August 23, 1996

MEMORANDUM FOR: Henry G. Cisneros
Secretary, S

THROUGH: Susan Gaffney
Inspector General, G

FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Single Family Property Disposition
Homeless Initiative

In response to your request and inquiries from Congress, we reviewed the Single Family Property Disposition Homeless Initiative. Our objective was to determine whether the Homeless Initiative met HUD's goal of promoting homeownership while continuing to support the goal of assisting homeless persons and families move to self sufficiency. To achieve our objective, we interviewed staff at Headquarters and Field Offices, reviewed applicable HUD regulations and policies, and summarized relevant portions of internal and external audit reports issued throughout the country by the Office of Inspector General and the General Accounting Office (see Appendix). In addition, we reviewed the results of the recent investigation of Homeless Initiative providers in Louisiana performed by CPD's Office of Special Needs Assistance Programs.

Based on our review, we question whether the Homeless Initiative is an effective use of HUD's resources and whether it helps homeless persons and families become self-sufficient. The Homeless Initiative does not receive direct funds from HUD; therefore, HUD staff do not consider the Program a priority. In fact, HUD does not have objective measures of program success and does not adequately monitor the Program. The inadequate monitoring has allowed problems with unqualified providers and ineligible tenants to persist. Other abuses have occurred in the program's purchase options. The Offices of Community Planning and Development (CPD) and Housing share administration of the Homeless Initiative. However, these two Offices have differing goals and objectives which has led to little cooperation in administering the Program. The Office of Inspector General has identified many problems in the Homeless Initiative since 1993, but HUD has been unable to take adequate corrective action. Consequently, we believe the Department should eliminate the Homeless Initiative in order to concentrate on other more efficient and effective programs.
Unfunded Program Is Not Adequately Monitored

The Homeless Initiative does not receive direct funds from HUD. Instead, HUD allows qualified homeless providers to lease properties for up to 2 years. Because the Program is not funded by HUD, CPD considers the Program to be low-risk. As a low-risk Program, the Homeless Initiative receives less monitoring and staff time than high-risk, high-priority programs. However, HUD staff have stated that administering the Homeless Initiative is staff intensive, especially in monitoring "problem" providers. Because the Homeless Initiative does not receive the staff attention needed, the Program is easily abused.

HUD Does Not Objectively Measure Program Success

HUD does not have an objective system to measure the Homeless Initiative's success. CPD's Headquarters Office of Special Needs Assistance Programs has overall responsibility for managing the Program. The Office of Special Needs Assistance Programs currently measures Program success by the number of properties leased. However, that number fails to identify what happens to tenants after they move out of the leased properties. Neither does it inform HUD of what steps the homeless providers are taking to make the tenants self-sufficient. In fact, the number of properties leased does not even identify how many homeless people have participated in the Program. Therefore, HUD does not know how effective the Program is.

Dual Responsibility of the Program Creates Problems

The dual responsibility of the Homeless Initiative by CPD and Housing has contributed to its problems. The two Offices have historically operated separately and with different objectives. Because of these differences, the two Offices have had difficulty cooperating on Program oversight. The difficulty of the dual administration of the Homeless Initiative was illustrated when CPD, Housing, and other Offices formed a task force. The task force was formed in response to an internal audit report issued by the Assistant Inspector General for Audit in September 1993. The task force was to examine the Homeless Initiative and make recommendations for changes in the Program. The task force found that CPD and Housing each had differing views on the Homeless Initiative: CPD believed that the Homeless Initiative operated well; Housing believed that the Homeless Initiative did not fit philosophically with its mission to expand homeownership through the sale of its inventory and to protect the mortgage insurance fund. Housing also feared that the Homeless Initiative might have an adverse impact on the insurance fund. It wanted to lower the percentage limit on the number of properties if the Homeless Initiative caused a great loss to the insurance fund. Housing also wanted CPD to assume sole responsibility for administering the Program. However, CPD did not believe it had the staff to solely administer the Homeless Initiative.
Nor did CPD believe that it had the expertise to take over the property management functions, especially since Housing would retain title and ultimate responsibility for the housing inventory. When the task force disbanded, it had not resolved the foregoing issues between CPD and Housing. The only significant changes made by the task force was to reduce the lease period from 5 to 2 years and to increase the options allowing for more sales of leased and nonleased properties to nonprofit providers.

**Inadequate Monitoring and Approval of Homeless Providers Allows Abuses to Recur**

Field Office staff failed to adequately monitor the providers or properly screen them. Both CPD and Housing have stated they did not have the staff to monitor the Program. The Homeless Initiative's continual problems reflect this lack of monitoring and screening. Audits and reviews found recurring examples of unqualified providers, ineligible tenants, inadequate documentation of homelessness, overcharges in rent, and deteriorated properties.

The selection of a homeless provider is crucial to the Homeless Initiative's success. The General Accounting Office reported in a September 1993 report that, "HUD officials said that careful screening and monitoring of organizations is needed to avoid the type of program abuses that occurred in the early stages of its leasing program. . . . However, headquarters and field officials believe that the problem has been largely corrected through better HUD screening and monitoring of organizations applying for and leasing property." Despite its assurances of better screening, the Homeless Initiative still suffers from unqualified providers participating in the program. The Office of Inspector General first reviewed the Homeless Initiative in 1993 and found that providers did not always arrange or provide adequate supportive services. Another audit found that a provider did not have the funds to maintain the property. These providers did not have the capability to participate in the Homeless Initiative and should not have been approved.

Providers let ineligible tenants occupy Homeless Initiative properties and did not adequately document the tenants' homelessness. A recent review by CPD revealed that providers monitored by the New Orleans Field Office lacked adequate documentation of tenants' homelessness. Audits issued by the Office of Inspector General also found that providers did not adequately document their tenants' homelessness. One of the audits discovered the inadequate documentation after HUD assured the Office of Inspector General that it had corrected the problem. Other audits and monitoring reviews have found ineligible tenants residing in the Homeless Initiative houses. Providers have used Homeless Initiative properties to house relatives and employees of the provider. Providers also let tenants who were clearly not homeless move into Homeless Initiative properties. These tenants moved from their former houses for personal reasons other than homelessness, such as wanting a bigger home. Finally, providers allowed tenants who were making more than 50 percent of the median income live in Homeless Initiative houses. These tenants could afford to live
Tenants who did meet the definition of homeless were often overcharged. The Homeless Initiative limits the allowable rents to the property's operating costs. Yet an audit of the Richmond Field Office and a Chicago provider found that tenants were charged more than the operating costs of the property. In Louisiana, providers could not support the rent amounts charged. These rental overcharges allow the providers to profit from the Program.

Providers also allowed houses placed in the Homeless Initiative to remain vacant or to deteriorate. The Homeless Initiative guidelines require that properties be returned to HUD when vacant for 30 days. One provider failed to lease properties under its control because it did not have the funds to remove lead pipes. Instead of returning the homes to HUD, the provider kept the properties without leasing them for 34 months. Providers also allowed vacant and occupied homes to deteriorate. Three Office of Inspector General audits found Homeless Initiative houses that did not meet HUD's housing quality standards. In two of the three audits, the houses did not have the deficiencies before a provider leased them. In the third audit, the Field Office did not perform the required inspections before leasing thus, HUD could not determine whether the houses had the deficiencies before they were leased.

Had HUD staff properly monitored the providers, recurring problems could have been minimized. In Louisiana, which has one of the largest concentrations of properties, CPD had not monitored the Program since 1993. Also, the monitoring reviews it had previously performed sometimes overlooked serious problems. The Office of Inspector General recently reviewed one of the monitoring reports CPD issued in 1993. In that report, the monitor commended the provider for strict compliance with the Program. However, the Inspector General's review, using the same documents, noted the provider did not verify the tenants' income or homelessness, and did not document how it computed rental charges. CPD did not monitor this provider again until a newspaper published an adverse article about the provider in April 1996. Based on its findings with this provider, CPD began monitoring other Louisiana providers. Because CPD found other significant instances of non-compliance, it intends to suspend 9 of 12 Louisiana providers, including the provider it had previously commended.

**Providers can Purchase Homes at a Discount and Sell the Homes for Profit**

The Homeless Initiative invites abuse by allowing providers to purchase properties at a discount. A provider may purchase a home it has leased or any other eligible property for 10 percent less than the fair market value. In some cases, where HUD has identified a specific area as a "revitalization zone," providers can purchase properties for 30 percent less than the

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1 Louisiana had 118 properties in the Program which is 7 percent of the nation's total of 1,524. Only Texas (166) and California (199) had more.
fair market value. HUD's only restriction is the property must either be used to house low-income tenants for 10 years or be resold to low-income individuals. This creates a problem because HUD currently has no means of monitoring a property once it is sold to a homeless provider. Consequently, HUD properties can be sold to providers that have no intention of using the homes to house low-income tenants. Further, the automatic discount on the homes prevents the insurance fund from fully recovering the fair market value of those homes.

Conclusion

The Homeless Initiative is not an effective Program for helping the homeless become self sufficient. Weaknesses endemic to the Program leave it vulnerable to abuses such as providers housing ineligible tenants. Because the Homeless Initiative does not receive any direct HUD funding, HUD does not consider the Program to be a priority. Yet, to adequately monitor the Homeless Initiative, HUD must invest significant staff time in the Program, which it does not have, by diverting staff from higher priority programs that receive funding. The Homeless Initiative would benefit by being administered by only one Office. However, both CPD and Housing have expressed reservations about being solely responsible for the Program. HUD has tried to correct programmatic flaws since 1993. Nonetheless, the flaws identified in 1993 still exist in 1996. For these reasons, we recommend that HUD eliminate the Homeless Initiative Program.

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