 applicant.

Because the essential need for housing subsidy for the entire group of eligible participants was proven in the application, there was no need to establish a system for verifying the essential need of each individual participant, and no such system of verification was provided in the application.

HUD approved SHA's application as written. At no time did HUD indicate that SHA's approach was incompatible with the Program's requirements generally, or that SHA was specifically obligated to interview *each applicant* to determine that Section 8 assistance was critical to that applicant's ability to gain or maintain employment. To the contrary, information provided by HUD on the Program said that each housing authority was to devise its own system for making such a determination. The publication "Welfare-to-Work Voucher Program The Basics: Program Rules, Guidelines, Opportunities and Challenges," prepared by the Quadel Corporation under contract to HUD, explained that:

> It is the responsibility of the PHA, in coordination with its partners, to determine that Section 8 WTW assistance is critical to the family's ability to successfully obtain or retain employment. PHA's and partners will have to clearly define what "critical" means in relation to local housing needs and local barriers to economic self-sufficiency. (Page 5)

And further that:

> Just as selection criteria will vary widely, selection processes and the extent of participation of partners in selection will vary from program to program. PHAs and partner agencies should clarify at the outset roles and responsibilities based on strengths, weaknesses, resources and constraints of each organization. A clear, seamless selection process will help the PHA achieve its leasing goals. (Page 6)

And finally

> Developing clearly specified selection criteria is *a critical front-end task* which requires that the PHA and its partners have a clear vision and understanding of the objectives of the Program, the critical housing needs of the community, and the target population they intend to serve.

SHA in cooperation with its partners determined, on the front end, based upon the conditions in the local economy and the local housing market, that Section 8 Housing Vouchers were critical to all participants in the Workfirst Program, and proceeded to provide vouchers to those recipients. Nothing in any statute, regulation or HUD Guideline mandated that the determination of need be made individually for each applicant. In implementing the Welfare-to-Work program SHA relied upon its HUD-approved plan, its institutional expertise and its skilled employees to ensure that the WtW voucher program was administered with great care, in compliance with the plan outlined in our application, and with respect for the regulations set forth in the NOFA.

In addition, SHA's Section 8 preferences (homeless households, households living in substandard housing, rent-burdened families, and families involuntarily displaced) were nearly identical to the barriers to attainment of employment identified in the Welfare-to-Work program (overcrowded, unstable and unsafe living conditions, escalating rents which leave families at risk of missing rent payments, and housing far from work). Almost inevitably, a family that met an SHA preference would also be challenged by one or more of the barriers to the attainment or retention of employment identified in the Program. In issuing its vouchers, therefore, SHA fully complied with the Welfare-to-Work Housing Voucher Program requirements.

2. <u>Applicants were appropriately selected from the SHA Section 8 wait list.</u>

The Draft Findings assert that SHA "did not always select Welfare-to-Work applicants from its Section 8 Waiting List as required." From the sample of 67 applicant applications reviewed "nine were added to the Section 8 Waiting List after their applications were processed, and one was never on the Section 8 Waiting list because this applicant was initially on the King County Housing Authority's Section 8 Waiting List and was ported out to the Seattle Housing Authority to receive a WtW program voucher."

The applicant from the King County Housing Authority would not have appeared on SHA's wait list. Applicants who "port in" from other housing authorities are directly issued vouchers, consistent with HUD regulations and SHA's Section 8 Administrative Plan. As for the nine who were added to the Section 8 wait list after their applications were processed, it should be noted that SHA initially exhausted the Section 8 wait list with respect to TANF-eligible applicants, and processed vouchers for applicants on a walk-in basis. Time was of the essence, given the leasing deadlines imposed on the program, so applications were sometimes accepted and processed before the waiting list data elements were entered into the waitlist module of SHA's database. Without reviewing the specific records referred to by the HUD OIG audit, it is not possible to determine whether the vouchers were properly issued to new applicants after applicants on the Section 8 wait list had been given an opportunity, or if the applicants were somehow taken out of order. We strive for perfection in all our operations. In the Welfare-to-Work processing system, which required that a large volume of applications be processed in a short time period, it was difficult to ensure total accuracy so some mistakes no doubt occurred. But without knowing which applicants were added to the wait list after being selected for a voucher, it is difficult to respond to the substance of this finding. There may be acceptable explanations for why these names were added after the applications were processed.

3. HUD approved SHA's plan to allow TANF screening by DSHS.

The Draft Findings state that SHA " . . . did not always determine the TANF-eligibility of Section 8 Waiting List applicants who did not have a match (or were skipped over) during the Washington State Department of Social and Health Services' (DSHS) TANF screening or matching process because of either incorrect applicants' data or information in the Authority's Section 8 Waiting List."

Under the Memorandum of Understanding, DSHS was responsible for identifying TANF-eligible households on SHA's Section 8 wait list. Names on the SHA Section 8 wait list that did not match DSHS's list of TANF eligible households were screened out. There are two possible reasons that names on the SHA Section 8 list failed to match names on the DSHS TANF list : (1) Section 8 applicants were not TANF eligible; or (2) applicant data on the Section 8 wait list was incorrect or incomplete, which made it impossible for DSHS to make a positive match.

Although we do not know for sure, it seems likely that some of the names on the Section 8 wait list that did not match because of incorrect or incomplete data, might have been TANF-eligible. In this finding SHA is criticized **not** for accepting applicants who were ineligible for TANF (The Findings concede that SHA took applicants only from the DSHS match list), but for failing to independently determine the potential eligibility of each of the applicants for which there was incorrect or incomplete data.

In the NOFA application, SHA agreed to provide vouchers to Section 8 applicants who DSHS determined to be TANF eligible. SHA made no commitment to make independent

TANF-eligibility determinations for Section 8 applicants rejected by DSHS, nor was such an obligation imposed by any statute, regulation, or guideline. The Findings do not specify the standard that SHA violated by not determining whether these rejected Section 8 applicants might have been eligible for Welfare-to-Work vouchers. Arguably there may have been a violation of the Section 8 Administrative Plan provision that calls for applicants to be taken from the wait list according to date and time of application; but applicants who do not submit complete and accurate information may be skipped over for vouchers until their applications are accurate and complete. In this respect, applicants who may have been eligible for Welfare-to-Work vouchers received the same consideration as any Section 8 applicant who failed to submit complete and accurate information.

The administrative burden that would have been imposed on SHA had it been required to examine each of the applicants for which there was no DSHS match due to lack of information would have been unreasonable, and counterproductive. The objective of the Welfare-to-Work program was to provide housing, as quickly as possible, to low-income people who needed housing to get or keep a job. SHA met this objective. If SHA had been required to take the time to find every applicant who submitted incomplete or inaccurate information, and wait until complete information was provided before awarding the next voucher, it is very unlikely that the Welfare-to-Work program objectives would have been realized. The concerns raised by this finding elevate Section 8 procedures above the substance of the Welfare-to-Work program.

The Draft Findings go on to assert, "In addition, the Authority did not perform TANF eligibility for applicants that were not currently or had not received TANF assistance for the past two years." For the reasons stated above, SHA did not determine TANF eligibility for applicants who were not currently receiving TANF or had not received TANF assistance in the past two years.

In the MOU, SHA developed "a workable and efficient procedure with a TANF agency. . . to conduct TANF-eligibility verification . . . ." Full responsibility for determining TANF eligibility was delegated to DSHS. Under these circumstances there was no need for SHA to train its staff to verify TANF eligibility in-house. HUD approved this partnering agreement and division of responsibilities. Until these Findings, there has been no complaint or criticism of the agreement or of any of its terms. The primary purpose of the TANF eligibility determination process was to assure that every person who receives a Welfare-to-Work voucher is TANF-eligible, not to assure that every person who is TANF-eligible receives a voucher. The verification procedure established by SHA in the MOU accomplished the primary purpose. There is no indication that any person who received a Welfare-to-Work voucher was not TANF-eligible.

4. Families were appropriately selected from the Section 8 wait list by application date and time.

This finding complains that SHA, in selecting families from the wait list, "did not admit

the top family (the family by date and time of application) as required by its Administrative Plan." The Administrative Plan did not then, and does not now, call for families to be selected from the wait list by date and time of application. Families are selected from the wait list according to the applicant's claimed preference (e.g. homeless, rent burdened, formerly homeless and living in a shelter, involuntarily displaced, victim of domestic violence). *Applicants with the same preference* are taken off the wait list according to the date and time of initial application. If an applicant's preference category changes, that applicant may move up or down on the wait list. To our knowledge, every Welfare-to-Work applicant was taken from the wait list according to preference, and within preference groups according to date and time of application.

5. The Draft Findings have provided no evidence that there was inadequate support for the TANF-eligibility of Welfare-to-Work program participants.

In the overwhelming majority of cases, TANF eligibility determinations were made by DSHS. Without reviewing the files inspected in the investigation it is impossible to determine what level of data was available to support the eligibility determinations made by SHA. The fact that all "the items on the form that [SHA] used to verify TANF eligibility" were not completed on a large number of files does not, of itself, establish that there was inadequate support for the TANF-eligibility finding. There needs to be some indication that the actual information not provided was crucial to the determination.

6. Family income was almost always properly verified

This draft finding asserts that of the 67 WtW program participants in the sample reviewed for this investigation, SHA verified the income of 65, but the documents supporting the income of 12 applicants were not current. Of the remaining two, SHA did not verify employment benefits of one and the employment income of another.

In other words, SHA verified the income of 97 percent of applicants, properly verified the income of 82 percent, failed to provide supporting data for 18 percent, and failed to verify employment benefits and income for 3 percent. This indicates a need to be more vigilant about our record keeping, which we will certainly make every effort to do. Given a failure in only 3 percent of the cases, the likelihood of "over subsidizing" any applicant is insignificant and does not appear to be evidence of program mismanagement of substantial consequence.

7. There was reasonable documentation of supporting federal eligibility and citizenship or immigration status.

This draft finding says that SHA "did not adequately support the federal preference-eligibility for four of the 67 sampled families." This failure, to provide supporting information in 6 percent of the cases reviewed, is more likely evidence of human failure than evidence of Program mismanagement. We strive for perfection however, and going forward we will take steps to see that supporting information is properly maintained.

The draft finding also notes that there was inadequate "documentation to support the citizenship or immigration status of 29 of the 67 families," and of the 29, 18 had no support at all, nine had supporting documents that were issued more than a year after the voucher was issued, one had expired documents, and one had documents still under process. According to a policy adopted by the SHA Board, and consistent with HUD regulations, information on immigration status is not collected until an applicant's first anniversary review or special review. This policy is explained to all applicants during the application process. As a result, complete immigration documents are generally not available until more than a year after the applicant has been admitted.

It is important to note that this finding relates to SHA's general administration of the Section 8 program, not to the Welfare-to-Work Program, which is the subject of this investigation.

8. Family background checks were made in a timely manner.

Without reviewing the files, it is difficult to know whether these background checks were made timely. In the past, background checks have been done as much as a year before the voucher is issued. They also have been done as part of the admissions process, after the file has been approved and passed on to the Section 8 Department, where it can sit for long periods before a voucher is issued.

The Section 8 division is currently being reorganized to include the Section 8 admissions process (up until now part of a different division). In the new organizational structure, eligibility determination and voucher issuance is part of one, continuous process, insuring that both income documentation and background check information is current at the point of voucher issuance.

B. SHA met its responsibilities under the Program

In the next portion of the Draft Findings, SHA is charged with not meeting its responsibilities under the Program by not ensuring that:

(1) operating procedures were established to successfully implement the Program;
(2) its Section 8 Administrative Plan complied with Program requirements prior to implementing the Program;
(3) adequate staff resources were allocated to implement the Program successfully and timely;
(4) families were informed of their obligations under the Program;
(5) SHA staff responsible for implementing the Program understood the requirements of the Program;
(6) SHA's Section 8 Administrative Plan written policies and procedures were communicated to staff involved in implementing the Program; and
(7) SHA's Section 8 wait list contained accurate and complete information about program

applicants.

Our responses to each of these charges are discussed under separate headings below.

1. SHA established adequate operating procedures to implement the Program.

The operating procedures that SHA established to implement the program are set forth in the NOFA application and the MOU with the DSHS. These procedures resulted in SHA successfully providing Section 8 Welfare-to-Work vouchers to more than 750 low-income people who needed housing assistance to gain or maintain employment. Clearly, the procedures that SHA established were adequate for successful implementation of the Program.

2. SHA's Section 8 Administrative Plan complied with Program requirements.

24 CFR 982.54(a) requires housing authorities to "adopt a written administrative plan that establishes local policies before administration of the program in accordance with HUD regulations. 24 CFR 982.54(b) requires housing authorities to "revise the administrative plan if needed to comply with HUD requirements." The administrative plan governs the "[s]election and admission of applicants from the PHA waiting list, including any PHA admission preferences, procedures for removing applicant names from the waiting list, and procedures for closing and reopening the PHA waiting list."

The draft finding that SHA failed to amend its Administrative Plan is based upon the false assumption that SHA was required to amend its Administrative Plan to implement the Welfare-to-Work Program. As has been previously shown, the procedure that SHA established to administer the Program, and the procedure approved by HUD, required SHA to provide Section 8 vouchers to Welfare-to-Work applicants using the same Section 8 procedures that it used to provide vouchers to other Section 8 applicants. Because no new procedures were used or adopted, no amendment of the Administrative Plan was required.

3. Adequate staff resources were allocated to implement the Program successfully and in a timely manner.

SHA's implementation of the Program was both successful and timely. SHA allocated more than 750 Welfare-to-Work vouchers within the time period designated by HUD. This finding assumes that successful implementation of the program required an independent determination that *each individual* Welfare-to-Work voucher recipient needed the voucher to get or maintain a job. Because SHA did not make such a determination, the finding concludes that SHA did not allocate sufficient staff to make such determinations. In fact, individual determinations were not part of SHA's HUD approved Program implementation plan, and no staff was allocated for this purpose. SHA was able to successfully implement its HUD approved Welfare-to-Work plan with

the staff available and in the time allowed.

4. Families were informed of their obligations under the Program.

Welfare-to-Work voucher recipients were all properly briefed about their obligations as participants in SHA's Section 8 Housing Choice Voucher program, which, as noted above, is all that was required by the NOFA or pledged in SHA's application. SHA voucher holders had no additional "obligations" conferred by their participation in this voucher program, apart from the normal Family Obligations of the Section 8 Housing Choice Voucher Program and the obligations conferred by their participation in the WorkFirst Program, separately managed and enforced by DSHS. SHA concedes that it did not specifically inform Welfare-to-Work participants of their opportunities to take advantage of the rich array of job counseling and job search assistance outlined in the SHA application. In implementing its Program, SHA relied upon the recipients' job support providers to monitor the recipients' employment progress and connect them with employment resources available to them as WorkFirst families.

5. SHA staff responsible for implementing the Program understood the requirements of the Program.

These draft findings conclude that, "Management assigned to oversee the implementation of the program were misinformed about the Authority's responsibility for administering the WtW program." As support for this conclusion the draft findings refer to an instance in which the former Deputy Director told the former Resident Services Director "the role of the Authority was to issue the program vouchers and not to help program voucher holders in leasing and transitioning from Welfare-to-Work because these were nonprofits responsibilities." Nothing in the Welfare-to-Work statute or regulations specifically imposes an obligation upon housing authorities "to help program voucher holders in leasing and transitioning from Welfare-to-Work." Under SHA's HUD-approved Welfare-to-Work Program, SHA's sole responsibilities in administering the Program involved issuing vouchers. As previously mentioned, SHA's implementation role included: (1) hiring staff; (2) identifying and certifying Section 8 participants; (3) orienting tenants and issuing vouchers; (4) conducting outreach to assist in locating available units; (5) providing support for unit lease up; (6) making linkages with welfare-to-work partner agencies; and (6) following up and evaluating success (NOFA Application, Tab 3A, Page 7). Nowhere in the application did SHA take on the responsibility for helping program voucher holders in transitioning from Welfare-to-Work.

This responsibility was delegated in the Plan to Welfare-to-Work employment and support services. As the NOFA application explained (Tab 3A, pages 10-11):

> "The Seattle and King County Housing Authorities, both members of the Coordinated Funders' Group, jointly consulted with TANF administering agency (DSHA), two agencies administering DOL Welfare-to-Work grants (the Private Industry Council in Seattle and King County, and the Noah Group in Seattle), and

other partner agencies to develop a referral process for welfare-to-work employment and support services that will be most effective for participants.

This process is designed to facilitate the housing and information process so that employment/training related services are part of the over-all information available to residents. The Housing Authorities recognize that by providing stable housing as quickly and efficiently as possible to TANF eligible recipients, they will reduce the stress and pressures related to this most basic need. As families are sheltered, they can put their attention to finding and keeping jobs that will lead to eventual self-sufficiency."

The SHA Director responsible for overseeing the Program understood SHA's responsibilities perfectly, and appropriately communicated that understanding to the Resident Services Director.

6. SHA's Section 8 Administrative Plan written policies and procedures were communicated to staff involved in implementing the Program.

The Draft Findings state that, "Policies and procedures were not communicated to the staff involved in implementation of the WtW program." They go on to say that "Eligibility Specialists were not aware of the Administrative Plan" and "never received any direction or plans from anyone about how to determine if applicants on the Authority's Section 8 Waiting List were missed during DSHS data matching."

It is unclear from these statements whether the Eligibility Specialists were not aware of the Section 8 Administrative Plan or whether they were not aware of an Administrative Plan specifically related to Welfare-to-Work. As we know, SHA's responsibilities under its HUD-approved Welfare-to-Work implementation plan did not necessitate an amendment of the existing Section 8 Administrative Plan or the adoption of a separate Administrative Plan.

Eligibility Specialists follow the procedures prescribed by their supervisors, which are consistent with the admissions policies described in the Section 8 Administrative Plan. There is no requirement that entry-level processing staff be aware of the existence of particular documents, only that they be provided sufficient direction to implement the housing authority's policies correctly. The Eligibility Specialists involved in determining eligibility for the Welfare-to-Work vouchers well understood their responsibilities and did, with few exceptions, properly assemble files, collect income documentation, verify federal preferences, and conduct background checks, as consistent with the Section 8 Administrative Plan.

7. SHA has implemented changes to assure that its Section 8 wait list contain accurate and complete information about program applicants.

SHA has taken the opportunity to review its compliance efforts. As a result it acknowledges this deficiency and is already working to implement the following changes. Beginning in April 2002, the staff responsible for creating wait list records in the SHA database conduct a peer audit of essential data elements. That is, they check each other's work against the applicant's written pre-application form. Their work is further audited by their supervisor, and unacceptable error rates in data entry are subject to performance review and discipline.

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Draft Finding 2.

SHA ignored its Section 8 wait list applicants when it committed Welfare-to-Work Program Vouchers to a nonprofit's clients.

Two concerns are raised in this Draft Finding: (1) that SHA issued Welfare-to-Work vouchers to applicants referred by the Fremont Public Association (FPA) who were not on the SHA Section 8 wait list; and (2) that the PorchLight Housing Director's previous relationship with the FPA might have influenced the decision to issue the vouchers, or might be seen as having influenced her decision. These concerns will be addressed under separate headings below.

1. Vouchers were properly issued to applicants referred by FPA.

When SHA submitted its original WtW NOFA Application, both the YWCA and the FPA were identified (Tab3A, page 8) as nonprofit contractors that would help with housing search and assistance. The qualifications of both organizations to partner with SHA in assisting eligible families were well established and their participation in the implementation of the Welfare to Work program was described in the NOFA application and approved by HUD.

As of May 20, 2001 SHA had issued and leased only 651 of the 700 Welfare-to-Work vouchers that it had been allotted by HUD. Our clear understanding was that any vouchers not leased by June 30, 2001 would be withdrawn by HUD and re-distributed to housing authorities that had successfully leased their vouchers by the deadline. HUD had previously granted SHA two extensions for leasing the vouchers (from November 30, 2000 to December 31st, 2000, and then from December 31st 2000 to June 30, 2001), and had made it clear in conversations with SHA staff that no further extensions would be allowed.

By May 2001 SHA had issued nearly 1,300 vouchers to families since the Program's inception, but had no reason to be confident that the last 49 vouchers required to meet SHA's leasing deadline would, in fact, lease up by June 30. Families have up to four months from the date they receive a voucher to lease a unit, and can lease a unit at any time during that period. Many families never lease a unit and their vouchers expire. In addition, families may take their vouchers to other communities and lease units there, in which case the housing authority in that jurisdiction can "absorb" the voucher; that is, replace SHA's voucher with one of their own and have it count toward their own leasing goal. In such cases, SHA's voucher is returned to be reissued and leased.

Of the 1,298 Welfare-to-Work vouchers issued by SHA, 181 expired before the family leased a unit, and another 195 were absorbed by other housing authorities. The pattern of issuing vouchers and then losing them to other housing authorities had been established from the beginning of the program, as had the failure of families to find suitable units in

their price range in the then red-hot Seattle rental housing market. It had taken SHA 16½ months to lease the first 651 of 700 units; there was no way to predict, or control, or be at all confident that the final 49 vouchers would be leased up in the remaining six week period.

Under normal circumstances, when the process is working smoothly, it takes between four to six months for families on the wait list to receive vouchers. Families on the waitlist are first contacted by mail and invited to schedule appointments for eligibility interviews. Families are given ten business days (two weeks) to schedule an appointment. Between 35 percent and 55 percent of the families contacted respond to the invitation and show up for their interviews. After the initial interview it typically requires from 10 to 60 days to collect documentation of eligibility. Only when the documentation is complete can a voucher be issued. In mid-May 2001, SHA could not meet the goal of leasing 700 vouchers by June 30 by selecting families from its Section 8 wait list. The only way to insure that the deadline would be met was to invite a partner to assist in identifying eligible families.

In late summer of 2000, SHA had procured the services of three nonprofit organizations to assist Welfare-to-Work voucher holders with housing search and landlord negotiations in Seattle's then tight rental housing market; FPA, the YWCA, and the International District Housing Alliance (IDHA). In the early fall of 2000, when SHA had exhausted its Section 8 waitlist with respect to households eligible for Welfare-to-Work, it turned to two of the agencies, FPA and the YWCA, for direct referrals of eligible families. Both FPA and the YWCA operate transitional housing programs for homeless families and agreed to identify TANF-eligible families among their homeless clients, assist them in preparing their Section 8 applications, and submit the applications on their behalf to SHA. SHA informally agreed to accept direct referrals of up to 35 families from the YWCA's program and up to 50 referrals from FPA's program. Both FPA and the YWCA have case managers to help homeless families find units to lease, negotiate with the landlords, and execute leases.

In mid-May 2001, when SHA needed a partner to help identify eligible families, FPA had reached the limit of the referrals it had committed to provide. The YWCA had not fulfilled its referral commitment. SHA, therefore, based upon FPA's demonstrated performance in identifying and assisting qualified eligible applicants and getting them leased up within a very short time frame, and based upon the recommendation of the Section 8 Occupancy Manager, offered FPA an additional opportunity to refer families for vouchers. The agreement with the FPA was therefore a natural outgrowth of a previous contractual relationship between FPA and SHA. Under the circumstances that existed at the time, issuing vouchers to FPA applicants was a reasonable, prudent and lawful action to achieve Program goals.

It should also be noted that the thirty-one vouchers issued to clients of the FPA were not, ultimately, Welfare-to-Work vouchers. The Findings correctly point out that 700 households were leased under the Welfare-to-Work program by June 22. As it turned out

SHA did not need to contract with FPA to meet its goal of leasing 700 Welfare-to-Work vouchers by June 30th 2001; but, as was mentioned above, in May 2001 it was impossible to predict that this would happen. As a consequence, the vouchers issued to families who leased units after June 22nd (that is all the families referred by FPA) were not supported by Welfare-to-Work budget authority. These vouchers were issued under SHA's regular Move to Work budget authority, which is not subject to Welfare-to-Work's rules regarding selection of families.

In May 2001 SHA faced a Hobsen's choice: take applicants from the Section 8 wait list and not achieve the Program's objectives, risk losing the unleased vouchers permanently as a housing resource for Seattle residents, or secure vouchers and achieve the Program's objectives by taking qualified applicants referred by FPA. SHA chose to meet its obligations under the Program. In doing so it did not deny participation in the Program to those on the wait list[4] because, given the time required to qualify people on the wait list, it is very unlikely that anyone on the list would have even been issued a voucher, much less have entered into a lease. Technically speaking, SHA may have violated its Administrative Plan by issuing Section 8 vouchers to applicants who were not on the Section 8 wait list, but there was no practical harm as a result. Applicants on the wait list would not have been able to lease up using a WtW voucher within this time frame anyway.

2. The PorchLight Director properly approved the agreement with the FPA

As was clearly demonstrated in the previous section, the decision to accept referrals from the FPA was based upon: 1) SHA's need to fulfill its Welfare-to-Work objectives; 2) a working relationship with FPA that predated the PorchLight Director's employment with SHA; and 3) the recommendation of the SHA Occupancy Manager. Furthermore, neither the PorchLight Director nor the FPA received any monetary or other material benefit from the agreement. The primary, if not exclusive, beneficiaries of the FPA referral agreement were the homeless people who secured housing vouchers that might have otherwise been lost.

Although it is true that the PorchLight Director, before her employment with SHA, supported FPA's work with commitments of time and money, she has also supported the work of Plymouth Housing Group, AIDS Housing of Washington, the YWCA, Real Change homeless newspaper, the Tenants' Union, St. Andrew's Housing Group, the Washington Low Income Housing Network, the Welfare Rights Organizing Coalition, Sand Point Community Housing Association, Temple Beth Am, 1000 Friends of Washington, the Livable Communities Coalition, Garfield High School PTSA, the League of Education Voters foundation, the Seattle Repertory Jazz Orchestra, Friends of Washington Middle School, Garfield Jazz Foundation, and other local nonprofit

[4] According to a memo prepared by the Section 8 Occupancy Manager at the time, 14 of the 33 applications submitted by FPA already had waitlist positions established on SHA's Section 8 waitlist.

corporations. In no statute, regulation, ethical standard, or case has it ever been said that a government official is precluded from approving contracts for organizations for which the official has provided volunteer assistance or charitable support.

The SHA Conflict of Interest policy (E13.2-1) provides as follows:

> **POLICY:** No employee may acquire any interest, direct or indirect, in SHA property, or in property to be purchased by or conveyed to SHA. *No employee may have any interest, direct or indirect, in any contract or proposed contract for materials or services to be furnished to or used by SHA* **unless** disclosed in advance in writing, and then only subject to the terms and conditions of any written approval by the Executive Director. (Italicized emphasis supplied, bold emphasis in original)
>
> An "indirect" interest includes substantial ownership of a company that has a direct interest, and also exists where a close relative together or separately has substantial ownership of such a company (refer to definition of "Close Relative" in E10.7-1, Hiring and Work Assignments of Employees and Close Relatives). However, an indirect interest does not exist where the employee and his/her close relative(s) own fewer than five percent of the outstanding shares of a corporation with a direct interest.
>
> No employee may represent the Authority in considering, evaluating, negotiating, or approving *any contract proposal or proposed transaction with any close relative or any company controlled or managed by a close relative*, nor may any employee represent the Authority in administering or enforcing a contract with a close relative or such a controlled company. (Emphasis supplied)
>
> No employee may engage in any transaction or activity which is, or would to a reasonable person, appear to be in conflict with or incompatible with the proper discharge of any official duties; nor shall any employee disclose SHA information or use same for personal gain or receive anything of monetary value from any person by reason of the employee's position; nor shall an employee use or permit the use of any person, funds or property of SHA without prior authorization.

The applicable provisions of the Policy, as regards the actions of the PorchLight Director in this case, are the first and third paragraphs, which explicitly state the ethical obligations of employees involved in awarding contracts. The first paragraph says, "No employee may have any interest, direct or indirect, in any contract or proposed contract for materials or services to be furnished to or used by SHA unless disclosed in advance in writing. . . ." An "indirect interest" is defined in the second paragraph as "substantial

ownership of a company that has a direct interest" or "where a close relative together or separately has substantial ownership of such a company." Paragraph three prohibits any employee from "considering, evaluating, negotiating, or approving any contract proposal or proposed transaction with any close relative or any company controlled or managed by a close relative, nor may any employee represent the Authority in administering or enforcing a contract with a close relative or such a controlled company." The PorchLight Director had no interest, direct or indirect, in the FPA contract. Neither she nor any close relative had any ownership of, control over, or management role in FPA's operations. The PorchLight Director's approval of the FPA contract was therefore permitted by the Policy.

The Draft Findings cite the general prohibition in paragraph four of the Policy against engaging in "any transaction or activity which is, or would to a reasonable person, appear to be in conflict with or incompatible with the proper discharge of any official duties." The meaning and applicability of this general language is not clear. What is reasonable? When is there an appearance of a conflict? What kinds of action are incompatible with the proper discharge of official duties? The Draft Finding suggests that perhaps the PorchLight Director's approval of the FPA agreement might appear to a reasonable person to be in conflict with the discharge of her duties. We completely disagree. In our opinion the PorchLight Director's approval of the FPA contract was completely compatible with the discharge of her official duties. But we need not debate this issue. As was explained above, the PorchLight Director's conduct is specifically permitted by the Policy. When specific language in the Policy permits certain conduct, it is unreasonable to conclude that the same conduct is prohibited by general language in the Policy.

Draft Finding 3.

SHA spent $130,391 in WTW Program Funds for Ineligible Contracting Services.

Although this Draft Finding asserts that SHA "spent $130,391 of the WtW program's Housing Assistance Payment funds for ineligible contracting services," in reality SHA spent funds for eligible contracting services but charged those services to the wrong account. As the Draft Findings note, Welfare-to-Work funding was only for "voucher housing assistance and Section 8 administrative fees for administration of such housing assistance." (Draft Findings, page 22) To implement the Section 8 Welfare-to-Work program SHA contracted for housing counseling services and charged these services to the Welfare-to-Work account when they should have been charged to some other SHA account. SHA acknowledges this accounting error and has take funds from SHA reserves to reimburse the Welfare-to-Work account.

Response to Recommendations.

SHA's responds to the Draft Findings' recommendations as follows:

1. SHA should reimburse the WtW program for costs paid to ineligible WtW program participants.

   According to SHA's HUD-approved Welfare-to-Work plan, it was presumed that each participant referred by DSHS was eligible for the Program. Reimbursement for the costs paid for any participants referred by DSHS would therefore be inappropriate. Participants not referred by DSHS (i.e. those referred by FPA) were properly screened for eligibility, so reimbursement for those participants would also be inappropriate.

   Even if it is now decided that certain of these participant were ineligible, SHA should not be required to make a reimbursement. As was explained above, SHA, in good faith relied upon the implementation plan approved in its NOFA application when establishing its Welfare-to-Work Program. It would be unfair to change the rules and impose new requirements, without notice, after the Program has been in operation for more than two years, and then insist that SHA reimburse the Program because it failed to comply with rules and requirements of which it had no knowledge.

2. SHA should establish and implement a Section 8 Administrative Plan consistent with program requirements.

If SHA's current Administrative Plan is determined to be inconsistent with Welfare-to-Work program requirements SHA will immediately revise its Section

8 Administrative Plan to incorporate any lawfully imposed Program requirements.

3. Provide adequate oversight of the Welfare-to-Work Program.

   If SHA's current oversight of the Program is found to be inadequate, SHA will do whatever is needed to establish adequate oversight procedures.

4. SHA should maintain adequate documentation to support eligibility of program participants.

   SHA acknowledges deficiencies in this area and has already adopted measures, as specified above, to assure that adequate documentation is available to demonstrate the eligibility of program participants. SHA also welcomes any suggestions in this area.

5. SHA's Welfare-to-Work program should be terminated if it cannot properly determine and house eligible Welfare-to-Work families.

   SHA, without question, has the ability to properly determine and house eligible Welfare-to-Work families. If SHA has not properly implemented the Welfare-to-Work program, it will do whatever is necessary to comply with Welfare-to-Work program requirements.

6. A determination should be made concerning SHA's ability to administer HUD-subsidized programs under the Moving to Work Demonstration Program.

   SHA has been a Moving to Work housing authority for more than four years and a high performing housing authority since 1992. During that time SHA has administered dozens of subsidized housing programs. Also, during that time, SHA has been subject to dozens of audits, formal and informal, by federal, state and local auditors.

   In the last ten years no concern has been raised about SHA's administration of any subsidized housing program, federal, state or local. In fact, the state auditor recently presented SHA with an award from having no audit findings in its last five annual audits. In addition, SHA has received numerous awards for its progressive redevelopments. Most recently, SHA has been singled out for a special HUD award, given in cooperation with the Congress of New Urbanism, for "Changing the Face of Public Housing." SHA, by any measure, is an extremely well run housing authority.

   The findings in this investigation reveal some management problems in SHA's administration of the Welfare-to-Work program. This is a relatively new program, however, and like all new programs it has had start-up problems. SHA was already aware of some of these problems and had taken steps to correct them

prior to the investigation. SHA is now adopting measures to address problems of which it was not aware that were revealed by the investigation.

The primary concern raised by the investigation, however, relates to SHA's implementation and overall administration of the Welfare–to-Work program. The basis of this concern is a fundamental difference between SHA and the IG over Program requirements. SHA's understanding, since the Program began, has been that Welfare-to-Work applicants referred by DSHS are, by definition, qualified for the Program. No further determination of their eligibility is, or was, required. The IG takes the position that a separate, individual inquiry is needed to determine whether a Welfare-to-Work voucher is truly critical to the applicant's ability to get or maintain employment. This position appears to be based, in part, upon the fact that some housing authorities participating in the Welfare-to-Work Program interpreted the guidelines to require that screening be done on this factor on a case-by-case basis.

Even if the IG is right and SHA is wrong, SHA's Moving to Work status should not be questioned simply because it implemented this Program based upon a misunderstanding of the Program's requirements. This is especially relevant when considered in the light of the fact that: (1) no statute, regulation, or guideline in effect at the time the Program was implemented imposed such a requirement; (2) HUD approved SHA's implementation plan which has no mention of any individual determination of eligibility; (3) no HUD official ever suggested that an individual determination of eligibility was required; and (4) SHA conscientiously and effectively implemented the Program as it said it would do in the approved NOFA application. Had SHA understood that an individual determination of eligibility was required it would have created and implemented a program that included such a determination. That it did not create such a Program in no way reflects upon SHA's ability to properly administer this program or any other HUD program.

7. SHA should reimburse Welfare-to-Work program funds for the 27 vouchers issued to applicants referred by the Fremont Public Association.

   As was previously explained, the FPA referred applicants were taken instead of applicants from the Section 8 wait list in order *to assure that the Welfare-to-Work objectives were accomplished*. It was also explained that these applicants did not deprive anyone on the Section 8 wait list of the opportunity to participate in the Program because the referrals came when it was no longer possible to lease up wait list applicants in the time available. Faced with the prospect of failing to meet its Welfare-to-Work obligations, SHA took reasonable steps to assure that its commitment would be met. To now penalize SHA for attempting to assure the success of the Program would be perverse and unfair.

   In any event, reimbursement is unnecessary because, as explained above, the FPA

voucher applicants did not, in fact, lease up until after the 750 Welfare-to-Work vouchers had been committed. All the FPA applicants, therefore, received conventional Section 8 vouchers.

8. SHA should render an opinion as to whether the PorchLight Director's actions in approving the FPA vouchers were consistent with its code of conduct.

   SHA's ethics policy prohibits any employee from approving contracts with any organization in which they or any close relative have a personal interest. "Personal interest" is defined in the policy as an economic or business interest. Although the PorchLight Director had previous *involvement* with FPA, neither she nor any close relative had any *personal interest* in FPA. Nothing in the SHA ethics policy, and nothing in any federal, state or local ethics policy prohibits employees from reviewing or approving contracts with organizations with which they have, or may have had, a *personal involvement*. Absent actual proof of wrongdoing, no reasonable person could conclude that the PorchLight Director's approval of referrals from FPA was either in conflict with or incompatible with the proper discharge of her official duties. In our opinion this recommendation lacks even arguable merit and should be deleted.

9. SHA should reimburse the Welfare-to-Work program $131,391 for ineligible costs.

   These costs were reimbursed on March 17, 2003.

10. SHA should comply with HUD requirements regarding eligible costs for its Welfare-to-Work program.

    SHA agrees with, and will comply with this recommendation.

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