

---

July 13, 2006

## INSPECTOR GENERAL REPORTS ON HUD'S MOVING TO WORK DEMONSTRATION RAISE SERIOUS QUESTIONS

by Will Fischer and Barbara Sard

A series of reports by HUD's Inspector General have found serious flaws in the implementation of the Moving to Work (MTW) housing demonstration, including ineffective oversight by HUD and poor use of funds by some local housing agencies. These findings, considered together with other risks posed by MTW, suggest that sharply expanding MTW's size and scope — as some members of Congress are seeking to do — would be unwise. Instead, MTW could be improved by strengthening accountability while maintaining the demonstration at roughly its current size.

### Background

Established by Congress in 1996, MTW permits HUD to grant broad waivers to up to 30 state and local housing agencies allowing them to experiment for a fixed (but extendable) time period with different policies in their voucher and public housing programs, not only to promote work but also simply to achieve “greater cost effectiveness.”

Several proposals to expand HUD's authority to grant MTW waivers have been introduced in Congress in recent months. The House-passed FY 2007 Transportation-Treasury-HUD appropriations bill (H.R. 5576) would allow HUD to increase the number of MTW agencies from the current 24 to 32, largely by addressing a technicality that has prevented HUD from using all of the slots allowed by the current statutory cap.<sup>1</sup> Legislation recently approved by the House Financial Services Committee (H.R. 5443) would let HUD give MTW waivers to a total of 40 agencies. Senator John Sununu (R-NH) has introduced a bill (S. 3508) that would expand MTW much more extensively (to 250 agencies) and provide “charters” permanently exempting agencies from most federal rules and standards.<sup>2</sup>

---

<sup>1</sup> HUD's website lists 24 agencies as current MTW participants. See <http://www.hud.gov/offices/pih/programs/ph/mtw/mtwparticipants.cfm>. Some years ago, Congress instructed HUD to admit another agency, the Charlotte Housing Authority, which is currently listed as “in negotiation.”

<sup>2</sup> For further information on MTW and analysis of the MTW provision in H.R. 5443, see Barbara Sard and Will Fischer, “Bipartisan Bill in House Would Make Marked Improvements in Housing Voucher Program,” Center on Budget and Policy Priorities, May 30, 2006, available at <http://www.cbpp.org/5-30-06hous.htm>.

## Inspector General Reports Criticize MTW Implementation

From 2004 to 2006, HUD's Office of the Inspector General (OIG) completed a series of audits of MTW, including a general audit of HUD's design and implementation of MTW, as well as four audits covering individual local MTW programs.<sup>3</sup> The OIG audit reports contain a number of sharp criticisms of MTW, dealing both with HUD's oversight of the demonstration and with the policies implemented by some local housing agencies.

While OIG's general audit of the design and implementation of MTW covers the entire MTW demonstration, the OIG reports regarding local implementation of MTW should not be taken as representative of all 24 MTW agencies. Other sources — including a 2004 Urban Institute evaluation of the original “cohort” of MTW agencies that HUD selected in 1997 — suggest that some of these agencies have used their waivers to conduct innovative, promising housing policy experiments. However, the OIG audit reports offer the only detailed assessment of HUD's implementation of MTW and of MTW activities at agencies that developed their demonstration programs under the current administration. They thus provide valuable insights as Congress considers whether HUD should be given authority to expand MTW.

### HUD Oversight of MTW Was Weak

The OIG reports found that HUD provided inadequate monitoring to ensure that MTW agencies complied with basic federal rules, and insufficient oversight to ensure that MTW activities furthered the demonstration's goals and made effective use of federal funds.

Even though the reports looked at details of MTW implementation at only a handful of local agencies, they found evidence that the weaknesses in HUD's oversight had serious consequences on the ground. OIG concluded that two of the agencies examined — neither of which was actually subject to the monitoring by HUD regional field offices that HUD's oversight plans called for on paper — made poor use of tens of millions of dollars of federal funds. One audit found that the Pittsburgh MTW program accumulated large amounts of federal housing funds in its reserve accounts from 2001 to 2004, rather than using them to issue available Section 8 vouchers to needy families on its waiting list or meet other pressing local housing needs. Pittsburgh was able to leave these badly needed resources unused in part because its MTW waiver exempted it from federal rules that would have required it to use them promptly to serve needy families.<sup>4</sup> Another report concluded that millions of dollars in voucher funds that the Philadelphia Housing Authority has

---

<sup>3</sup> In addition to the general audit of MTW design and implementation (available at <http://www.hud.gov/oig/ig500001.pdf>), OIG conducted audits examining the Seattle (<http://www.hud.gov/oig/ig401004.pdf>) and Pittsburgh (<http://www.hud.gov/oig/ig531008.pdf>) MTW programs, an audit of HUD's oversight of the Philadelphia MTW program (<http://www.hud.gov/oig/ig430003.pdf>), and an audit of HUD's decision to admit the Housing Authority of Baltimore City to MTW (<http://www.hud.gov/oig/ig630002.pdf>).

<sup>4</sup> HUD data indicate that in 2005, Pittsburgh was no longer leaving voucher funds it received unspent. The Authority indicated that it had taken steps to address the problem of unspent funds, and use of those funds appears to have accelerated sharply after OIG released its audit. Several other housing agencies with MTW waivers, however, did leave substantial amounts of voucher funds unused or used the funds for other purposes in 2005. Philadelphia, Atlanta, Chicago, and New Haven all spent less than 90 percent of their voucher funds on voucher subsidies. Insufficient information is available to determine the details of the activities for which these funds may have been used.

been reallocating each year under its MTW program for “non-traditional” uses (such as housing development) could be better spent issuing available vouchers to needy families for use in the city’s ample vacant rental housing.<sup>5</sup>

OIG also found that some agencies failed to follow some of the limited, basic federal rules that were *not* waived under MTW, including requirements regarding environmental reviews of new housing developments and a stipulation in the MTW statute itself that public comments must be taken into consideration in developing an application to participate in MTW. OIG attributed these failures in part to spotty oversight by HUD.

The reports noted several reasons for the weakness of HUD’s oversight:

- **HUD resistance to the concept of federal oversight.** Under MTW, HUD has substantial authority to review agency plans for MTW demonstrations and ensure that planned activities have the potential to further the goals of the demonstration. The OIG audit reports suggest, however, that HUD objected to the concept of providing such oversight. In informal comments on the audit of HUD’s oversight of Philadelphia’s MTW program, HUD told OIG that one reason for its failure to ensure that Philadelphia made effective use of its federal funds was a belief that such oversight would run counter to the “philosophy” of the MTW demonstration.
- **Lack of clarity regarding oversight responsibilities.** HUD’s oversight also was undermined by confusion about what entities under HUD were responsible for monitoring the demonstration, according to the audit reports. HUD relied in part on consultants to monitor MTW agencies but did not ask the consultants to collect all of the information needed for adequate monitoring. HUD policies called for the department’s field offices around the country to conduct the additional monitoring needed, but some offices indicated that they did not receive clear instructions to carry out this task and (as noted in the examples above) did not do so consistently.
- **Lack of resources.** Providing effective oversight of MTW is a difficult and resource-intensive job. Under the demonstration, HUD can waive not only a broad range of program rules but also many of the reporting requirements that enable HUD to know whether state and local agencies are properly using funds. HUD’s informal comments on the Philadelphia audit noted “lack of resources” at HUD as an impediment to adequate monitoring. HUD’s written response to OIG’s general report on HUD implementation explained the inadequate monitoring conducted by HUD field offices by noting that “because of its comprehensive nature the demonstration is complicated to monitor,” and that given this complexity, providing adequate MTW oversight had to be balanced against “the extensive workload and conflicting priorities” the field offices faced.

---

<sup>5</sup> According to OIG, the Philadelphia Housing Agency sought to justify the diversion of voucher funds into development activities by arguing that blight and a lack of affordable housing made it difficult to use the funds for vouchers. OIG, however, argues that the authority struggled to use funds for vouchers because of poor program administration rather than lack of adequate housing. It cites earlier OIG audits of the housing authority, Census data on housing vacancies, and a 2003 study by University of Pennsylvania researchers to support that conclusion.

## **HUD Gave Waivers to Failure-Prone Agencies, Ignoring Congressional Intent**

HUD increased the risk that violations of federal rules and misuse of federal funds would occur by selecting agencies to participate in MTW that were unlikely to administer successful demonstrations. The legislation authorizing MTW requires that HUD take into account an agency's performance relative to other agencies and its potential to succeed in carrying out a demonstration program when selecting agencies to participate, but does not indicate *how* HUD should take these factors into account.

In MTW's early years, HUD implemented this statutory requirement rigorously by limiting participation in the demonstration to agencies rated as high performers under HUD's performance measurement system. This requirement was not consistently applied after 2000, however, and OIG's reports indicate that the agencies admitted later included some relatively poor performers: "HUD placed more emphasis on filling remaining vacancies in the demonstration program with large housing authorities, such as the [Philadelphia Housing] Authority, rather than objectively evaluating the performance history and the merits of the proposed programs." In some of HUD's recent selection decisions, it is difficult to discern how HUD took agency performance into account at all.

HUD staff told OIG that one reason HUD ignored congressional intent regarding selection of MTW agencies was that a senior HUD official with authority over selection decisions simply believed that Congress had made the wrong policy choice. They reported that the assistant HUD secretary responsible for MTW from 2001 to early 2005 "believed that the way Congress established the program to benefit high performing agencies was not beneficial."

## **Policy Lessons Generated by MTW Demonstration Were Limited**

MTW's stated purpose was to test innovative policies, and Congress instructed HUD to evaluate the demonstration with the goal of generating findings that would help guide the future direction of housing policy. OIG found, however, that HUD failed to collect crucial data for use in the evaluation, and that the limited information that was available "did not provide measurable and comparable results showing how activities reduced costs, promoted self sufficiency, and increased housing choice." This failure reduced the ability of the evaluation to identify which MTW activities could be considered models for replication in other areas.

According to OIG, HUD failed to collect quantitative data on effects of MTW on individual tenants largely because its initial plan for collecting these data turned out not to be feasible. OIG sharply criticized HUD for this failure.<sup>6</sup> However, it should be noted that MTW's basic structure — which provided little guidance regarding which policies should be tested under the demonstration and did not require that demonstration programs be designed in a manner that allowed rigorous evaluation — would have limited the findings of the evaluation even if HUD had collected adequate data.

---

<sup>6</sup> OIG did not criticize the HUD-sponsored Urban Institute MTW evaluation, which in the absence of adequate quantitative data used other, primarily qualitative, sources of information to assess the activities of the first cohort of MTW agencies.

## **Audits Suggest a Major MTW Expansion Would Carry Serious Risks and Few Benefits**

The findings of OIG’s audits strongly suggest that a major expansion of MTW would be unwise. The audits attribute HUD’s poor implementation of MTW — and the misallocation of funds and violation of basic federal standards by local agencies that OIG blames in part on weak HUD oversight — to a variety of factors, ranging from inadequate monitoring resources to simple mistakes to willful disregard of congressional intent.

There is every reason to expect that HUD implementation of an expanded MTW would, if anything, be even more problematic. HUD’s limited monitoring resources would be stretched even further, and it would be far more difficult for Congress or OIG to provide the kind of oversight of HUD that would be needed to ensure that it implements MTW competently and as intended by Congress. (Senator Sununu’s bill to greatly expand MTW and allow MTW “charters” to last indefinitely would make it even less likely that agencies would be held accountable, since the defined but renewable terms allowed under the current demonstration at least ensure that agencies must occasionally obtain approval from HUD or Congress to continue their waivers.)

As a result, implementation problems under an expanded MTW would likely be even more severe than under the demonstration to date, while the useful policy lessons generated would be equally sparse.

Moreover, an expansion of MTW would carry significant risks beyond those discussed by OIG. Many of the policy changes allowed by MTW waivers can seriously harm low-income families. For example, MTW agencies can impose substantially higher rent burdens on needy families than are allowed under current law, and can impose time limits on housing assistance even for working-poor families that cannot afford market-rate housing on their own. MTW agencies also can shift assistance from the neediest households to those with higher incomes, which saves agencies money because higher-income households are cheaper to serve. Because funding for the public housing and voucher programs has been cut significantly in recent years, the risk that MTW agencies would take actions that reduce costs but harm poor families and individuals would be high — considerably higher than in the early years of the demonstration, when the budget environment was not as tight.

## **MTW Should Be Kept at Roughly Its Current Size and Improved**

Rather than radically expanding MTW and allowing waivers to continue indefinitely, Congress should maintain the demonstration at roughly its current size, continue to set defined-but-renewable terms for waivers, and strengthen MTW so Congress can be confident that it will generate meaningful policy lessons without creating unnecessary risks for low-income people. Several changes in the law governing MTW would help to provide the needed accountability and focus on high-quality housing policy experiments, including:

- permitting only agencies that are high performers under HUD’s performance measurement system to participate in the demonstration;
- specifying clear performance standards for agencies that have been admitted to MTW and

providing for termination of MTW participation for agencies that do not meet the standards;

- limiting the degree to which MTW agencies may shift funds between the voucher and public housing programs, a step that makes it more difficult to track agency activities and does little to facilitate improvements in policies for either program;
- requiring annual public hearings on MTW plans with adequate opportunity for public and resident input into important changes, and annual reports on MTW activities;
- requiring HUD to make information available to the public concerning the waivers granted to participating agencies and the agencies' local policies;
- establishing priorities regarding the types of policies that would be tested;
- placing limits on policy changes (like shifts of vouchers to higher-income households or rent increases that deeply undermine affordability) that would be especially harmful to needy families but have little potential to result in useful lessons; and
- adding clear requirements that the demonstration be rigorously evaluated and providing the resources needed to do so.