Issue Date March 24, 2005
Audit Report Number 2005-PH-1008

TO: Milan M. Ozdinec, Deputy Assistant Secretary, Office of Public Housing Investments, PI

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic Region, 3AGA

SUBJECT: The Housing Authority of the City of Pittsburgh, PA, Did Not Effectively Implement Its Moving to Work Demonstration Program

HIGHLIGHTS

What We Audited and Why

As part of our charter to review the U.S. Department of Housing and Urban Development's (HUD) Public and Indian Housing programs, we audited the Housing Authority of the City of Pittsburgh's (Authority) Moving to Work demonstration program to evaluate the effectiveness of the Authority's implementation of the program.

What We Found

The Authority did not develop and implement an effective strategy to fully use the freedom and flexibility of the Moving to Work program. Since entering the program in November 2000, the Authority has accumulated more than $81.4 million of HUD funds over the first 4 years of its 5-year Moving to Work agreement. We estimate the Authority will accumulate an additional $21.2 million in the fifth and final year of its agreement. The audit showed the

Authority could more effectively use those funds to assist needy families through HUD's traditional programs.

The Authority's original Moving to Work plan incorporated strategies to achieve the goals of the program. However, the Authority made a number of revisions to the plan and delayed implementing the plan. In the third year of the agreement, the Authority decided to operate its low-rent housing assistance programs under a conventional approach.

Under the Authority's Moving to Work agreement, HUD waived many of its traditional program requirements including those that would have ensured the Authority used HUD funds timely. The audit showed that without these traditional HUD requirements, the Authority did not plan or execute an adequate housing modernization program and it delayed using all of its available Section 8 vouchers. Further, since the Authority lacked the capacity to implement both its modernization and replacement housing programs concurrently, it focused its efforts almost entirely on its replacement housing program. As a result, it accumulated funds that could be used to modernize its more than 6,700 low-rent housing units and provide housing to nearly 3,000 households on its Section 8 and low-rent waiting lists.

What We Recommend

We recommend that HUD not renew or extend the Authority's agreement beyond its scheduled termination date of December 31, 2005, and that HUD and the Authority work collaboratively to create a comprehensive workout plan to maximize the use of $78.7 million of capital funds and operating subsidies not used by the Authority while under Moving to Work. We also recommend that HUD initiate procedures to recapture $18.4 million of accumulated excess Section 8 reserves from the Authority and direct the Authority to immediately begin leasing up its unused Section 8 vouchers, valued at $5.5 million.

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

Auditee's Response

We discussed the report with the Authority during the audit and at an exit conference on February 3, 2005. The Authority provided written comments to our draft report on March 2, 2005. The complete text of the Authority's response, along with our evaluation of that response, can be found in Appendix B of this report.

TABLE OF CONTENTS

Background and Objectives 4

Results of Audit

Finding 1: The Authority Did Not Implement an Effective Strategy To Use the Freedom and Flexibility of the Moving to Work Program 5

Scope and Methodology 13

Internal Controls 14

Appendixes

A. Funds To Be Put to Better Use 15
B. Auditee Comments and OIG's Evaluation 16
C. Photographs From Physical Inspections 36

BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Pittsburgh (Authority) was established as a public corporation in 1937 under the Housing Authority Law of the Commonwealth of Pennsylvania to provide decent, safe, and sanitary housing in the most efficient and economical manner, as defined by its Annual Contributions Contracts with the U.S. Department of Housing and Urban Development (HUD). A seven-member Board of Directors appoints the Authority's Executive Director and governs the Authority. The current Executive Director is Keith Kinard. The Authority's main administrative office is located at 200 Ross Street, Pittsburgh, PA.

In 1996, Congress authorized Moving to Work as a HUD demonstration program. The 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 choice for low-income households. Congress exempted the participants from much of the Housing Act of 1937 and associated regulations as outlined in the Moving to Work agreements. Participating housing authorities have considerable flexibility in determining how to use Federal funds. For example, participants may combine operating subsidies provided under Sections 8, 9, and 14 of the U.S. Housing Act of 1937[1] to fund HUD-approved Moving to Work activities. Initially, HUD's Office of Policy, Programs, and Legislative Initiatives was responsible for implementing, managing, and monitoring the program. In May 2002, HUD transferred the responsibility to the Office of Public Housing Investments.

Initially, HUD selected participants based on management performance and potential to plan and carry out a program under the demonstration. However, the Authority did not apply to HUD's initial solicitation. Rather, language in the Departments of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations Act of 1999 (Public Law 105-276, 112 Stat. 2461), dated October 21, 1998, specifically named and authorized the Authority to join the demonstration. In November 2000, HUD signed a 5-year Moving to Work agreement with the Authority.[2] The Agreement gave the Authority flexibility in using Federal funds, did not require the Authority to return unused funds, and significantly reduced HUD's oversight. On October 15, 2004, the Authority submitted a request to HUD for a 5-year extension of its Moving to Work agreement. For years 2001 to 2004, HUD provided the Authority $293 million of financial assistance under its Moving to Work agreement. HUD provided

- $116.4 million of operating subsidy funds,
- $68.6 million of capital improvement funds, and
- $108 million of rental voucher housing funds.

The overall objective of our audit was to evaluate the effectiveness of the Authority's implementation of the Moving to Work program.

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[1] Funds provided under Section 8 are for rental housing assistance, Section 9 funds are for housing authority operations, and Section 14 funds are for public housing modernization.
[2] The term of the agreement is five years commencing on January 1, 2001, the start of the Authority's next fiscal year.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Implement an Effective Strategy To Use the Freedom and Flexibility of the Moving to Work Program

The Authority did not implement a workable strategy for a successful Moving to Work program and could better use $102.6 million by reverting to traditional HUD programs. The Authority did not use the freedom and flexibility of Moving to Work to design and implement plans to achieve the larger goals of the program. This occurred because the Authority's leadership changed during the term of its Moving to Work agreement, resulting in a major shift in the focus of the program. Additionally, the Authority lacked the capacity to implement both its modernization and replacement housing programs concurrently. As a result, it accumulated funds that it could have used to modernize its more than 6,700 low-rent housing units and provide housing to nearly 3,000 households on its Section 8 and low-rent waiting lists.

Authority Did Not Use the Flexibility the Program Provided

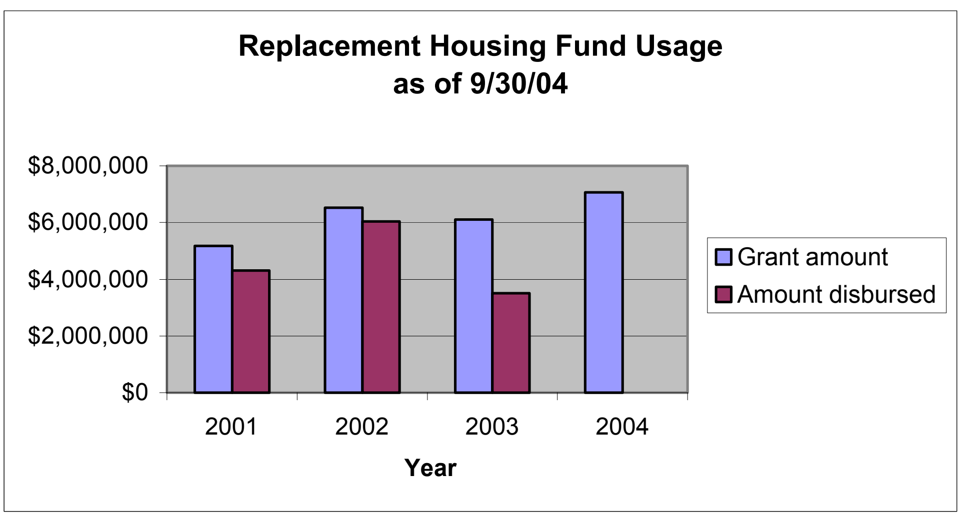
From 2001 through 2004, the Authority was not able to successfully develop and implement a workable strategy to take advantage of the freedom and flexibility available under the Moving to Work demonstration program to design and test innovative ways to promote self-sufficiency among assisted families, achieve programmatic efficiency, reduce costs, and increase housing choice for low-income households. Instead, the audit showed the Authority is operating traditional housing assistance programs that neither use nor require the freedom and flexibility of Moving to Work. Further, although the Authority has reverted to traditional programs, it has had difficulty implementing those programs as well.

The Authority's leadership changed during the term of its Moving to Work agreement, and with it came a major shift in the focus of the program. Contrary to the approach taken by its predecessors, the new leadership took a more traditional view of providing housing assistance to moderate- and low-income families. For example, the Authority decided not to pursue the core component of its original plan, which was to create a separate nonprofit entity to manage its properties. Rather, the Authority believed that it could more effectively deliver all of the required property management services and that it was not necessary to contract for property management.

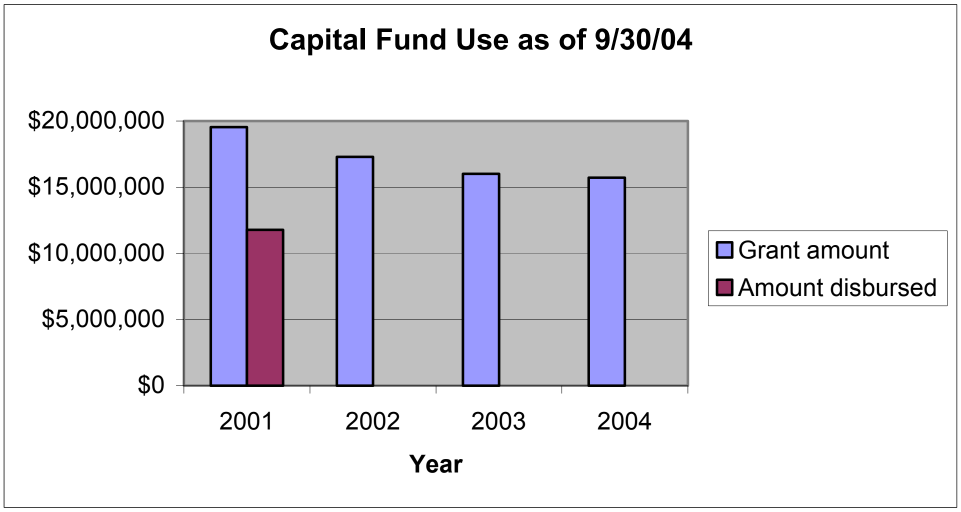
Authority Accrued $56.8 Million by Not Modernizing Public Housing

The audit showed the Authority accumulated $56.8 million in capital funds because it planned and executed only a minimal housing modernization program starting in 2001. Although the Authority increased its planned modernization in the third year of the agreement, it did not spend the modernization funds in accordance with its plans. Congress exempted the Authority from much of the Housing Act of 1937 and associated HUD regulations as outlined in its November 17, 2000, Moving to Work agreement. The Authority had considerable flexibility in using its Federal funds. It could combine subsidies provided under Sections 8, 9, and 14 of the U.S. Housing Act of 1937 to fund HUD-approved Moving to Work activities. Rather than putting the funds to work to assist families in need of housing, however, the Authority allowed its modernization program to stagnate.

The relaxation of requirements under Moving to Work allowed the Authority to plan and execute a minimal modernization program without penalty. Under normal procedures, HUD generally would have required the Authority to obligate its modernization funds within 2 years from the date of the grant and spend the funds within 4 years of that date. HUD normally assesses housing authorities a 1-month penalty for violating the 2-year obligation rule. Rather than modernize, the Authority concentrated on using funds that HUD provided for replacement housing. These funds were subject to HUD’s normal obligation and expenditure rules. The following chart illustrates the Authority’s usage of replacement housing funds that HUD provided in years 2001 through 2004.



The following chart illustrates the Authority’s usage of capital funds HUD provided for years 2001 through 2004.



As shown in the charts, starting in 2001, the Authority concentrated its focus on its replacement housing funds and did not use $56.8 million of capital funds HUD provided.

Condition of the Authority's Public Housing Was Poor

Although the Authority had the flexibility to use HUD funds in innovative ways, it accumulated large surpluses of these funds despite the fact that many of its public housing developments needed repairs. In 2003, HUD's Real Estate Assessment Center conducted physical inspections of the Authority's 44 developments and assigned scores below 70 out of a possible 100 points to 16 of the 44 developments (36 percent) under the Public Housing Assessment System. These low scores indicated the condition of the housing units was not good. The following chart shows the physical assessment scores for these developments for 2003.

Property	Units	2003 Score
Addison Terrace	775	69
Northview Heights	666	68
St. Clair Village	635	69
Garfield Heights	588	67
Bedford Dwellings (project ID #1002)	417	62
Hamilton-Larimer/Auburn *	322	41
Allegheny Dwellings	281	68
Addison Addition	186	69
Bedford Dwellings (project ID #1008)	185	50
Homewood North	135	67
Glen Hazel Heights Low Rise	104	61
Scattered Sites (project ID #1022)	82	60
Broadhead Manor	63	68
Scattered Sites (project ID #1039)	59	56
Glen Hazel Heights *	39	60
Scattered Sites (project ID #1050)	25	54
* development scheduled for demolition		

We performed physical inspections of 23 low-income housing units located in 4 of the developments listed above, which were not scheduled for demolition, and noted serious deficiencies in 10 of the 23 units inspected (43 percent). We noted numerous instances in which units were run down and an excessive number of units that were vacant and boarded up. Our inspections further demonstrated that many of the Authority's developments were in need of repair. Appendix C contains photographs from our physical inspections documenting the conditions we found.

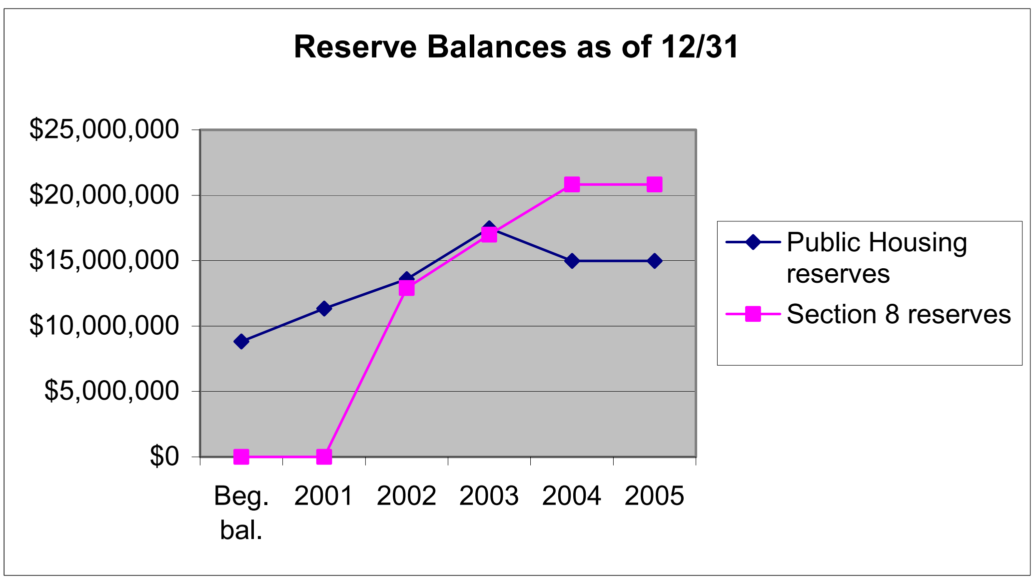
The Authority's lack of attention to its housing modernization program may constitute substantial default of its Consolidated Annual Contributions Contract [4] with HUD. The Consolidated Annual Contributions Contract requires the Authority to carry out modernization in a timely, efficient, and effective manner and to maintain and operate its projects in a decent, safe, and sanitary manner. The Authority's Moving to Work agreement superseded the terms and conditions of its Annual Contributions Contracts but only to the extent necessary for the Authority to implement its Moving to Work

[4] Part B, section 17, "Notices, Defaults, Remedies"

plan. Therefore, although the Authority was participating in Moving to Work, it was also bound by the terms of its Consolidated Annual Contributions Contract with HUD to sustain its housing modernization program.

Authority Accumulated $26.9 Million Needed To Assist Low-Income Families

The Authority increased its Section 8 and operating fund reserve accounts by $26.9 million from 2001 through 2004. In large part, the Authority accumulated these large reserves because it did not fully use all of the Section 8 vouchers that HUD provided. The Authority did not lease up about 1,300 vouchers despite the fact that there were more than 1,700 families on its Section 8 waiting list and more than 6,600 habitable, vacant rental units in the Pittsburgh metropolitan area.[5] Rather than allowing those funds to accumulate, the Authority could have used them to assist low-income families. Similarly, the Authority did not use all of the operating funds HUD provided. The following chart shows the balances in the Authority's operating and Section 8 reserve accounts for 2001 through 2004 and the Authority's projection for 2005.[6]



As the chart above also shows, the Authority's reserve fund balances increased significantly while the Authority was under Moving to Work. Under the agreement, the Authority does not have to abide by HUD's Section 8 reserve account limits, which, in 2004, limited the Authority to a Section 8 reserve equal to

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[5] Source: U.S. Census Bureau, Census 2000. The actual number of potential units will be less because not all of the units will meet HUD's housing quality standards and some landlords may not choose to participate in the program.
[6] Source: Authority's 2001 through 2005 Moving to Work plans and reports.

one-twelfth of the annual subsidy. HUD does not limit housing authority operating fund reserves. Therefore, considering the Authority had complete freedom and flexibility to use all of the funds HUD provided under Moving to Work we conservatively estimated that the amount of excess reserves the Authority accumulated under the program was $24.6 million.

The Authority Lacked Capacity To Execute Its Programs

We believe the Authority lacked the capacity to implement its various low-income, modernization, and replacement housing programs concurrently. The Authority did not hire staff to replace the personnel it lost after it developed its original Moving to Work plan. Further, the Authority's overall staffing has been on the decline. It had 593 employees as of December 2002 and 557 employees as of September 2004. Moreover, the Authority has not filled the position of Chief Operating Officer, which has been vacant since February 2004. Also, because of the limited expertise available in-house, the Authority had to hire outside consultants to implement significant components of its revised Moving to Work plans. However, it hired the outside consultants in June 2004, 3½ years into the Authority's 5-year Moving to Work agreement.

HUD's Consultant Noted Similar Deficiencies

HUD hired a consulting firm to conduct onsite monitoring reviews of the Authority's Moving to Work program. Based on its November 2003 onsite monitoring visit, the firm reported to HUD that the Authority was doing little that it could not do without Moving to Work. The consultant reported the Authority did not

- Develop a definitive plan of action to address distressed and high-capital need projects over the next 5 years,
- Correct major deficiencies with respect to the delivery of effective and efficient property management services,
- Prevent its operating costs from being substantially higher than the other providers of subsidized housing in the area,
- Develop a unique case management plan in either the resources committed or in the program structure, and
- Demonstrate it leveraged the potential freedoms under Moving to Work to advance the Authority's larger goals.

HUD Funds Totaling $102.6 Million Could Be Put to Better Use

By taking steps now and transitioning the Authority back to normal HUD program rules and regulations as quickly as possible, funds totaling $102.6 million can be put to better use; that is, $81.4 million of funds already made available to the Authority under Moving to Work but not used and $21.2 million of additional funds we estimated HUD will provide the Authority in 2005, the fifth and final year of the Authority's Moving to Work agreement. The audit demonstrated the need for the Authority to upgrade and improve its housing stock using the funds HUD provided. The Authority needs to aggressively address its distressed housing developments and ensure it fully uses its Section 8 vouchers to assist families in need. The following table shows the details of funds that the audit showed could be put to better use.

Fund Type	Amount (in Millions)	Source
Capital	$56.8	Accumulated from 2001–2004
Section 8	$18.4	Accumulated from 2001–2004
Operating	$ 6.2	Accumulated from 2001–2004
Capital	$15.7	2005 block grant (estimate based on 2004 grant)
Section 8	$ 5.5	2005 grant (estimate based on the Authority's action to lease up 1,031 unused vouchers)
Total	**$102.6**	

Recommendations

We recommend that the Office of Public Housing Investments:

1A. Not renew or extend the Authority's agreement beyond its scheduled termination date of December 31, 2005.

1B. Work collaboratively with the Authority to develop a comprehensive workout plan to immediately transition the Authority from Moving to Work. The comprehensive plan should include targeting specific housing developments for renovation, rehabilitation, and/or demolition; specific timelines for implementation; a definite completion date; limited fungibility; and the recapture of any unused funds, thereby putting $78.7 million of funds to better use.

1C. Recapture accumulated excess Section 8 reserves and, thereby, put $18.4 million of funds to better use.

1D. Direct the Authority to immediately begin leasing up its unused Section 8 vouchers and, thereby, put $5.5 million of funds to better use.

1E. Evaluate the Authority's staffing to determine if it has the capacity to simultaneously carry-out its HUD programs, and if not, take appropriate corrective actions.

SCOPE AND METHODOLOGY

We performed the audit of the Authority from May 2004 through February 2005. The audit was conducted in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary under the circumstances.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2000 through June 2004. We expanded the scope of the audit as necessary. We reviewed applicable guidance and discussed operations with management and staff personnel at the Authority and key officials from HUD's Pittsburgh area office.

To determine that the Authority did not effectively implement its Moving to Work program we

- Reviewed HUD's Moving to Work agreement with the Authority.

- Reviewed the Authority's Annual Moving to Work plans for years 2001 through 2005 and its Moving to Work reports for years 2001 through 2003.

- Interviewed Authority personnel.

- Reviewed files, records, plans, and other reports maintained by the Authority.

- Reviewed Real Estate Assessment Center inspection summary reports and performed physical inspections of 23 units at four Authority-owned low-income housing projects.

- Interviewed personnel from HUD's Office of Public Housing Investments.

- Interviewed representatives from the consulting firm hired by HUD to provide support services, including review and comment on the Authority's Moving to Work annual plans and reports and onsite monitoring services.

- Reviewed files, records, plans, and other reports maintained by HUD.

- Interviewed a key former Authority employee who was instrumental in the development of the Authority's initial Moving to Work plan.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Policies, procedures, control systems, and other management tools the Authority established to effectively implement its Moving to Work program.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The Authority did not establish adequate controls to ensure it effectively implemented its Moving to Work program.

Appendixes

Appendix A

FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Funds To Be Put to Better Use 1/
1B	$78,700,000
1C	$18,400,000
1D	$5,500,000
Total	$102,600,000

1/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Housing Authority of the City of Pittsburgh

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March 1, 2005

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Subject: Housing Authority of the City of Pittsburgh's Response to Audit of Moving To Work Program

Dear Mr. Temme:

The Housing Authority of the City of Pittsburgh ("HACP" or "the Authority") strongly disagrees with the findings and recommendations contained in the Office of Inspector General ("OIG") draft Report ("the Report") of February 16, 2005. HACP has programs and plans in place that address each issue raised in the Report, and emphasizes the following:

Comment 1
1. HACP is in compliance with its Moving to Work Agreement, and no items of questioned cost or specific program compliance failures are identified.

Comment 2
2. HACP currently serves more families than it did at the beginning of the Moving to Work Program.

"
3. HACP housing is in better condition than it was at the beginning of the Moving to Work Program.

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4. Low-income families have more housing options as a result of HACP activities than they did at the beginning of the Moving to Work program.

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5. HACP has improved its operational efficiency under the Moving to Work Program.

"
6. HACP has utilized the freedom and flexibility of MTW to implement approved plan elements.

"
7. Despite delays beyond HACP's control, adequate implementation progress has been made.

"
8. A MtW extension would allow complete implementation of the plan, and evaluation of the effectiveness of HACP' strategies.

Comment 3

The Authority believes this Report is primarily an opinion regarding the best use of federal funds. The Report opines, without support, that the best use of funds is modernization of distressed housing and additional lease up of housing choice vouchers. In contrast, HACP believes the best use of funds is replacement and re-development of distressed housing. This difference of opinion does not justify the finding presented. Furthermore, the Moving To Work ("MTW") program was specifically designed to shift decision-making regarding use of funds to the local level. The Report's findings and recommendations do not take into consideration local conditions, such as the existence of vacant affordable housing, and are contrary to the program's intent.

Comment 2

The assertions and other statements and information included in the Report show a lack of understanding of the program, HACP's original plans, and HACP's current plans. The Report also includes substantial amounts of incomplete and misleading information. It is clear and undeniable that HACP currently serves more families, provides greater housing choices, offers more self-sufficiency opportunities, and operates housing in better condition than when the Authority entered the MTW Program.

Comment 4

One important factor stands out: The Report states that HACP revised its plans and took a more traditional approach to housing, but was unable to effectively carry out that approach. This interpretation does not fully consider all of the relevant factors. The original plans of the Authority were not carried out because of significant delays in the annual plan approval process, the lack of approval by HUD of alternative procurement mechanisms upon which several key elements of the original plan relied, and the determination made by new leadership at the Authority that certain assumptions made in 1998-2000 were incorrect[1]. The revised plans of HACP are not a significant change in direction or goals, but are new tactics designed to achieve the original goals of HACP's MtW program within the more limited realities of 2003-2005. The new tactics are not a radical departure, but just a new method to achieve the same goals outlined by Congress in the statute.

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Further, the delays in approval of HACP's year one and year two Annual Plans, the absence of approval of the alternative procurement procedures of those original plans, the time required to revise those plans and begin implementation, a fact-finding site review by HUD consultants followed by a full audit by the Office of Inspector General (OIG) during year four of the five year plan, and the lengthy process required for quality implementation of many elements of HACP plan, all should be taken into consideration. Contrary to the opinion in the Report, HACP's implementation timeline has been drastically reduced by issues beyond its control. Accordingly, the Authority believes that these and other facts argue in favor of an extension of HACP's MtW program to allow the Authority to complete implementation of the revised plans.

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[1] The Year 1 and Year 2 HACP Moving to Work Annual Plans relied heavily on proposed alternative procurement plans described in Section 12 of the plans and requiring a separate HUD approval. The programs impacted include the Case Management Endowment Trust, the re-capitalization and disposition of successful senior properties, the investment of capital funds in new mixed income housing development, and the low income public housing and scattered site homeownership initiative. New leadership at HACP agreed with HUD that these approaches were questionable, and request for approval of the alternative procurement plans was withdrawn while new approaches to achieve program goals were developed.

Comment 5

Finding 1: The Authority Did Not Implement an Effective Strategy to use the Freedom and Flexibility of the Moving to Work Program

Authority Did Not Use the Flexibility the Program Provided

“ This statement is the only finding presented in the Report. As an example, the Report states that “Contrary to the approach taken by its predecessors, the new leadership took a more traditional view of providing housing assistance to moderate- and low-income families. For example, the Authority decided not to pursue the core component of its original plan, which was to create a separate nonprofit entity to manage its properties. Rather, the Authority believed that it could more effectively deliver all of the required property management services and that is was not necessary to contract for property management.” These statements drastically oversimplify both the original plan and the current plan, and do not take into consideration the factors that led to the new leadership's decision to change tactics.

“ The original plan called for the creation of numerous separate entities. One group would be created to receive (buy) and operate re-capitalized successful properties. Another entity would be created to provide financing to private developers to create new housing opportunities. A third would be utilized to manage and sell to low- and moderate-income purchasers HACP's single family housing assets. Each of these approaches has weaknesses, and all were dependent for success on approval of alternative procurement processes described in the year one plan. None of them involve the HACP simply entering into a “contract for property management.” Further, characterizing this one property management element as “the core component” of the original plan fails to recognize the many other components of the plan, including neighborhood revitalization and self-sufficiency initiatives.

“ The component of the Authority's original plan referenced in this section of the Report involved the re-capitalization and sale of successful properties for operation by unidentified private entities. The original plan also proposed the transfer of capital funds to other unidentified entities for development of new affordable and mixed income communities at locations to be determined. This approach would have transferred nearly all awarded HACP Capital Fund Program funds to external entities outside the control of HACP or HUD. This approach has been criticized by the HUD OIG in report #2004-AT-0001. Moreover, under this approach, few funds would have remained for modernization of existing communities.

“ The alternative procurement processes proposed, and the proposed transfer of nearly all HACP Capital Fund Program dollars to separate entities, created a variety of risks that neither the HACP's new leadership nor HUD were prepared to take. Considering these factors, new approaches were devised to achieve the program goals.

“ **HACP subsequently developed a variety of strategies that utilize the Freedom and Flexibility of the Moving to Work program.** There are several areas where this is the case.

“ The revised initiatives of HACP that were developed during the third year of the demonstration were not a departure from the original strategy, but rather were more practical

Comment 5

approaches that did not require special approvals beyond the authority of the Moving To Work Demonstration. These new approaches were to invest in capital improvements in successful properties while transitioning to a site-based management model similar to that used in the private sector, a management approach that is now being encouraged by HUD. More importantly, the revised plans call for HACP to pursue redevelopment of distressed properties into successful mixed income communities integrated with their surrounding neighborhoods.

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Both the original approach and the revised approach involve bringing market style management systems to successful properties, and developing new housing that invests in and revitalizes neighborhoods. Neither approach includes more than minimal capital investment in distressed properties, consistent with the intent of Section 202 of the Omnibus Consolidated Rescissions and Appropriations Act of 1996, and the viability assessments required by that Act. Further, these strategies respond to the unique local conditions of the Pittsburgh market.

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The original approach required freedom that went beyond that authorized by the MtW Demonstration Agreement. The revised approach is designed to achieve the same goals, but within the authority granted by MtW. The flexibility required by these approaches, and granted by the MtW demonstration, include the following:

"

1. Funding fungibility to maximize the dollars available to leverage additional dollars for distressed property redevelopment.
2. Flexibility in management operations, to facilitate the transition to and use of market style management without the dictates and potential penalties of federally mandated scoring criteria.
3. Flexibility in funding deadlines. Redevelopment that invests in neighborhoods takes more time than traditional modernization. Effective neighborhood redevelopment requires a lengthy process for community and neighborhood buy-in, site acquisition, resident relocation, and HUD approval of mixed finance evidentiary documents, all prior to the start of construction. Taking longer to do it right does not make it an inferior use of funds.

"

The implementation of market style site-based management and site-based waiting lists will improve the efficiency of HACP's operations. While HUD has now determined that most public housing authorities should move to this approach, HACP is on the path to this change and could provide a model for other agencies, as was intended by the MtW program. Furthermore, while site-based management is technically allowable under traditional rules, MtW provides freedom from regulations and funding flexibility to support effective development of materials and systems. It also allows the Authority to obtain external expertise and technical assistance in managing this substantial operational and organizational change. The recent Negotiated Rulemaking session supported the need for financial support for this operational and organizational change.

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The original HACP plan created by the previous administration also proposed the creation of a Social Services Endowment to support case management programs for families residing in

Comment 5

HACP developments. This proposal anticipated the availability of $20 million dollars from four separate HOPE VI Awards (three of which were never awarded to HACP), and anticipated a 12% return on investment. None of these assumptions were borne out.

"

In response, HACP has utilized flexibility and funding fungibility authorized by the MtW agreement to fund an in-house case management program to support self-sufficiency for HACP families, called the REAL Program, for "Realizing Economic Attainment for Life." The Authority has also developed a performance funding contract mechanism for services targeted to resident youth ages 13-18, an approach rarely used in social services for programs targeting this age group or outside the employment and training field.

"

The Authority has also proposed a more limited Youth Services Investment Fund, which utilizes available MtW funding of $5 million and projects a modest anticipated return of 5% to fund programs and services targeting youth ages 13-18. This design responds to local conditions (where programming for youth ages 0-12 in public housing communities is supported by local resources) and targets a group with a substantial impact on community environment. If this investment leverages additional funding from the foundation community or can earn a better return on investments, it will extend the life of the fund beyond twelve years.

"

The HACP's plans for Homeownership were also revised to utilize less risky and previously authorized approaches. HACP's Homeownership Program uses the freedom and flexibility of MtW to support program staff, homeownership preparation programs, costs associated with the sale to residents of scattered site public housing units, and a variety of financial mechanisms that assist low-income families to become successful homeowners. Although most activities are technically permissible outside of MtW, the freedom and flexibility of MtW makes components such as second mortgages of over $30,000 to assist families a reality.

"

These programs specifically address resident self-sufficiency and would not be possible without the freedom and flexibility of Moving to Work.

"

The approaches described above clearly require the freedom and flexibility of the Moving to Work program, and demonstrate that the finding of the OIG is without a factual basis.

Comment 6

Many additional items included in the OIG report also must be addressed.

"

The Authority Accrued $56.8 Million by Not Modernizing Public Housing

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While technically correct as to the amount of funds received during the Moving to Work period and unspent as of September 30, 2004, this statement is misleading.

1. Even under traditional expenditure rules, not a single dollar of funds awarded during the MtW program has passed the non-MtW expenditure deadline. For example, the non-MtW deadline for expenditures of the 2001 Capital Fund Program grant is June 30, 2005.

Comment 6

Comment 7

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Comment 8

Comment 9

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As of December 31, 2004, HACP has expended 88.2% of this grant award. HACP is on target to expend the remainder of this grant award prior to the expiration of the non-MtW expenditure deadline.

2. The number does not consider the nearly $100,000,000 in capital dollars (Capital Fund, HOPE VI, MROP and Replacement Housing Factor funds), most awarded prior to 2001, that HACP has expended during the MtW program period. Capital expenditures since January 1, 2001, are as follows:

Source	Amount
Capital Fund Program	$33,300,000
HOPE VI	$33,655,000
MROP	$11,900,000
Replacement Housing Factor	$20,500,000
Total	$99,355,000

3. The statement evaluates usage based upon traditional rules and traditional modernization activities. MtW removes the traditional rules, and HACP strategy focuses more heavily on the more difficult and time consuming redevelopment approach, rather than traditional modernization.
4. Finally, the conclusion that the Authority focused on replacement housing instead of modernization based on the use of replacement factor funds is faulty. The focus on replacement and redevelopment instead of modernization *is* HACP's strategy for distressed communities, and was the focus of both the original and the current HACP MtW plans.

Importantly, when HACP recognized that re-capitalizing and transferring successful properties to other entities was not practical, substantial amounts of modernization activity were added to HACP annual plans. Only 7 communities were identified for modernization activities by the previous administration in the year one and year two plans. In year three, this increased to 13 communities, and the new leadership expanded to 19 communities in year four. Due to the lengthy but required procurement process, modernization projects included in the 2003 or 2004 plans are only now beginning to see substantial expenditures. Still, between January 1, 2001 and December 31, 2004, HACP has expended $12,100,000 on traditional modernization activities such as boiler, roof, balcony, HVAC and concrete repairs and replacements.

HACP has developed a plan to address distressed and non-distressed communities through the use of Capital Fund and other financial resources. The Authority's demolition and modernization plan for the period December 31, 2004 through December 31, 2005 includes issuing Invitations For Bids on projects estimated to cost $31,650,050 and Request For Proposals for A/E services estimated to cost $1,787,000, for a total of $33,437,050. HACP's five year capital plan includes expenditure estimated at more than $40,000,000 on modernization of specific facilities. This is in addition to projects currently underway, such as the new Fairmont and Lou Mason Jr. apartments and the development of Phase Two of

Comment 9

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Bedford Hill, which have combined projected expenditures of over $40,000,000 in the next three years, including at least $14,000,000 in Capital Fund Program dollars.

HACP's plan also includes the comprehensive redevelopment of several of the Authority's most distressed and challenging communities, including Northview Heights, Garfield Heights, and Addison Terrace and Additions. Master planning work has commenced on these major projects, and projected expenditures over the next five and ten years far exceed the funding awarded or expected to be awarded by HUD. The Authority will utilize available resources, including up to $30,000,000 in Capital Fund Program dollars in the next three years, to leverage outside investment to generate the additional $90,000,000 needed in the next five years for these projects.

Condition of the Authority's Public Housing was Poor

Comment 10

In presenting information in support of this claim, the Report provides incomplete information.

1. In presenting results of Real Estate Assessment Center (REAC) physical inspection scores from selected communities for 2003, the Report fails to provide any context for evaluation. For example, if comparative scores from 2000 are included, it becomes clear that even for the properties cited in the Report, the condition of HACP's public housing has substantially improved under MtW. The overall HACP score improved from 51 to 71 between 2000 and 2003, and 9 of the 16 properties cited had scores below 50 in 2000. Attached is a chart showing both 2000 and 2003 scores for all HACP communities, and total scores.

Comment 11

2. The communities cited with failing REAC scores include three that are scheduled for complete demolition (two are identified in the Report as such, but Bedford Dwellings Additions PA 08 is also scheduled for demolition). Furthermore, three additional communities (Northview Heights, St. Clair Village, and Addison Additions) have some demolition planned, and four have comprehensive redevelopment planning, including resident participation, underway (Northview, Addison, Addison Addition, and Garfield Heights). The Report says HACP units are in poor condition and should be modernized. On the contrary, HACP contends that these communities are distressed and obsolete and should be redeveloped.

Comment 12

3. The Report indicates that physical inspections were performed on 23 units in these apartments and "serious deficiencies" were noted in 10 of the 23 units. Eight photographs are included in an appendix "documenting the conditions the we found." Several of the pictures represent conditions in vacant units that have not been prepared for occupancy. These units do not represent the general condition of occupied HACP apartments.

Comment 13

4. The Report notes "an excessive number of units that were vacant and boarded up." This is true in two of the communities identified, and it is why additional demolition is planned for both locations. These units are not boarded up because HACP has failed to maintain them in good condition. They are vacant because there is no demand for these units, something the Report does not consider. This is precisely the type of situation demanding a local response to local conditions that the MtW program was designed to address. Modernizing these units would waste federal dollars. Taking the time to

effectively redevelop communities and create new housing options, as is HACP's plan, is not only consistent with the MtW program, but is a much better use of federal dollars.

Comment 10

5. The MtW program specifically exempts HACP from evaluation based on the Public Housing Assessment System, of which REAC inspections are a part, so that priorities can be set locally. REAC inspections are still completed as an aid to HACP, but are advisory only. This flexibility is provided so that if the Authority identifies local priorities that are not currently recognized by the official scoring methodology, the Authority will not be penalized. Despite this, the Report uses these scores to evaluate the Authority's performance. Notwithstanding, it is important to note that HACP did pass its latest REAC physical inspection and assessment.

Comment 14

6. The statement that HACP may be in default of its Annual Contributions Contract is equally baseless. The advisory REAC scores for HACP are passing scores, and no other evidence is presented to support this assertion.

HACP Accumulated $26.9 Million Needed to Assist Low-Income Families

The Report's statements are inaccurate and misleading.

Comment 15

1. Over the period of HACP's MtW agreement, the Authority has increased Section 8 lease-up by over 30%. As of February 1, 2005, the Authority was serving 5,219 families with Section 8 Housing Choice Vouchers. This number is more than the total number authorized at the beginning of HACP's MtW program. In contrast, on January 1, 2001, the Authority served 3,899 families with Section 8 Housing Choice Vouchers.

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2. Our decision not to fully lease was not driven by a desire to build reserves, but by a strategy to redirect annual rental assistance payments into permanent investment in neighborhoods. Fully leasing would likely have increased vacancies in low-rent public housing developments, increased concentrations of vouchers in certain neighborhoods, and would not have served the Pittsburgh market and population very well.

Comment 16

3. The 6,600 "habitable" vacant units in the Pittsburgh metro area cited in the Report is also a misleading figure. Most of this housing is dilapidated and can not pass the required minimum physical inspection standards. Most is not convenient to public transportation, is not in areas desirable to low-income families, is not within the established rent range for its neighborhood, and/or is not owned by persons or organizations willing to participate in the Housing Choice Voucher program. The Report draws a conclusion without investigating these important issues.

Comment 17

4. The number cited includes both Section 8 and Operating Fund dollars, but the Report cites no reason for including the Operating Fund number and acknowledges that HUD puts no limits on Operating Fund reserves. Due to improved operational efficiencies, HACP was able to operate its programs and provide assistance to a greater number of families while spending less money, thus increasing its Operating Reserve levels. HACP strongly believes this is a positive outcome, not a negative one. To be able to best serve the low-income population of Pittsburgh, it is healthy for HACP to have a healthy operating reserve; the HACP anticipates utilizing this reserve to seed neighborhood investment and redevelopment activities. The Report implies a preference that the HACP spend all of the available funds quickly rather than prudently trim excess costs, plan

carefully, and implement strategies that will benefit low income families in Pittsburgh for decades.

HACP Lacked Capacity to Execute Its Programs

Comment 18

In this section, the Report demonstrates a fundamental lack of understanding of HACP's strategies by characterizing HACP's programs as low-income, modernization, and replacement housing programs. In contrast, the Authority identifies self-sufficiency, operational improvements, such as site-based management, and redevelopment as major activities.

"

The Report states that HACP "did not hire staff to replace the personnel it lost after it developed its original Moving to Work plan." However, the Report does not specify which staff were lost and not replaced. The reality is that HACP has proceeded with efforts to reorganize, to streamline operations, and to address weaknesses over the years.

"

The overall staffing levels at HACP have declined; this is appropriate as excess staff was reduced and the number of units under management declined. The Report noted that the position of Chief Operating Officer has not been filled since February of 2004; however, all essential functions are addressed and many were permanently transferred to new positions. In addition, the Chief Operating Officer was on staff until February 2004, so this vacancy could not have caused the Report's allegation that HACP did not implement its program. Furthermore, that vacancy coincided with organizational adjustments designed to improve performance.

"

Specifically, in January of 2004, HACP created two positions that increased the capacity of HACP: Chief Development Officer and Government Relations and Special Services Officer. The Chief Development Officer position focused Development and Modernization responsibilities in one person. This position was filled in September 2004. The Government Relations and Special Services Officer was given the responsibility for oversight of the Department of Resident Self-Sufficiency (Resident Relations), including the hiring of a new director for that department, to improve performance in this area. This position was filled in January 2004, and the Director of Resident Self-Sufficiency position was filled in July of 2004. In addition, this Government Relations and Special Services Officer was given responsibility for monitoring and tracking MtW initiatives.

"

The duties of the vacant Chief Operating Officer position are being capably handled by the temporarily and permanently assigned staff members, and additional changes to assigned responsibilities are planned as part of the implementation of site-based and asset management.

Comment 19

HACP has hired outside consultants to work on two elements of its Moving to Work plan. One firm has been engaged by HACP to assist in implementing its Capital initiatives, including redevelopment and modernization, and to assist in increasing the capacity of the internal Development and Modernization department. They were initially engaged in April 2001, not in June 2004 as noted in the Report.

Comment 19

Additional consultants were hired to assist in the transition to asset and site-based management. This project was initially to be completed in-house, and an in-house team developed initial plans. Upon review, it was determined that additional outside assistance would be beneficial, and the procurement then began for professional services to assist HACP in this process. The conclusion of the required procurement process resulted in the hiring of two firms in June 2004. Substantial progress has been made to date. It should again be noted that Site-based management was added to HACP's MtW program in 2003, as an alternate approach for bringing market forces to bear on public housing. Rather than implement a less robust internally developed plan, HACP utilized MTW flexibility to make adjustments in the plan and included technical assistance on this project in the Year 4 plan. HACP has secured that technical assistance and has made substantial progress on this initiative.

HUD's Consultant Noted Similar Deficiencies

Comment 2

The Report states that a HUD consultant noted similar deficiencies. Both the HUD consultant and the OIG Report fail to acknowledge several factors.

1. Neither the consultant nor the Report recognize that while capital grant funding for a neighborhood investment/redevelopment strategy is technically permissible, the reality of planning and implementation timelines do not make this approach feasible under standard capital fund obligation and expenditure deadlines.
2. HACP has developed and is implementing a five-year capital plan, a unique case management plan, a broad homeownership plan, and a site-based and asset management plan.
3. Many HACP initiatives, including elements of the Homeownership program, certain redevelopment uses of capital funds, and the implementation of site-based management, were not possible without permission from HUD when HACP signed its MtW agreement. Many activities previously not permitted or funded are now encouraged under HUD guidelines.
4. One of the HUD consultant's notes-- that HACP should prevent is operating costs from being substantially higher than the other providers of subsidized housing in the area -- is a matter of opinion. The HACP MtW agreement identifies improved operational efficiencies as a goal, and the Authority has achieved this goal. The proposed comparison to other providers of subsidized housing appears nowhere in the HACP MtW agreement, in any MtW plans or reports, or in any formal HUD correspondence to HACP.

Comment 20

HUD Funds Totaling $102.6 Million Could Be Put to Better Use

First, determining that funds could be put to better use is a matter of opinion. As stated earlier, the Authority strongly disagrees with this conclusion.

Comment 20

Second, the number cited in the Report is unsupportable, for the following reasons:
1. Capital funds cited in the Report have not reached expenditure deadlines.
2. Unused Section 8 funds are targeted to redevelopment activities, consistent with HACP's HUD-approved MTW plans.
3. Some Operating reserves are targeted to redevelopment activities, and HUD puts no limits on Operating Reserves. Considering the unpredictability of Operating Fund appropriation levels (only 89% of formula amounts in 2005, for example), maintaining a healthy operating fund balance is sound management.
4. Including estimates of funds not yet awarded as Funds That Should Be Put to Better Use is not appropriate. Funds that are not yet awarded can not be put to any use, so putting them to a better use would be impossible, and as such unreasonably inflates the total dollar figure cited in the Report.

Comment 21

HACP agrees with the OIG that there is a "need for the Authority to upgrade and improve its housing stock using the funds HUD provided. The Authority needs to aggressively address its distressed housing developments." HACP has requested an extension of the MtW Program so that this can be accomplished in a way that will have maximum positive impact for every dollar spent. The Authority's focus is on addressing distressed housing in a manner that will positively impact surrounding neighborhoods and will be sustainable. Good redevelopment takes time. The Authority has a plan that responds to local conditions, and is implementing it.

Recommendations

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Granting HACP an extension of the MtW Demonstration will provide the additional time needed for HACP to implement its revised MtW plan. This plan includes the proper complement of modernization and redevelopment initiatives, human service programs, homeownership programs, site-based management and waiting lists, and the Youth Services Investment Fund.

"

The following elements of Freedom and Flexibility granted by MtW are currently utilized by HACP for development, self-sufficiency, and operational changes, and will facilitate putting HUD-awarded dollars to their best possible use:
- Continued relaxing of deadlines
- Funding fungibility and flexibility
- Freedom from scoring factors and other regulations that are not consistent with local needs and conditions.

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These freedoms will allow HACP to continue to meet the needs of low-income residents and change the face of publicly assisted housing in Pittsburgh.

Brief comments on each of the Report's specific recommendations to the HUD Office of Public Housing Investments are below.

Comment 22

1. A. Not renew or extend the Authority's agreement beyond its scheduled termination date of December 31, 2005.

HACP believes the results of the review actually support HACP's request for a MtW extension. It would allow HACP more time, funding flexibility, and freedom from regulations, including obligation and expenditure deadlines, to fully implement its program plans including the neighborhood investment and redevelopment, self-sufficiency, homeownership, and site-based and asset management.

1. B. Work collaboratively with the Authority to develop a comprehensive workout plan to immediately transition the Authority from Moving to Work. The comprehensive plans should include targeting specific housing developments for renovation, rehabilitation, and/or demolition; specific timelines for implementation; a definite completion date; limited fungibility; and the recapture of any unused funds, thereby putting $78.7 million of funds to better use.

Comment 23

HACP has already developed a comprehensive work plan targeting specific developments for renovation, rehabilitation, demolition, and/or redevelopment and revitalization. HACP looks forward to implementing this plan with or without an extension, and welcomes the opportunity to work with HUD to address any concerns and to put these funds to their best possible use.

1. C. Recapture accumulated excess Section 8 reserves, and thereby, put $18.4 million of funds to better use.

Comment 24

No recapture is necessary, as accumulated Section 8 reserves (referenced in the MTW plans and reports as MTW residuals) are earmarked for neighborhood investment/ redevelopment, creating permanent affordable housing units and seeding neighborhood development.

1. D. Direct the Authority to immediately begin leasing up its unused Section 8 vouchers and, thereby, put $5.5 million of funds to better use.

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HACP's aggressive Section 8 lease-up continues. HACP would welcome the opportunity to discuss with HUD and local officials the ideal leasing level and the best use of any unleased voucher funding.

1. E. Evaluate the Authority's staffing to determine if it has the capacity to simultaneously carry out its HUD program, and if not, take appropriate corrective actions.

Comment 25

HACP has in place a system for continuous evaluation of staffing, and has taken appropriate actions as needed.

Conclusion

It is important to highlight and reiterate several items to put all of the above information into perspective.

Comment 1

1. HACP is in compliance with its Moving to Work Agreement, and no items of questioned cost are identified.

Comment 2

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Comment 23

2. HACP currently serves more families than it did at the beginning of the Moving to Work Program.
3. HACP housing is in better condition than it was at the beginning of the Moving to Work Program.
4. Low-income families have more housing options as a result of HACP activities than they did at the beginning of the Moving to Work program.
5. HACP has improved its operational efficiency under the Moving to Work Program.
6. HACP *has* utilized the freedom and flexibility of MTW to implement approved plan elements.
7. Despite delays beyond HACP control, adequate implementation progress has been made.
8. A MtW extension would allow complete implementation of the plan, and evaluation of the effectiveness of HACP' strategies.

HACP strongly disagrees with the Report, and does not believe that the findings or other comments and recommendations included in the Report are justified. However, the Authority remains willing to work with HUD to improve the effectiveness of the Moving to Work Program generally, and HACP's Moving To Work Program specifically.
The Authority appreciates this opportunity to comment on your draft findings. Thank you for taking the time to consider this information.

Sincerely,

Keith Kinard
Executive Director

Attachment: HACP 2000 and 2003 REAC Physical Inspection Scores Chart

Comment 10

HACP FY 2000 and 2003 REAC Inspection Scores

	2000	2003	Notes
1-1 Addison Terrace	46	69	Comprehensive redevelopment planned
1-2 Bedford Dwellings	70	62	
1-4 Arlington Heights	64	81	
1-5 Allegheny Dwellings	56	68	
1-7 St. Clair Village	50	69	Partial demolition planned
1-8 Bedford Dwellings Addition	49	50	Complete demolition planned
1-9 Northview Heights	41	68	Partial demolition & redevelopment planned
1-10 Glen Hazel Heights	70	60	Complete demolition planned
1-11Hamilton – Larimer/Auburn	44	41	Partial demolition planned
1-12 Garfield Heights	28	67	Comprehensive Redevelopment Planned
1-13 Addison Addition	39	69	Partial demolition & redevelopment planned
1-14 Kelly Street High Rise	61	72	
1-15 Pennsylvania-Bidwell	74	71	
1-17 Pressley Street Hi-Rise	45	97	
1-20 Homewood North	43	67	
1-22 Scattered Sites	66	60	
1-29 East Hills High Rise	43	-	
1-31 Murray Tower	83	95	
1-32 Glen Hazel Low Rise	62	61	
1-33 Glen Hazel High Rise	58	85	
1-38 Glen Hazel	72	100	
1-39 Scattered Sites	57	56	
1-40 Frank H. Mazza Pavilion	88	98	
1-41 Caligiuri Plaza	69	88	
1-42 Renova	63	78	
1-43 Flowers Street	94	93	
1-44 Finello Pavilion	85	88	
1-45 Morse Gardens	72	79	
1-46 Pietragallo Regency	95	82	
1-47 Gualtieri Manor	53	91	
1-50 Scattered Sites	67	54	
1-51 Scattered Sites	83	77	
1-52 Scattered Sites	74	71	
1-57 Glen Hazel - Wheel Chair	74	87	
1-62 Broadhead Manor Targeted	58	68	Partial demolition planned
1-64 New Pennley Place	-	96	
1-66 Allequippa Terrace MROP	-	96	
1-68 Allequippa Terrace 1A	77	99	
1-72 Manchester Phase I	79	89	

Page 14 of 15

Comment 10

Replacement			
1-73 Christopher Smith (Riverview)	93	99	
1-74 Manchester Phase II A & B	72	84	
1-75 Manchester Phase III (HOPE VI)	-	94	
1-76 Allequippa Phase 1B	70	98	
1-78 Manchester Phase IV	76	89	
1-79 Oak Hill Phase 1C	-	99	
Agency-Wide Total	**50.7**	**71**	

OIG's Evaluation of Auditee Comments

Comment 1 Under the Moving to Work program, Congress exempted the Authority from much of the Housing Act of 1937 and associated HUD regulations as outlined in its November 17, 2000, Moving to Work agreement. Our audit objective therefore, was not to evaluate compliance, but to evaluate the effectiveness of the Authority's implementation of the Moving to Work program. In response to our audit objective, we concluded that the Authority did not implement a workable strategy for a successful Moving to Work program and could better use $102.6 million by reverting to traditional HUD programs.

Comment 2 The Authority did not provide adequate evidence to support these statements. Contrary to the Authority's assertion, we have a full understanding of the Authority's planned strategies. However, the audit evidence showed that none of the Authority's strategies were effectively implemented. In addition, a recent November 2004 monitoring review from HUD's consultants continued to support our audit findings that the Authority has taken little advantage of opportunities for creativity and flexibility available under the program. The consultant concluded that, as the Authority enters its final year under its 5-year Moving to Work agreement, most elements of its capital program remain well behind schedule, few innovative operational changes have been implemented, and no meaningful planning for the transition from the program appears to have occurred.

Comment 3 Determining funds put to better use is a matter of professional audit judgment based on the audit evidence. The audit concluded based on the audit evidence that the Authority did not implement a workable strategy for a successful Moving to Work program and could better use $102.6 million by reverting to traditional HUD programs. The audit also concluded the Authority accumulated funds that it could have used to modernize its more than 6,700 low-rent housing units and provide housing to nearly 3,000 households on its Section 8 and low-rent waiting lists. The report does not opine that the best use of funds is modernization and leasing up vouchers as stated in this reply. It is our professional audit judgment however, that using HUD funds to modernize and provide housing to needy families is substantially preferable to the Authority's current practice of accumulating funds without a workable strategy to use them effectively.

Comment 4 The Authority cites several factors that it believes were beyond its control that caused it to delay implementing the Moving to Work program. None of the factors cited in any way justify the Authority's inability to implement a workable strategy for a successful Moving to Work program over a 4-year period. Many of the issues the Authority cited are relatively minor, and others were definitely within its control. For example, it was within the Authority's control to propose its initial plans, and it was within the Authority's control to modify them in year-3. In addition, it is incomprehensible that the Authority would cite our audit, or brief visits by the HUD consultant, as justification for not adequately implementing its program. The Authority had a window of opportunity, which it did not adequately use as evidenced by the significant amount of funds it accumulated. An extension to the Authority's Moving to Work agreement is not justified based on the Authority's lack of performance under the previous 5-year agreement. On the contrary, the Authority needs to begin working collaboratively with HUD to develop a comprehensive workout plan to immediately transition from Moving to Work.

Comment 5 Our audit objective did not require us to perform a detailed comparison of the Authority's original Moving to Work plan to the one it proposed in year-3. Rather, our audit objective was to evaluate the overall effectiveness of the Authority's implementation of the Moving to Work program. The audit showed that neither plan was adequately implemented. Regardless of the merits of each plan, our audit showed that overall the Authority did not implement a workable strategy for a successful Moving to Work program.

Comment 6 Although the Authority hadn't passed the traditional deadline for expenditures of its capital funds, our audit showed it missed the deadline for obligating those funds from 2001 and 2002, and the Authority was not likely to meet the obligation deadline for its capital funds from 2003. These funds would have been subject to a penalty. Under traditional procedures, HUD would have required the Authority to obligate its modernization funds within 2 years from the date of the grant. Under traditional procedures, HUD would have also assessed the Authority a 1-month penalty for violating the 2-year obligation rule.

Comment 7 Our audit objective was to evaluate the effectiveness of the Authority's implementation of its Moving to Work program. Therefore, we did not perform a detailed review of funds that were not applicable to the program. However, we acknowledge the Authority expended substantial capital funds that HUD provided prior to its participation in the Moving to Work program.

Comment 8 In order to quantify the effect of the Authority's inability to implement a workable strategy for a successful Moving to Work program, it was necessary to calculate the amount of funds it had unnecessarily accumulated while under the program. Under traditional procedures, HUD would have assessed the Authority a penalty for not obligating capital funds within 2 years from the date of the grant. This penalty would have applied to years 2001 and 2002 and would have likely applied to 2003. The audit concluded the Authority could have used these funds to modernize its more than 6,700 low-rent housing units and provide housing to needy families.

Comment 9 The audit clearly showed the Authority concentrated its activity on using replacement housing factor funds, which were subject to HUD's normal rules and regulations. The modernization funds provided under Moving to Work were not subject to HUD's normal rules and regulations. While the Authority planned to use increased levels of modernization funds in 2003, 2004 and 2005, the audit found that as of September 2004 it had not done so.

Comment 10 As our report illustrates, the Authority did not place a high emphasis on using its available funding to modernize its existing projects. For example, the Authority had not obligated or used the majority of its available capital funds since 2001 and as result accumulated more than $56 million of capital funds from 2001 through 2004. It will also likely accumulate another $15 million in 2005. We listed the inspection scores for 16 of the Authority's 44 projects to simply illustrate that many projects are in need of repair and, as appropriate, should be modernized with the capital funds HUD provided the Authority.

We did not intend to imply the physical inspection scores were the sole indicator as to whether a project should be modernized or not. The Authority has a responsibility to ensure all occupied projects meet HUD's minimum standards at all times by routinely maintaining the units. However, when items that ordinarily would be performed on a regular basis in the upkeep of a property become substantial, modernization of the property should be considered. Further, by performing routine maintenance, and paying close attention to exigent health and safety deficiencies, an Authority can certainly significantly improve its inspection scores on its properties; however, the property may still be a good candidate for modernization.

Also, the scoring methodology HUD uses to assess the physical condition of a unit/property has changed a number of times since 2000. As such the scores in and by themselves may not be a good indicator as to whether the overall condition of a property has improved or declined from year to year. For example, in 2002, the inspectable areas were reduced from five to two. This change caused property scores to fluctuate significantly. The fact remains that HUD provided significant modernization funds to the Authority that it failed to use to make much needed physical improvements to existing public housing units and for improvements to its management and operational practices.

Comment 11 Our report states the Authority's units are in poor condition, but does not direct the Authority to modernize these communities. Our inspections merely validated the fact that many of the projects administered by the Authority were in need of repair and may be good candidates for modernization. We recommended that HUD and the Authority work together to develop a comprehensive workout plan but did not recommend how the funds should be spent. Further, we used a July 29, 2004, Moving to Work Implementation Status Report, provided to us by the Authority, to identify the developments scheduled for demolition. The report did not show the Bedford Dwellings Addition development was scheduled for demolition.

Comment 12 Contrary to the Authority's statement, only one photo presented in the report was from a vacant unit. Nevertheless, the photographs merely provided examples of the poor conditions we observed.

Comment 13 The report does not direct the Authority to modernize these units or modernize in general. The photos merely document conditions we observed; that the Authority's housing developments were in need of repair.

Comment 14 According to Section 17 (B) of the Annual Contributions Contract, failure to carry out modernization in a timely, efficient, and effective manner may be grounds for default of the contract. Modernization should be an ongoing activity. Although the Authority states that its physical assessment scores are passing scores, some of the Authority's properties did not in fact have passing scores. Moreover, low scores in 2003 for 16 of its 44 developments indicated the overall condition of the housing units was not good. Lastly, the Authority should not be satisfied with scores that are merely passing, especially in light of the fact that significant HUD funds were available to improve its developments.

Comment 15 The statements made in the report are accurate. The Authority accumulated reserves in large part because it did not fully use all of the Section 8 vouchers and funding that HUD provided. Further, the Authority did not provide adequate evidence to support its statement that it was serving 5,219 families with Section 8 vouchers as of February 2005.

Comment 16 The Bureau of the Census categorized the units as habitable. As noted in the audit report, we acknowledge that some of the units may not be desirable for Section 8 tenants. However, the Authority provided no evidence to support its assertion that the majority of the housing units in the City of Pittsburgh are not favorable for leasing under the Section 8 Program.

Comment 17 Under Moving to Work, the Authority had flexibility to use operating fund reserves to help families in need of assistance. The accumulation of $81.4 million over the first 4 years of its Moving to Work agreement and possibly another $21.2 million in the final year of its agreement indicated the Authority was not adequately serving the families it was intended to serve. In addition, the Authority's claim that it accumulated the funds as a result of prudent trimming of excess costs, careful planning, and will result in benefiting low-income families in Pittsburgh for decades is unsupported.

Comment 18 Our audit showed that none of the Authority's strategies, regardless of terminology, were effectively implemented. Further, most of the Authority's claims that it proceeded with its efforts to reorganize, streamline operations, and address weaknesses over the years is inaccurate and misleading. As the audit demonstrated, the Authority was not able to develop and implement a workable Moving to Work strategy during its first 4 years under the program and in fact significantly revised its Moving to Work plan several times. As such it is understandable why the Authority had a difficult time in deciding what positions were needed to implement its Moving to Work program. The fact that the Authority created a number of positions in early 2004 does not demonstrate it was based on a well thought out strategy nor that it will be effective in moving its program forward. Also, it should be noted that HUD's consultant concluded the Authority lacked the capacity to carry out a successful program.

Comment 19 The fact that the Authority claims it hired an outside consultant in April 2001 is irrelevant. The Authority significantly revised its Moving to Work plan in 2003. Further, as the Authority acknowledged, it only recently procured the services of two firms in June 2004. This was well into its fourth year of its Moving to Work agreement with HUD.

Comment 20 Determining funds put to better use is a matter of professional audit judgment based on the audit evidence. Accumulating significant amounts of funds in an environment of unprecedented freedom and flexibility does not adequately serve families in need of housing assistance in the Pittsburgh area. The Authority accumulated $81.4 million over the first 4 years of its Moving to Work agreement and may accumulate another $21.2 million in the final year of its agreement. We recommended the Authority use these funds to assist families by working collaboratively with HUD to develop a comprehensive workout plan to immediately transition the Authority from Moving to Work.

Comment 21 It is not prudent to extend the agreement for another 5 years considering the Authority's lack of progress in its first 5 years. Over the first 4 years, the Authority accumulated $81.4 million, and it may accumulate another $21.2 million in the final year of its agreement. As an alternative, we recommend the Authority keep most of the available funds, because there is a need, and work collaboratively with HUD to put the funds to use as quickly as possible; certainly within an additional 5 years because there are families waiting for assistance.

Comment 22 The Authority believes the results of the review actually support its request for an extension to its agreement. However, the audit showed the Authority does not need the freedom and flexibility of Moving to Work to execute the program it's set forth. Moreover, given the freedom and flexibility, the Authority did not use $81.4 million of HUD funds to assist families in need of housing and it may accumulate another $21.2 million in the final year of its agreement.

Comment 23 As we point out in our report the Authority has not been able to develop and implement a workable strategy during its first 4 years under its 5-year agreement, and has in fact significantly changed its strategy a number of times. The mere fact the Authority developed another plan does not guarantee it will be successful. A comprehensive workout plan needs to be coordinated with and approved by HUD.

Comment 24 The Authority did not provide adequate evidence to support these statements. Nevertheless, the Authority accumulated large reserves because it did not fully use all of the Section 8 vouchers and funding that HUD provided.

Comment 25 The Authority did not provide adequate evidence to support these statements. Further, the Authority needs to work collaboratively with HUD to evaluate its capacity and take appropriate actions as needed.

Appendix C

PHOTOGRAPHS FROM PHYSICAL INSPECTIONS

Damaged Refrigerator (St. Clair Village)

Damaged Kitchen Area (St. Clair Village)

Damaged Bathroom Ceiling (Garfield Heights)

Damaged Bathtub (Garfield Heights)

Peeling Paint on Ceiling (Garfield Heights)

Damaged Wall (Addison Terrace)

Damaged Kitchen Cabinet (St. Clair Village)

Boarded-up Housing Units (St. Clair Village)