



Issue Date	September 24, 2003
Audit Case Number	2003-PH-1803

TO: Malinda Roberts, Director, Office of Public Housing, Pennsylvania State Office,
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FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Philadelphia Housing Authority
Utilization of Tenant-Based Section 8 Funds
Philadelphia, Pennsylvania

INTRODUCTION

We audited the Philadelphia Housing Authority's (Authority) Tenant-Based Section 8 Program. The objective of the audit was to determine why the Authority was not fully utilizing its tenant-based Section 8 funding to assist the maximum number of families under the Program.

To accomplish our audit objectives we: reviewed applicable Federal and U.S. Department of Housing and Urban Development (HUD) regulations to gain an understanding of Section 8 Program requirements; interviewed appropriate Authority and HUD staff; examined policies, procedures, files, records, plans, and other reports maintained by the Authority; interviewed former Section 8 landlords and tenants; and reviewed the Authority's system of management controls.

The audit showed the Authority was not able to fully utilize its tenant-based Section 8 funding from HUD due to limitations in the way it administered its Program. As such, the Authority needs to implement appropriate processes and controls to increase the efficiency of its Program operations.

We conducted the audit from May 2002 to July 2003. The audit covered the Authority's operations from October 1999 to September 2002. We expanded the scope of our review as necessary and performed the audit in accordance with generally accepted government auditing standards.

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

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

SUMMARY

Although the Authority has steadily increased the number of vouchers it has issued since March 2000, it has consistently and significantly underutilized its available Section 8 funding from HUD. For example, for its fiscal year ending March 2000, the Authority did not use \$24.7 million of its available budget authority of \$96.6 million, and \$23.9 million of its available budget authority of \$107.6 million for its fiscal year ending March 2001. Since the Authority was not able to fully utilize its available funding, HUD recaptured \$47.9 million of Section 8 funds from the Authority in August 2001. Yet, about 18,000 families remained on the Authority's Section 8 waiting list as of January 2002, of which, we estimate the Authority could have assisted an additional 3,200 families.

As with any large housing authority, the Authority faces a number of external challenges that it must overcome to ensure it fully utilizes the Section 8 funding it receives from HUD. These challenges include dealing with a lack of affordable housing, the condition of the housing stock, community resistance to expansion of the Program into middle class neighborhoods, and blight, to name a few. In order to meet and overcome these challenges it is important that the Authority manage its Program effectively. In our audit, we identified a number of weaknesses in the Authority's Section 8 administration that adversely impacted its ability to fully utilize its Section 8 funding. Specifically, we found the Authority needed to more effectively: implement required procedures to improve utilization; supervise employees; collect, maintain, and analyze key Program data; follow-up on its landlord and voucher holder outreach efforts; and address external factors it believed contributed to low utilization. Further, the Authority obtained more than 3,700 additional vouchers from April 1999 through April 2001 that it could not accommodate, and this only exacerbated its utilization problem.

In February 2002, HUD signed an agreement with the Authority accepting it into a new flexible housing demonstration program known as "Moving to Work". Although the Authority's Moving to Work agreement included a Section 8 component, it marked the end of the Authority's traditional Section 8 Program until April 2008. Under Moving to Work, HUD exempted the Authority from many public housing and Section 8 Program rules, and the Authority now has the flexibility to allocate Section 8 funds not used on vouchers for other housing activities, including capital programs. Even though the Authority is now under the demonstration program, the operational issues we identified

in this report are still pertinent and need to be addressed to improve operations. The Authority recognized this and took corrective action to address a number of the issues during the audit; however further actions need to be taken to address the remaining issues.

BACKGROUND

Program History

The U.S. Housing Act of 1937 initiated the nation's public housing program. That same year, the Commonwealth of Pennsylvania established the Philadelphia Housing Authority to provide qualified applicants low-rent housing according to HUD and Federal regulations. For nearly 30 years, public housing, owned and managed by local public housing authorities, was the primary source of housing assistance for low-income families. Over time, the Federal strategy for housing assistance shifted from sole involvement by housing authorities toward involvement of the private housing sector.

The Housing and Community Development Act of 1974 authorized the Section 8 Program. Under the newly created Program, known as the Rental Certificate Program, families selected their own housing and the subsidy followed the families when they moved. Also, under this Program, housing authorities made subsidy payments directly to the landlords on behalf of the family. The gross rent for a unit leased under the Program was subject to a HUD-established rent ceiling known as fair market rent. Under the Rental Certificate Program, families generally paid 25-percent of their adjusted income toward rent until the family share increased to 30-percent of adjusted income in 1983.

The Housing and Community Development Act of 1987 authorized the Rental Voucher Program. This Program was similar to the Rental Certificate Program, but it allowed families more options in housing selection. The Rental Voucher Program did not have fair market rent limitations and the Program assisted families based on a pre-determined calculation. Depending on the cost of the housing actually rented, families could pay more or less than 30-percent of their adjusted income toward rent.

In October 1998, Congress passed housing reform legislation, including a full merger of the Certificate and Voucher Programs. This legislation eliminated all differences, and required that the two rent subsidy Programs merge into one Housing Choice Voucher Program. In May 1999, HUD published an interim rule, merging the Certificate and Voucher Programs into the new Housing Choice Voucher Program. This interim rule, effective October 1, 1999, phased out the Certificate Program by October 2001. Fair market rent limitations became applicable to vouchers under the new Program.

In 1996, Congress authorized Moving to Work as a HUD demonstration program. This program allowed certain housing authorities to design and test ways to: promote self-sufficiency among assisted families, achieve programmatic efficiency, reduce costs, and increase housing choices for low-income households. Congress exempted participating housing authorities from much of the Housing Act of 1937 and associated regulations as

outlined in the Moving to Work agreements. In December 2000, the Authority submitted an application to HUD to enter the program, and, in February 2002, HUD signed a 7-year agreement with the Authority that was retroactive to April 2001. Although the Authority’s Moving to Work agreement included a Section 8 component, the agreement marked the end of the Authority’s traditional Section 8 Program until April 2008.

Annual Contributions Contract With HUD

The Annual Contributions Contract is the basic agreement that binds a housing authority and HUD. The contract provides the housing authority with funds for housing assistance, and establishes its responsibilities in administering the funds. HUD also provides funds for administration of the programs. By accepting HUD funds, the housing authority agrees 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; comply with its HUD-approved Administrative Plan; and proceed expeditiously with the program.

Section 8 Resources

The following chart shows the Authority’s Section 8 resources from 1999 to 2002:

Fiscal Year Ending¹	Certificates (In millions)	Vouchers (In millions)	Total (In millions)	Units Under Contract²
3/31/99	\$60.9	\$ 14.4	\$ 75.3	12,073
3/31/00	\$38.5	\$ 58.1	\$ 96.6	12,143
3/31/01	\$ 5.8	\$101.8	\$107.6	14,350
3/31/02	\$ 1.1	\$120.4	\$121.5	15,906

For the purposes of this report, the term “vouchers” means certificates and vouchers.

HUD expects housing authorities to use the majority of their Section 8 resources. For example, under the Section 8 Management Assessment Program, HUD measures housing authority utilization at the end of each housing authority’s fiscal year. HUD expects high performing housing authorities to maintain an average utilization rate at or above 98-percent, with standard performance between 95 to 97-percent.

¹ The Authority’s fiscal year runs from April 1 to March 31.

² Figure represents the number of units (vouchers) under contract at the beginning of the Authority’s fiscal year.

FINDING 1

Weakness in the Authority's Program Administration Impacted Its Ability to Fully Utilize Its Tenant-Based Section 8 Funding

Although the Authority has steadily increased the number of vouchers it has issued since March 2000, it has consistently and significantly underutilized its available Section 8 funding from HUD. For example, for its fiscal year ending March 2000, the Authority did not use 1,873 vouchers and \$24.7 million (26-percent) of its available budget authority of \$96.6 million and the following year it was unable to use 3,187 vouchers and \$23.9 million (22-percent) of its available budget authority of \$107.6 million. Further, by March 2002, the number of unused vouchers had increased to 3,694 vouchers. HUD expects housing authorities to use at least 95-percent of their tenant-based Section 8 resources, and the Annual Contributions Contract requires the Authority to proceed expeditiously with the Program.

As with any large housing authority, the Authority faces a number of external challenges that it must overcome to ensure it fully utilizes the Section 8 funding it receives from HUD. These challenges include dealing with a lack of affordable housing, the condition of the housing stock, community resistance to expansion of the Program into middle class neighborhoods, and blight, to name a few. In order to meet and overcome these challenges, it is important that the Authority manage its Program in the most effective manner. However, in our audit we identified a number of weaknesses in the Authority's Section 8 Program administration that made it difficult for the Authority to fully utilize its available Section 8 funding. Specifically, we found the Authority needed to more effectively: implement required procedures to improve utilization; supervise employees; collect, maintain, and analyze key Program data; follow-up on its landlord and voucher holder outreach efforts; and address external factors it believed contributed to low utilization. Furthermore, we noted the Authority requested and received more than 3,700 additional vouchers, from April 1999 through April 2001, that it could not reasonably accommodate, and this only exacerbated its utilization problem.

Since the Authority was not able to fully utilize its available funding, HUD recaptured \$47.9 million of Section 8 funds from the Authority in August 2001. Yet, about 18,000 families remained on the Authority's Section 8 waiting list as of January 2002, of which, we estimate the Authority could have assisted an additional 3,200 families obtain suitable housing. With more effective management, we believe a significant number of unutilized vouchers could have been used to assist eligible families.

Criteria and Guidance

The Authority's Annual Contributions Contract with HUD, its Section 8 Administrative Plan, and HUD's Housing Choice Voucher Program Guidebook provide overall guidance to the Authority on how to properly and effectively administer its Tenant-Based Section 8 Program. HUD published the Housing Choice Voucher Program Guidebook in April 2001 to advise housing authorities on how to administer their Tenant-Based Section 8

Program effectively and efficiently. The guidebook includes a historical review of the tenant-based rental assistance programs, discusses program requirements in detail, and describes best administrative practices used by authorities that operate the program. A housing authority that does not take advantage of these practices has little chance of achieving optimum utilization of its resources. HUD expects housing authorities to utilize at least 95-percent of their tenant-based Section 8 resources. We used the practices described in the guidebook to evaluate the effectiveness of the Authority's Program. Administrative practices listed in the guidebook that we used included:

- Analyzing the adequacy of payment standards.
- Extending or limiting search time to voucher holders.
- Maintaining an up-to-date waiting list.
- Collecting and monitoring success rate data, that is, determining the percentage of applications successfully processed at various points in the intake and lease-up processes.
- Analyzing staffing levels.
- Providing search assistance to voucher holders.
- Providing landlord outreach.

For this audit, we measured the Authority's utilization by comparing the number of tenant-based Section 8 vouchers leased-up during the fiscal year to the number of vouchers available at the beginning of the fiscal year. Since HUD's minimum accepted utilization rate was 95-percent, we used it as our benchmark also. Our discussion of the management issues we identified and the actions taken by the Authority to improve its Section 8 Program follow.

Authority Did Not Adhere to Its Section 8 Administrative Plan and Internal Policies

Section 8 managers did not implement internal administrative measures required by their Administrative Plan or other needed measures that would have improved Section 8 utilization. Contrary to the Authority's Section 8 Administrative Plan, the Authority did not analyze the adequacy of its payment standards annually and consider only written requests for voucher extensions from applicants. Additionally, the Authority did not update its Section 8 waiting list as required by its Section 8 Desk Manual. These are key components necessary to effectively administer a Section 8 Program. Further, the Authority's Annual Contributions Contract with HUD requires the Authority to comply with policies and procedures in its Administrative Plan.

Rent Payment Standards Not Analyzed

The Authority did not analyze the adequacy of its Section 8 payment standards annually to determine whether the standards were adequate to enable families to find housing, as required by its Administrative Plan. HUD gives housing authorities discretion for setting their payment standards between 90 to 110-percent of HUD's Fair Market Rent limits. Managers stated they used HUD's limits as their payment standards but they were in the process of analyzing rent data to determine if they should increase the payment standards beyond 100-percent of the Fair Market Rent limits. As of March 2001, managers set the Authority's payment standards to 100-percent of HUD's Fair Market Rent limits and an average of 3-percent below the limits as of March 1999 and March 2000. Managers stated they did not evaluate the need to increase the payment standards above 100-percent of the Fair Market Rent limits, except for a single instance involving a specific housing complex.

The Administrative Plan required the Authority to analyze data on current program participants and determine whether the number of participants paying more than 40-percent of their Adjusted Gross Income for rent and utilities exceeded 25-percent of all participants. The Authority could not demonstrate it analyzed its payment standards annually to determine whether they were adequate to enable families to find suitable housing. The Authority should begin reviewing its payment standards, not only because its Administrative Plan requires it, but also more importantly, because the adequacy of the payment standards is an important element that may affect a family's ability to rent a suitable housing unit.

Rationale For Granting Voucher Extensions Not Analyzed Or Monitored

The Authority routinely granted voucher extensions, but did not maintain data to determine how useful the extended search times were in improving success rates, contrary to HUD guidance. Further, the Authority granted voucher extensions beyond the initial 60-day period without written requests from the applicants and approval of management. This practice was contrary to policy in the Authority's Administrative Plan, as well as procedures in its Section 8 Desk Manual. Housing authorities should maintain data, such as the average search times of successful applicants, to determine the usefulness of longer search periods.

According to the Authority's guidance, applicants who cannot find a suitable housing unit within 60 days after a voucher is issued, but intend to continue searching for one, must request an extension in writing. The Authority may grant an extension of the initial voucher term after an evaluation of the applicant's circumstances. The Authority may grant one or more 30-day extensions, but the total term may not exceed a total period of 120 calendar days from the beginning of the initial term. The Authority told us it routinely granted extensions based on verbal requests from applicants. Authority managers told us the current practice was correct and the Authority should revise its policies and procedures to agree with the practice.

After we completed audit fieldwork, the Authority informed us it revised procedures in its Section 8 Desk Manual in January 2003 and created an Eligibility Voucher Extension Request and Survey form to collect data for analysis. The revised procedures state voucher holders can request an extension verbally or in writing and management will automatically grant an additional 60-day extension to the initial voucher term. All requests for extensions beyond 120 days must be in writing. Also, voucher holders can now request extensions beyond 150 days. In order for the Authority's revised procedures to be in compliance with its Administrative Plan, the Authority needs to revise the Plan accordingly. Also, now that the Authority has a tool in place to collect data regarding extended vouchers, it should analyze the data collected to determine if extended search times improve utilization.

Waiting List Not Updated

Although the Authority had a waiting list, it was not updated monthly or purged annually as required by the Authority's own established procedures. An up-to-date, well-managed waiting list promotes fair and consistent treatment of families, ensures needy families receive assistance as quickly as possible, and is a first step in helping the Authority maintain a high leasing rate. Managers informed us the Authority created a new Section 8 waiting list in November 2000 and about 25,500 families applied for assistance. This list replaced the Authority's previous waiting list from 1989. As of January 2002, about 18,000 applicants were still on the Authority's waiting list. The Authority was processing approximately 7,500 applications from the new list. We found the Authority's Section 8 Desk Manual contained sound procedures for maintaining the list. The manual stated the Authority will purge the waiting list on an annual basis and will mail 2,000 questionnaires out monthly to update the list. However, Section 8 managers did not follow their own procedures requiring them to update the list. The Program Manager for Eligibility said they did not follow procedures because the staff was already working at capacity processing applications from the list.

The Authority could improve its utilization by following its own procedures and updating its waiting list annually. A waiting list that has not been updated may include people who have moved, died, or found other solutions to their housing needs. By not updating the list, the Authority is losing important time in completing the steps required to improve its utilization of vouchers. Further, a consultant, hired by HUD to study utilization, recently issued an advisory report stating authorities that review and update their waiting lists frequently have higher utilization rates.

After we completed audit fieldwork, the Authority informed us it began the process of purging its waiting list in August 2002 and cited a March 2003 revision to its Section 8 Desk Manual pertaining to procedures for updating the waiting list. Under the initial procedures, staff was required to update and purge the waiting list on an annual basis. The revised procedures require the Program Manager for Eligibility to annually determine if an update and purge are necessary. Then, the General Manager for Client Services will order a purge of the waiting list after considering certain factors, including an action plan, submitted by the Program Manager for Eligibility, documenting the need

to purge the list; accompanied by supporting documentation. We consider the revised procedures adequate and encourage the Authority to keep its waiting list as current as possible by periodically updating and purging it.

Managers Did Not Adequately Supervise Section 8 Employees

Managers did not adequately supervise employees' work to ensure they consistently entered complete, accurate data into the Authority's automated database; adequately maintained client files; processed their assigned cases; and implemented actions directed by management.

Employees Entered Incomplete Data Into the Computer System

Section 8 employees did not consistently enter complete program data into the Authority's computer system. For example, employees did not always record the date a client notified the Authority they found a landlord willing to rent them a housing unit. Recording this date in the system is critical because it allows managers to measure and evaluate the Authority's performance in scheduling and inspecting housing units. Leasing Unit employees stated it was normal procedure to record this date in the computer system. However, we reviewed the automated data files provided by the Authority and found staff did not record this code for 511 of the 613 (about 83-percent) applications we reviewed. Further, the Authority did not routinely maintain documentation that provided the same information.

The Authority also did not have a desk manual or user's manual for the computer system used to manage its Section 8 Program. Managers indicated a manual was not necessary because the staff knew the system. A user's manual is beneficial because it provides a reference tool for current employees and serves as a training guide for new employees familiarizing themselves with the system. This is especially important in view of the incomplete data in the Authority's system.

After we completed audit fieldwork, the Authority informed us it initiated a Plan of Action to address problems with incomplete program data in the computer system. Also, the Authority informed us it was developing a computer based training system for its Section 8 employees that will emphasize the importance of accurate and timely entry of information into the computer system.

Client Files Not Adequately Maintained

Employees in the Intake and Leasing Units could not always locate client files in a timely manner. Before initiating on-site fieldwork, we requested the Authority provide several automated data files for our review. Using data in the automated files, we selected 12 clients and requested the Authority provide the case files for those clients. Initially, employees could not locate four, or 33-percent, of the files we requested. Employees located three of the files within 26 days; one file was never located. In addition, we also pulled two client files from the Authority's filing cabinets for review. We used the files

to evaluate the completeness of data in the Authority's computer system. We noted the Authority did not always maintain complete documentation for its clients and the files did not always support information in the Authority's computer system. For example, client files were sometimes missing documents such as property inspection reports, background investigation reports and client release forms. We found this condition existed for 8 of the 13 files, or about 62-percent of the files we reviewed. In addition, we identified critical documentation in two files, yet there was no corresponding entry made in the Authority's computer system to record the information. In order for the Authority to effectively administer its Program, staff need to create complete hardcopy files and record all appropriate transactions in the Authority's automated database.

Employee Workload Not Monitored

Managers did not maintain workload statistics or reports that detailed the work assigned to employees processing new Section 8 applications. Although the Authority's computer system contained a module for collecting workload data for employees processing new applications, the Authority did not keep the module up-to-date. Managers stated the system maintained the data, but did not allow users to print it in hardcopy. As an alternative, they gave us a real-time demonstration of the module. However, their demonstration showed the workload module contained little data. The manager giving the demonstration explained the Authority was modifying the module because the data in the file was old. We found, however, the documented reason for the modification was to provide us current data, not to monitor workload. Without current workload data in the computer system and adequate oversight and control of processed applications, the Authority cannot effectively manage its Program. Also, the lack of monitoring can lead to fraud, waste, and abuse by employees.

After we completed audit fieldwork, the Authority informed us its programmers were working to bring the workload module on-line.

Inadequate Supervision and Management Controls Lead to Program Abuse

During the audit, a former clerk in the Authority's Section 8 Intake Unit was indicted for allegedly taking bribes in exchange for advancing individuals on the Authority's automated Section 8 waiting list. The clerk allegedly manipulated the database to make it appear the Authority selected certain individuals to receive housing vouchers, although some individuals never applied for assistance, and others applied but the Authority had not selected their application for processing. As a result, potentially eligible applicants may have continued to wait for assistance while the Authority assisted alleged ineligible individuals.

Also, in our review of the 13 client files, we found the Authority was assisting a client it should have terminated from the Program. In September 2001, the Section 8 Program Director instructed a field supervisor to terminate assistance to the client, but the supervisor ignored this direction and similar direction given in October 2001. We brought this situation to the Authority's attention in August 2002 and the Authority sent the client

a termination notice. The client appealed the termination and an arbitrator denied the client's appeal in October 2002.

These examples illustrate a lack of supervision and management control over the Section 8 Program.

Staffing and Training Weaknesses Impacted Utilization

Managers can improve utilization by ensuring they have a sufficient, well-trained staff assigned to the Section 8 Program. HUD's Housing Choice Voucher Program Guidebook recommends that authorities estimate staffing needs by calculating waiting list response rates and voucher success rates; then estimate staffing based on the amount of time needed to complete required activities such as tenant interviews, briefings, processing requests for tenancy, and leasing. The guidebook also states a significant amount of work is required to lease units and increase program revenues, and authorities must be willing to invest in staff to perform required Intake and Leasing activities.

Staffing Not Adequately Analyzed

The Authority did not provide evidence it analyzed the staffing it needed to assist the maximum number of eligible families under the Program. The Authority received more than 3,700 new Section 8 vouchers from April 1999 through April 2001. Even though the Authority consistently underutilized its Section 8 vouchers and continued to receive more vouchers, it does not appear the Authority evaluated their staffing levels to determine the actual number of staff that would be needed to lease-up the vouchers it received. We also found the Authority routinely shifted staff between organizational components to meet immediate operational needs. For example, the Authority assigned five employees in its Intake Unit to process new applications full time. Managers augmented that staff with as many as 10 other employees from the Intake and Leasing Units to handle workload surges and contingencies. We believe this is only a short-term solution to the problem and that a long-term staffing analysis is needed. Shifting staff between functions within the same overall process, while attempting to increase production, provides only temporary relief because the workload of the shifted employees remains constant and eventually increases as well. Since the Authority did not fully use its allocation of vouchers in 1999, it would have difficulty fully utilizing additional voucher allocations without an increase in staff.

After we completed audit fieldwork, the Authority told us it increased the overall size of the Section 8 Intake and Leasing staff over the past few years and provided two sets of documentation to demonstrate its actions. The documentation indicated the overall size of the Section 8 Intake and Leasing staff increased. However, we found inconsistencies in the number of positions assigned to the Intake and Leasing Units among the sets of documents the Authority provided. Therefore, we could not conclude that the Authority appropriately analyzed its staffing needs or that it determined its staff was adequate to fully lease-up its vouchers. Increasing staff without reason is not prudent. The Authority should perform a comprehensive analysis of its staffing needs.

Staff Not Adequately Trained

Section 8 employees also told us the Authority did not provide enough training. We interviewed nine current employees working in the Authority's Section 8 Intake and Leasing Units. Seven of the nine employees stated they either wanted more training, believed they needed training, or both, to help them do their jobs better. We reviewed training histories for 43 employees from the Authority's Section 8 Intake and Leasing Units. According to the Authority's data, 16 of the 43 employees received no training at all. Of the 27 employees trained, 9 were not trained in over a year. In our opinion, increasing the proficiency of the staff can improve production and employee morale, and ultimately increase the utilization of Section 8 vouchers.

After we completed audit fieldwork, the Authority informed us it undertook action to train its Section 8 staff. The Authority provided documentation showing it trained Section 8 staff on the elements of its Moving to Work Program in sessions conducted in March, April, and May 2003. It also informed us it was developing computer-based training modules for its Section 8 staff.

Morale of Section 8 Staff Appeared Low

Staffing and training issues also appeared to result in low staff morale. Six of the nine employees we interviewed made statements indicating staff morale was low. The employees raised issues such as inadequate staffing, training, inequitable workload distribution, inequitable pay, and excessive absences from work by employees. Employees believed the Authority's Section 8 utilization rate would improve if it hired additional staff. Our review showed that employees' claims of excessive absences from work had some merit. We evaluated sick leave data the Authority provided on 27 Section 8 employees and found at least a third of them used all of their earned sick leave for an 8-month period ending August 2002.

After we completed audit fieldwork, the Authority informed us it was also concerned about morale issues and managers often addressed such issues at weekly management meetings. We believe the Authority's discussions of morale issues at weekly staff meetings is a good management practice. However, managers need to analyze issues such as staffing and training to ensure the discussions are productive in resolving morale problems. In our opinion, increasing morale can lead to improved production and ultimately increase the utilization of Section 8 vouchers.

Response and Success Rates Not Adequately Measured

The Authority did not routinely measure response and success rates from the various stages of its application process. Waiting list response rates are useful because they tell the Authority how many families to contact and indicate when it needs to update or purge the list. Calculating success rates is important because it tells the Authority how many vouchers to issue in order to lease all of its units under contract. For example, if the

Authority expects a 50-percent success rate, it will need to issue twice the number of vouchers for every lease it will need to execute.

We noted the Authority made one attempt to measure response rates. Managers provided us a copy of a May 2001 leasing plan showing percentage rates for the number of applicants: pulled from the waiting list and successfully scheduled for an interview, interviewed, determined to be eligible for assistance, and who attended their scheduled briefing session. However, the Authority could not support the percentages.

The Authority also provided a handout showing it measured success rates such as the average: days from voucher issuance to lease-up, days from voucher issuance to inspection, days from inspection to lease-up, number of clients terminated from the program per day, and an overall lease-up rate. However, the Authority collected the data supporting these measurements between October 2000 and October 2001. The Authority provided no documentation to show it made additional, more current measurements of its program to analyze its efficiency. The Program Manager for Eligibility said there was no need to routinely measure response and success rates because he believed the Authority's Section 8 Program was on target. However, as shown by our audit, the Authority was not fully utilizing its Section 8 resources. Ideally, the Authority should measure this type of data continually to identify new trends and seasonal variations.

Follow-up on Outreach to Landlords and Voucher Holders Was Not Adequate

The Authority did not routinely provide outreach, such as counseling or assistance to clients, after it issued vouchers. Managers said HUD's denial of its request for grant funds earmarked for counseling services precluded the Authority from providing more extensive services. In our opinion, an additional investment by the Authority to help voucher holders is critical for applicants to be successful. In order to improve utilization, the Authority needs to provide counseling or assistance to clients after it issues them vouchers. The process of pulling families from the waiting list, certifying their eligibility, conducting briefings, and issuing vouchers is a significant investment.

The Authority could also benefit by more effectively managing its outreach to landlords and voucher holders. Section 8 managers initiated events known as Landlord Briefings to attract landlords to the Program in September 2000 and Housing Fairs in November 2001 to bring voucher holders and interested landlords together. However, managers did not analyze the results of the Landlord Briefings or Housing Fairs to measure their success and identify ways to improve their effectiveness. We reviewed the sign-in sheets from the landlord briefings held between September 2000 and February 2002 and determined that 84 of 460 potential landlords, 18-percent, attending the briefings became Section 8 landlords. During the same 18-month period, the Authority's records showed 799 landlords left the Program. We could not perform a meaningful analysis of the Housing Fairs because the Authority did not maintain complete, comparable sets of documentation related to the Fairs.

After we completed audit fieldwork, the Authority informed us it took action to begin tracking the results of its Housing Fairs. The Authority created a Landlord Exit Survey form and a Lease-Up Survey form to collect information concerning the Fairs. The Authority believes it has the tools in place to collect the information it needs to analyze the effectiveness of its Housing Fairs. However, the Authority needs to analyze the data collected to determine if the Fairs provide a benefit to the overall Section 8 Program and identify ways to improve their success. The Authority also needs to perform a similar analysis of its Landlord Briefings and take appropriate actions to improve their success as well.

Large Influx of Vouchers Adversely Impacted the Authority’s Section 8 Utilization Rate

From April 1998 to April 2001, the Authority received an additional 3,833 Section 8 vouchers, or a 32-percent increase in vouchers. The following table illustrates the changes in the Authority’s Program during that period.

Authority Fiscal Year Ending	Units Under Contract³	Units Leased	Units Not Leased	Audit Utilization Rate⁴	Unused Budget Authority (In millions)
3/31/99	12,073	10,527	1,546	87.2 %	\$ 1.2
3/31/00	12,143	10,270	1,873	84.6 %	\$24.7
3/31/01	14,350	11,163	3,187	77.8 %	\$23.9
3/31/02	15,906	12,212	3,694	76.8%	N/A ⁵

The Authority informed us this influx of new vouchers resulted from allocations issued to offset the loss of public housing units demolished under Section 202 of the Omnibus Budget and Appropriations Act of 1996. Under the Act, the Authority was responsible for determining and requesting the level of Section 8 assistance it needed to accommodate families affected as a result of the Act. As such, the Authority had the option of accommodating families using vouchers already in its inventory or requesting new vouchers. Since the Authority chose to obtain additional vouchers, it should have adjusted its Program to handle the influx. However, weaknesses in the Authority’s administration of the Program described in this finding limited its ability to lease-up the vouchers. With more effective administration, we believe the Authority could have leased-up even more units than it had during the period. In the 2000 Census, the U.S. Census Bureau reported 71,887 vacant housing units in Philadelphia, of which, 18,101 were habitable, vacant, and available for rent.

³ Figure represents the number of units (vouchers) under contract at the beginning of the Authority’s fiscal year.

⁴ Percentage of units available that were leased-up during the fiscal year.

⁵ There was no unused budget authority because the Authority was participating in the Moving to Work Demonstration Program.

Management Attributed Low Utilization to External Factors

Some Section 8 managers attributed the Authority's low utilization entirely to factors they considered outside their control and influence. The General Manager for Client Services and the General Manager for Asset Management informed us the Authority's low utilization was solely attributable to problems or issues related to the applicants or the housing market. For example, they stated many applicants restrict their housing search to neighborhoods where adequate housing is scarce or to areas near public transportation or medical facilities.

The Authority's Program Manager for Eligibility also stated, in a written report, that since about 1998, many variables beyond the Authority's control adversely affected utilization of Section 8 vouchers. The report cited several external issues, such as:

- Applicants having difficulty raising funds for security deposits.
- A tight rental market and blight.
- Landlords passing fees for credit checks along to applicants.
- Landlords requiring applicants to assume responsibility for utility services and the utility companies refusing to turn on service because the applicants have outstanding bills.
- Landlords requesting rents that do not meet the Authority's rent reasonableness standards.
- An inadequate inventory of handicapped accessible and lead-safe housing units in the city.

None of the managers provided any data or analyses to substantiate the validity of the factors and how those factors impacted the Authority's utilization rate. The managers said they based their conclusions on observation and experience. To validate the Authority's assertions, we attempted to survey former landlords and tenants. We derived only minor results because of difficulty contacting the landlords and tenants. Our experience emphasizes the Authority's need to survey landlords and tenants upon their departure from the Program. By doing so, the Authority has a greater chance of collecting information it can use to focus on those areas needing improvement.

While we agree there are many external factors that can influence an authority's voucher lease-up rate, we believe an authority can effectively manage these factors to minimize their impact on Section 8 utilization. Managers need to quantify and analyze them to determine their impact on the Program. If analysis shows a factor significantly impacts utilization, managers should formulate plans to address it. After we completed audit fieldwork, the Authority informed us it was using its newly developed Lease-Up Survey

to collect data concerning client difficulties with security deposits and fees for credit checks. This action is a positive step toward quantifying the problems clients are encountering in finding suitable housing and the actions the Authority may need to take to address them. However, the Authority also needs to collect and analyze data from landlords and tenants leaving the Program.

The Authority's Executive Director acknowledged the administrative issues we addressed in our audit report could have contributed, in part, to the Authority's Section 8 underutilization, but told us he believed the most significant factors influencing utilization were external factors such as blight, poor housing market conditions, and community resistance. To support his position, the Executive Director provided a study conducted by the University of Pennsylvania, published in March 2003, that discussed the lack of affordable housing for low-income families in Philadelphia. However, the study states the challenge is not unique to Philadelphia and that housing affordability for low-income households is a nationwide problem. It is also important to note that one of the key recommendations made in the University of Pennsylvania study was that Philadelphia should improve the performance of its Section 8 Program because it is the most cost-efficient form of housing subsidy. As previously discussed, the U.S. Census Bureau's Census 2000 showed there were more than 18,000 habitable, vacant, housing units available for rent throughout Philadelphia. Finally, as we noted in this report, despite the weaknesses we identified in the Authority's administration of the Program, the Authority leased-up an additional 1,942 vouchers for the two-year period ending March 2002. As such, it appears the Authority's challenges can indeed be overcome. To that end, the Authority needs to implement appropriate processes and controls to increase the efficiency of its Section 8 Program.

AUDITEE COMMENTS

We discussed the draft findings with Authority personnel during the audit and at an exit conference with the Executive Director on May 30, 2003. We evaluated additional information the Authority provided us at and after the meeting and, as appropriate, revised the draft audit report. On August 25, 2003, we provided a copy of the revised draft audit report to the Executive Director for comment and we received the Authority's written comments on September 9, 2003.

In its response, the Authority stated that although we removed many of what it considered the more troubling findings and recommendations previously discussed with us, it had two significant concerns about the contents of the draft audit report. First, although the Authority acknowledged it did not fully utilize 100-percent of its Section 8 funding, it maintained that its low utilization rate was impacted more by the lack of affordable housing and blight in the city than by the way it administered the Program. Second, the Authority said it took steps to address each of the administrative issues in the draft audit report and implemented many new systems to comply with our recommendations. As a result of these changes, the Authority believes the management of the Program improved but the report did not give adequate credit to the Authority for corrective action it took during the audit. Lastly, the Authority questioned the accuracy of some of the statistics we reported related to its Section 8 utilization rate, and it

questioned the validity of our estimate of the number of additional families that could have been assisted if it had more effectively administered the Program.

OIG EVALUATION OF AUDITEE COMMENTS

We considered the Authority's comments in preparing the final report and included the full narrative portion of the Authority's response, without the attachments, as Appendix A. The Authority's complete response, including attachments, is available upon request.

We are encouraged that the Authority began implementing new systems to address many of the administrative weaknesses we highlighted in the report. However, we disagree with the Authority's position that the lack of affordable housing and blight in the city are the primary reasons it underutilized its available Section 8 funding. As with any large housing authority, we recognize the Authority must overcome these challenges and we believe these challenges can be overcome with effective management. As we point out in the report, while the Authority claims the lack of affordable housing and blight severely limit its ability to fully utilize its available funding, we noted the Authority leased-up an additional 1,942 vouchers during the two-year period ending March 2002. We believe the increase can be attributed, in large part, to changes the Authority made in its administration of the Program. For example, the Authority created a new waiting list, implemented a new management information system, and increased its outreach to landlords and voucher holders. Thus, as the Authority has demonstrated, by making appropriate changes in the way it administers its Program, it can overcome the Program challenges it faces. Further, according to housing data from the U.S. Census Bureau's 2000 Census, there were more than 18,000 habitable, vacant housing units for rent in the city of Philadelphia. As of March 2002, the Authority had more than 3,600 vouchers available to lease-up.

In regard to the Authority's assertion that the report does not properly credit the Authority for addressing the particular administrative issues we raised in the report, we disagree. After our exit conference with the Executive Director, the Authority provided us substantially more information to review. The Authority claimed this new information would demonstrate it took corrective actions to more effectively administer its Program. We reviewed this information and as appropriate, adjusted the draft audit report. However, for several recommendations the Authority could not provide documentation to support its assertions. For example, the Authority could not substantiate it took necessary corrective action to: comply with its requirement to analyze payment standards annually; collect and analyze data on response and success rates, staffing needs, and external factors it believes adversely affect its Section 8 utilization; and adequately follow-up on outreach efforts to landlords and voucher holders. Finally, we derived all of the statistics the Authority questioned through careful analysis and coordination with responsible HUD Program officials. As such, we have full confidence in the propriety of these statistics. Nevertheless, the utilization statistics provided by the Authority in its response also show it, by its own calculation methods, had problems fully utilizing its Section 8 funding.

In the Authority's response, it makes a statement that many of the more troubling findings and recommendations that were previously discussed with the OIG were removed from the draft audit report. We believe the Authority is referring to an earlier version of the draft report we provided it, for discussion purposes only, on May 8, 2003. In this earlier discussion draft we expressed concern that, in February 2002, HUD signed a 7-year agreement with the Authority accepting it into a new flexible housing demonstration program, known as Moving to Work. This agreement provided the Authority considerable flexibility in determining how it will use Federal funds, including Section 8, and reduced HUD's oversight of the Section 8 Program significantly. More specifically, under the agreement, HUD did not require the Authority to return unused Section 8 funds at year-end. The decrease in HUD oversight coupled with the Authority's new flexibility in retaining unused Section 8 funding concerns us, especially in light of the fact we attribute the Authority's utilization problem to weaknesses in its Program administration. Subsequent to the May 8, 2003 discussion draft, and after careful consideration and discussion with responsible HUD Program officials, we decided to address our concerns as an internal HUD matter and not in this report. The issues related to this matter have not yet been resolved.

RECOMMENDATIONS

We recommend the Office of Public Housing, Pennsylvania State Office, direct the Philadelphia Housing Authority to:

- 1A. Implement measures required by the Authority's Administrative Plan to analyze the adequacy of its payment standards annually.
- 1B. Revise, as necessary, the policy in the Administrative Plan to coincide with the revised procedures in the Section 8 Desk Manual regarding voucher extensions.
- 1C. Analyze the data collected via the Eligibility Voucher Extension Request and Survey form to determine if extended search times improve utilization.
- 1D. Develop supervisory procedures to ensure Section 8 employees enter complete management data into the Authority's computer system and adequately maintain client files.
- 1E. Complete the modification to the workload module in its computer system and monitor employee workload.
- 1F. Collect and analyze data recommended in HUD's Housing Choice Voucher Program Guidebook to include response rates from waiting lists, voucher success rates, and staffing required for lease-up, and use the results to develop a strategy to improve utilization.
- 1G. Continue to identify training needs and establish a plan to train Section 8 staff.

- 1H. Provide client counseling or other assistance to voucher holders.
- 1I. Perform follow-up of its Landlord Briefings and Housing Fairs to analyze results and improve their effectiveness.
- 1J. Collect and analyze data regarding the external factors it believes adversely affect Section 8 utilization to determine the degree to which the factors affect utilization. Based on the results of its analysis, formulate a management plan to address the factors.

MANAGEMENT CONTROLS

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

We determined policies, procedures, control systems, and other management tools implemented to ensure the Section 8 Program met its utilization goal were relevant to our audit objective. A significant weakness exists if management controls do not provide reasonable assurance the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

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

The Authority did not:

- Follow the procedures in its Section 8 Administrative Plan and internal policies. Specifically, the Authority did not analyze the adequacy of its payment standards, evaluate clients' requests for extended housing search times, and update its waiting list.
- Adequately supervise employees.
- Collect and analyze program information such as response rates from the waiting list, voucher success rates, and staffing required for lease-up to improve its utilization.
- Determine the effectiveness of its landlord and voucher holder outreach programs.

Quantify and analyze data related to external factors it believed adversely affected its Section 8 utilization and formulate a management plan to address the factors.

AUDITEE COMMENTS



BALLARD SPAHR ANDREWS & INGERSOLL, LLP

MEMORANDUM

To: Malinda Roberts, Director, Office of Public Housing, Pennsylvania State Office,
3APH

From: James J. Eisenhower

Date: September 9, 2003

Re: PHA Response to the Draft Audit Memorandum Report on PHA's Utilization of
Tenant-Based Section 8 Funds

EXECUTIVE SUMMARY

This memorandum is being submitted in response to the draft audit memorandum report on PHA's Utilization of Tenant-Based Section 8 Funds dated August 25, 2003 (hereinafter referred to as the "Draft Audit"). This serves as the official comments of the Philadelphia Housing Authority (PHA) on this matter.

Throughout the 14 month audit period from May 2002 to July 2003, PHA cooperated fully with the team of auditors from the Regional Office of Inspector General (OIG). We had very constructive and informative discussions and made all information and PHA personnel available to the OIG. While many of the more troubling findings and recommendations that were previously discussed by the OIG were removed from this draft, we have two significant concerns about the contents of the Draft Audit.

First, after many months of sharing information and key data with the OIG, the Draft Audit fails to fully recognize the impact of the lack of affordable housing and the problems associated with blight in Philadelphia on the Section 8 Program. While there is a reference to

these external factors, the Draft Audit instead unfairly concludes that the “Authority was not able to fully utilize its tenant-based Section 8 funding from HUD due to limitations in the way it administered its Program.” (Draft Audit, p.1). PHA acknowledges that it did not utilize 100 percent of HUD’s Section 8 funding. However, we maintain that the utilization rate is more impacted by the lack of affordable housing in the City than by the administration of the program.

Second, PHA took steps to address each of the administrative issues raised in the Draft Audit Memorandum and has implemented many new systems to comply with OIG recommendations. We believe that the management of the Program has improved. However, the Draft Audit does not properly credit PHA for addressing the particular issues raised by the OIG nor does it acknowledge that PHA has given out more vouchers and served more families each year for the last five years.

Philadelphia's Housing Shortage

There is a long history of political and community involvement in shaping public housing in Philadelphia to cope with the changing communities and housing stock in the city. Philadelphia's particular housing needs is well documented. The political leadership of the region has been actively involved in attempting to address the external factors that affect public housing in the city—most importantly blight and a serious lack of affordable housing.

As early as 1993 HUD Secretary Henry Cisneros wrote to Mayor (now Governor) Ed Rendell about creating “an unprecedented partnership among HUD, the Authority, and the City of Philadelphia” to address Philadelphia's public housing needs. (Exhibit 1).

In 1998, after months of work with PHA, Representative (now Speaker) John Perzel (R) and State Senator Vince Fumo (D), both leaders in the Philadelphia community, wrote to Pennsylvania's US Senators and its Governor and discussed the “severely distressed” and “aging” housing stock in the City. They also cited the negative impact of Section 202 of the Omnibus Consolidated Rescissions Act of 1996, an issue raised in the Draft Audit. Their letter stated:

The City of Philadelphia may lose over 1,000 units of public housing to the requirements of Section 202. HUD proposes to give PHA Section 8 Certificates if funding cannot be identified for the sites. The City can ill afford to absorb the many additional Section 8 families. There is already much controversy surrounding the program including many community relations problems that we have just begun to address.

(Exhibit 2).

In 1999, Mayor (now Governor) Ed Rendell along with Philadelphia's three congressmen sent a joint letter to HUD Secretary Andrew Cuomo explaining that “the federal

government's Section 8 policy as it is currently constructed is damaging and destabilizing certain Philadelphia neighborhoods." (Exhibit 3)

In 2000, Carl Greene wrote to HUD Assistant Secretary Harold Lucas and outlined Philadelphia's housing challenges. He described the 25 percent reduction in public housing units over just four years and discussed the negative impact that PHA's compliance with Section 202 had on the Authority and the difficulty PHA was having in leasing up units because of the lack of affordable housing in the City. (Exhibit 4).

There were also numerous credible studies conducted which all arrived at a similar conclusion—there is a lack of affordable housing in Philadelphia which undermines PHA's ability to lease up units. These studies included independent analysis conducted by the University of Pennsylvania as well as AREA. (Exhibits 5 and 6). Additionally, the Rendell Administration released a report that discussed the lack of affordable housing in the City and the negative impact Section 8 was having on some neighborhoods in Philadelphia. (Exhibit 7).

The audit charges that the Authority "could have assisted an additional 3,200 families" had it been more effective in its administration of the Section 8 Program. We not only dispute the finding that PHA somehow did not administer the Program effectively but also question how the OIG arrived at that precise figure. PHA's goal is to find public housing for qualified applicants. To simply issue more vouchers would defeat that purpose. By issuing so many vouchers, PHA would be setting up tenants to fail in their attempts to secure housing because the market would become over concentrated. PHA's objective is to help families lease-up and be successful; not just to issue the most vouchers.

Large Influx of Vouchers Adversely Impacted the Authority's Section 8 Utilization Rate.

Compliance with Section 202

One of the most significant factors that impacted on PHA's utilization rate was its compliance with Section 202 of the Omnibus Budget and Appropriations Act of 1996. Because of Section 202, PHA received nearly 5,000 new vouchers between 2001-2002 under the an agreement with HUD which provided PHA with one voucher for each public housing unit demolished. In our May 30 conference, in my follow up letter on June 10, and in subsequent discussions between David Kasperowicz, Greg Russ of PHA and Josh Shapiro of Ballard Spahr, we explained the impact of our compliance with Section 202 on the utilization rate. Unfortunately, the Draft Audit does not fully recognize this fact.

The Draft Audit claims that PHA did not have to accept the voucher if it could provide other housing for those displaced. In reality, however, because of the lack of affordable public housing in the city, there was no option available to PHA but to accept the vouchers. Furthermore, by accepting the new vouchers in such a condensed time period PHA was unable to lease up all of the new vouchers within the allotted 12 month schedule in order for the lease up to be registered within the utilization rate.

The new vouchers resulted from PHA's compliance with other programmatic requirements imposed by law. Most of the vouchers received were a result of demolition activity required by Section 202. The audit fails to take into consideration the impact on PHA's stock that resulted from Section 202. It is important that Section 202 be considered when evaluating the rapid growth of PHA's voucher program.

As a result of recommendations made by the Committee on Distressed Public Housing, Congress enacted Section 202 in an attempt to foster the demolition of "non-viable"

public housing sites and relocate any remaining families using vouchers. In September of 1997, HUD issued an interim rule implementing the requirements of that Act. The final rule can be found at 24 CFR Part 971. Section 202 required PHA to identify distressed public housing sites and determine, using a methodology developed by HUD, if the site costs more to operate than Section 8 rental assistance and cannot be reasonably revitalized. This became known as the “Viability Test”.

Compliance with Section 202 was mandatory and strictly administered by HUD. The interim rules required that any family property with 300 more units and a vacancy rate of more than 10 percent be tested for viability. Residents in sites that failed the Viability Test created by Section 202 would be offered vouchers and the units removed from inventory. PHA had the following seven sites containing nearly 5,000 units which were affected by Section 202:

1. Tasker Homes	1077 units
2. Richard Allen	696 units
3. Southwark Plaza	866 units
4. Passyunk Homes	994 units
5. Martin Luther King	537 units
6. Mill Creek	444 units
7. Cambridge Plaza	<u>372 units</u>
TOTAL =	4,986 units

Each of these sites failed the Viability Test. Section 202 mandated that housing authorities receive voucher assistance for occupied units. The loss of units because of Section 202 compliance resulted in an influx of new vouchers at precisely the time when the community and many public officials were calling for a reduction in vouchers available to the market.

While the loss of units due to Section 202 was occurring, there was growing dissatisfaction with the Section 8 Program. PHA brought reform requests to HUD. However, many of the proposed changes were well outside the scope of existing regulations and required that HUD provide numerous waivers to the PHA.

PHA's ultimate participation in MTW and its approach to voucher management originate from the statutory requirements put in place by Section 202. The impact of the demolition greatly affected the City's low-income housing stock and required that PHA simultaneously deal with (1) the loss of 20 percent of its public housing units, and (2) the growing dissatisfaction with the Section 8 program because of its affect on the City's neighborhoods.

At the failed Section 202 sites, PHA had no choice but to relocate families and prepare the buildings for demolition. PHA moved forward with plans for demolition (as required by law) but also took the initiative to complete or develop comprehensive revitalization plans to replace housing stock lost because of the Section 202 rules. PHA crafted revitalization plans to replace a portion of the non-viable units plus other units being demolished under HOPE VI. To put the revitalization plans in place PHA had to raise significant capital funds. (As of this year over \$700M has been raised.) PHA needed regulatory flexibility to raise this capital including the ability to combine and adjust resources to better respond to the market.

One effect of the massive influx of vouchers from PHA's compliance with Section 202 was that vouchers came to PHA periodically throughout the calendar year. Under HUD regulations, an authority is granted 12 months to lease-up a unit. The chart used in the Draft Audit (Draft Audit, p.14) is flawed because it fails to take into consideration the 12 months that a housing authority has to lease a new voucher increment. In PHA's case three large

increments were received during the period from 2000 to 2002. We have included your chart below immediately followed by our analysis which shows a greater utilization rate because it accounts for the 12 month lease up period required by HUD.

**Housing Choice Voucher Program (HCV)
Lease Up Rates 1999 - 2002
For Vouchers Older than One Year**

HUD COMPUTATION

1	2	3	4	5
Fiscal Year Ending	HUD CAP Units Under Contract	Units Leased	Audit Utilization Rate %	Units Not Leased Col 2 - Col 3
3/31/1999	12,073	10,527	87.2%	1,546
3/31/2000	12,143	10,270	84.6%	1,873
3/31/2001	14,350	11,163	77.8%	3,187
3/31/2002	15,906	12,212	76.8%	3,694

**PHA COMPUTATION
USING HUD'S 12 MONTH RULE**

1	2	3	4	5	
Fiscal Year Ending	HUD CAP Units Under Contract	Adjusted HUD CAP Units Under Contract	Avg* Units leased over 12 months	% Leased Col 3 / Col 2	+/- Adjustments in Vouchers
3/31/1999	12,073	11,338	10,527	92.85%	735**
3/31/2000	12,143	11,336	10,270	90.60%	807
3/31/2001	14,312	12,133	11,163	92.01%	2,179
3/31/2002	15,841	14,312	12,212	85.33%	1,529

TOTAL New Vouchers Received 4,515

*Consistent with audit calculations for weighted average method of determining utilization.

**PHA did not receive the ACC for these vouchers in 1999.

By using the HUD method of calculating the utilization rate, PHA actually scored higher marks in each of the four years measured in the audit and saw its average utilization rate jump from 82 percent to 90 percent.

Faulty Claims of Available Housing

In addition not fully accepting the problems posed by adhering to Section 202, the Draft Audit considerably overestimates the availability of affordable housing in Philadelphia. Its citation of the U.S. Census Bureau's Census 2000 for the claims that there were 18,101 habitable, vacant, housing units for rent in Philadelphia is fundamentally flawed because it ignores the actual market vacancy rates, housing quality, the decline in neighborhood conditions, and other factors. Further, the overall loss of affordable housing units in the City must be considered in any strategic approach to addressing local housing conditions. Finally, the census report does not sufficiently analyze rental units by cost as it includes all rental units.

The March 2000 rental market analysis prepared by Applied Real Estate Analysis (Exhibit 6) found that the actual vacancy rate in "desirable" housing is "below 4%" (9,741 units using AREA's numbers) compared to an estimated 7.1% (17,217 units) for vacant unit as a percent of habitable rental units.

Management Attributed Low Utilization to External Factors

The Draft Audit includes topic headings that do not reflect the text contained there under. These statements suggest that PHA has categorically failed under every management issue, when in fact auditors and PHA are in agreement that for the majority of these topics, PHA has made significant efforts to improve performance. Rather than confuse the reader by burying the final analysis of these administrative points, auditors should change the topic headings as follows, to accurately reflect analysis:

PHA Properly Analyzes Its Rent Payment Standards

The Draft Audit topic heading "Rent Payment Standards Not Analyzed" does not recognize that PHA has one of the most sophisticated Rental Housing Databases and Rent Calculation models in the country, and therefore conducts statistically valid rent calculation on a

regular basis. PHA explained this to auditors in its June 10, 2003 letter, and provided auditors with copies of a sample Rental Market Analysis and a memo written by the president of Applied Real Estate Analysis, Inc. (Exhibit 8; Exhibit 9, Exhibit 10) Hence, auditors were well aware that there is absolutely no indication from the rent reasonableness database or other market indicators that rent standards should be updated. The rent reasonableness determinations are not rejecting units because rents are too high. Therefore, PHA need not adjust payment standards, nor must it establish a sub-market payment standard. Though PHA does not analyze its rent payment standards on a strictly annual basis, as suggested in the Draft Audit, it continues to analyze its rent payment standards through its relationship with AREA, and the model is updated periodically as needed by PHA. In fact, the rent payment standards were updated twice during the two year period between 1999 and 2001. To update the rent payment standards mechanically each year, with no indication that the update is necessary, would be a waste of resources. Hence, PHA will update its Administrative Plan to reflect that PHA will continue to update the rent payment standards as necessary.

PHA Properly Analyzes and Monitors Voucher Extensions

The Draft Audit contains criticism of PHA's practice of granting voucher extensions, and labels this portion of the Draft Audit "Rationale for Granting Voucher Extensions Not Analyzed or Monitored." However, the last paragraph of this section acknowledges that PHA "revised procedures in its Section 8 Desk Manual in January 2003 and created an Eligibility Voucher Extension Request and Survey form to collect data for analysis." The Draft Audit encourages PHA to update its Administrative Plan to reflect these changes, and instructs PHA to analyze the data it collects as a result of its new tools. Clearly, PHA and auditors are in agreement that PHA has made great strides to monitor and analyze its granting of voucher extensions. This section of the Draft Audit should be revised accordingly.

PHA's Waiting List Is Consistently Updated

The Draft Audit's report under "Waiting List Not Updated" explains that auditors "consider the revised procedures adequate and encourage the Authority to keep its waiting list as current as possible by periodically updating and purging it." Though the auditors have agreed that PHA's method of updating the waiting list for Section 8 is proper, the Draft Audit suggests that there has been a change in the procedure for updating the Section 8 waitlist. In fact, PHA has followed the same procedure since the beginning of the audit period, and has informed auditors of this a number of times. (Exhibit 11; Exhibit 8, page 15) Hence, because PHA continues to "periodically update and purge" the waitlist, the Draft Audit's topic heading is misleading and should be revised.

PHA Has Created a Plan of Action to Address Problems with Incomplete Data in Its Computer System

The Draft Audit reports that PHA recognized a deficiency in the consistent entering of program data into its website, and accordingly created a Plan of Action. The final paragraph of this portion describes the monitoring system that PHA has instituted, and PHA's computer-based training system that will also serve to fix this problem. To label this portion of the Draft Audit "Employees Entered Incomplete Data Into the Computer System", leaves out the most relevant factor, i.e., that PHA has addressed this problem and continues to work to remedy it.

Maintenance of Client Files

The Draft Audit asserts that PHA's client files were not adequately maintained, based on auditor's review of thirteen files. Thirteen files does not constitute a representative sample of the approximately 15,000 client files maintained by PHA. Further, because the auditors did not follow PHA's protocol for retrieving client files, the difficulty of procuring these

files was exacerbated. As PHA mentioned in its prior correspondence to auditors, staff members at the main offices at 642 North Broad Street do not have immediate access to the files located at the four satellite offices, a fact which was not taken into consideration by the Draft Audit.

(Exhibit 11)

Monitoring of Employee Workload

The Draft Audit asserts that PHA managers did not maintain workload statistics that detailed the work assigned to the employees processing new Section 8 applications. However, the Draft Audit goes on to explain that PHA is working to bring its workload module on-line. Therefore, the Draft Audit inaccurately titled this portion of the report “Employee Workload Not Monitored.” While PHA recognizes that there was a deficiency in the information in the database, PHA never entirely failed to monitor employee workload altogether. At all times, the CCS system maintained information by means of location code for every Section 8 employee. It was always possible for managers to access employee files through CCS to verify employee workload. The Draft Audit topic heading might therefore be updated to reflect that PHA continues to improve the accuracy of its databases, while encouraging its managers to access the CCS system to monitor employee workload.

PHA Sufficiently Maintains Supervision and Management Controls

The Draft Audit includes a category with the extremely broad and exaggerated title “Inadequate Supervision and Management Controls Lead to Program Abuse.” This portion discusses a clerk who was indicted for abusing her position and a client who was ineligible for the program. The Draft Audit does not explain that the clerk was immediately fired from her position, and that PHA assisted the United States Attorney’s office in securing guilty pleas from the clerk and from those who offered the clerk bribes. The Draft Audit also declined to mention that PHA immediately terminated assistance to the ineligible client. PHA acknowledges that

every program is subject to improvement, but the Draft Audit's conclusion based on two examples from the hundreds of employees and thousands of clients involved in the Section 8 program is an inaccurate representation. It is a statistically invalid sample for such a deduction.

Further, every Tuesday morning, at 7:30 am, Carolyn Carter (General Manager of Client Services) meets with approximately twenty-seven staff members, including managers from all areas of Section 8. At that meeting, each Manager provides a written report on his or her department. Each manager is required to discuss progress and concerns. This meeting lasts about two hours. These reports were offered to auditors, but they declined them. Auditors were also invited to the meetings on several occasions and failed to attend. (Exhibit 11; Exhibit 8, page 21) Therefore, the auditors were incorrect that the PHA managers do not adequately supervise the staff. PHA managers are kept abreast of every staff issue on a weekly basis, and the title of this portion of the Draft Audit should be revised accordingly.

Analysis of Staffing Needs

The Draft Audit concludes that the documentation PHA provided on staffing was inconsistent. As a result of the Draft Audit, PHA has revisited the paperwork. PHA provided auditors with both budget worksheets and with PHA's Section 8 Intake/Leasing Position Cost Analysis charts for fiscal years 2000 through 2002. PHA could find no inconsistencies between the provided documentation, and disputes that the numbers among the documentation does not reconcile. Attached hereto is another copy of the Position Cost Analysis charts, which was included in prior correspondence. (Exhibit 12). The Position Cost Analysis charts accounts for the 11 employees in FY 2000, 23 employees in FY 2001, and 24 employees in FY 2002. PHA asserts that these are accurate representation of Section 8 staff.

Staff Training Sessions

PHA has informed auditors that its staff is consistently trained throughout the year. (Exhibit 11, page 4; Exhibit 8, pages 20-21) During the audit, the auditors indicated that 18 of 43 employees needed training records. PHA offered proof of training for 2 of the outstanding 18. Of the remaining 16, some were clerks or administrative technicians who at the time did not receive formal training. The balance were experienced people who were existing employees from other public housing offices, and who underwent Section 8 training on-the-job because they did not need detailed initial training. When this is the case, managers arrange for the experienced new employee to be staffed alongside a veteran staff member for hands-on instruction. These employees do, however, take part in training that occurs in the course of employment, i.e., refresher courses. The Draft Audit fails to acknowledge that this comprehensive system of training has existed at PHA throughout the audit, instead indicating only that “the Authority informed us it undertook action to train its Section 8 staff on the elements of its Moving to Work Program in sessions conducted in March, April, and May 2003.” While this is certainly a part of the training of Section 8 staff, it is by no means the sole component. Accordingly, this portion of the Draft Audit is misleading and inaccurate, and should be revised according to the information and documentation provided repeatedly by PHA. (Exhibit 13; Exhibit 14; Exhibit 8; Exhibit 15)

Managers Recognize Morale is Important to Success, and Continue to Address Morale Issues on a Weekly Basis

The auditors’ finding that morale was low was flawed. Auditors did not use recognizable employee survey methodology. Instead, auditors interviewed nine out of roughly 100 people who work under the General Manager of Client Services. Further, the Draft Audit recognizes that PHA managers address morale issues on a weekly basis at the Tuesday staff

meetings. Because the methodology was unscientific and because auditors agree that PHA continues to monitor morale each week, it is inaccurate for the Draft Audit to include the heading "Morale of Section 8 Staff Appeared Low."

Measure of Response and Success Rates

The Draft Audit includes the topic heading "Response and Success Rates Not Adequately Measured." However, the Draft Audit notes in this section that PHA measures success rates, and provided data accordingly between October 2000 and October 2001. The Draft Audit notes that PHA did not show documentation to show it continues to measure response and success rates. In fact, PHA did collect data for analysis of response and success rates during the successive years. Further, this analysis will be conducted regularly on a monthly basis.

PHA Adequately Followed-up on Outreach to Landlords and Voucher Holders

As we explained in earlier correspondence, based on recommendations from the auditors, PHA created a Landlord Exit Survey, allowing PHA to track results of the housing fair. (Exhibit 16) An analysis of these surveys indicates that the fairs are very successful. (Exhibit 17) PHA has also created a revised lease-up survey, which asks Landlords who attend the housing fair how many units were leased as a result of the fair. (Exhibit 18).

Notably, however, the Draft Audit indicated that auditors only reviewed Landlord briefing sign-in sheets in order to conclude an 18% success rate. Auditors should have examined records from the Housing Fairs, which are very successful and through which most landlords become part of the Section 8 program. Examples of sign-in sheets from the Housing Fairs are in abundance at PHA, examples of which are attached hereto. (Exhibit 19)

Also attached please find a second copy of a report we sent to auditors on June 10, 2003. The report covering the period between March 31, 1998 and April 1, 2003. (Exhibit

20). As noted in the final paragraph in the portion pertaining to Landlord and Voucher Holder Outreach, auditors realize that PHA “has the tools in place to collect the information it needs to analyze the effectiveness of its Housing Fairs.” Clearly, PHA follows up on its outreach to landlords and voucher holders, and it also analyzes the information it receives and will continue to do so. The Draft Audit topic heading “Follow-up on Outreach to Landlords and Voucher Holders Was Not Adequate” should be updated accordingly.

Response to Recommendations

- 1.A. PHA will continue to analyze the adequacy of rent payment standards through its sophisticated Rental Housing Databases and Rent Calculation model, and will amend its Administrative Plan to reflect that the rent payment standard will be updated regularly, as needed.
- 1.B. PHA will revise its policy in the Administrative Plan to coincide with the procedures of the Section 8 Desk Manual regarding voucher extensions, with which PHA is fully compliant.
- 1.C. PHA will analyze the data it collects through its Eligibility Voucher Extension Request and Survey form to determine if extended search times improve utilization.
- 1.D. PHA will continue to utilize both the monitoring system that it has instituted, and the computer-based training system in order to ensure Section 8 employees enter complete management data into PHA’s computer system and adequately maintain client files.
- 1.E. PHA will complete the modification to the workload module in its computer system to monitor employee workload.
- 1.F. PHA will continue to collect and analyze data on response and success rates and staffing needs to improve utilization rates.

- 1.G. PHA will continue to identify training needs and train its Section 8 staff on a regular basis.
- 1.H. PHA has earmarked funds for mobility counseling in its Annual Plan in order to assist voucher holders.
- 1.I. PHA will continue to perform follow-up of its Landlord Briefings and Housing Fairs to continue to analyze the success of these programs and continue to improve the program effectiveness.
- 1.J. PHA currently collects and analyzes data regarding the external factors which adversely affect Section 8 utilization including the number of available, affordable units. This data is collected and analyzed regularly and is used to guide the administration of the Program.

Conclusion

Based on the foregoing, it is our position that with respect to the implementation of the Section 8 program, PHA faces a complicated historical problem that has been recognized by elected officials, community groups, and socioeconomic researchers alike. Further, although no management team can claim to run its staff perfectly, PHA's senior employees manage the Section 8 program efficiently and effectively. Accordingly, it is our hope that the information contained herein will help to guide you in your formal audit report.

JJE/jm
Attachments

cc: Daniel G. Temme, Regional Inspector General for Audit
Carl Greene
Michael Leithead