

Evaluating Methods *for Monitoring and Improving*



HUD-Assisted
**Housing
Programs**

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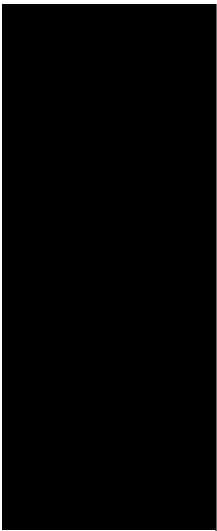
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PUBLIC ADMINISTRATION**

*for Congress and the Department of
Housing and Urban Development*

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Evaluating Methods for Monitoring and Improving HUD-Assisted Housing Programs

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The views expressed in this document are those of the panel alone.
They do not necessarily reflect the views of the Academy as an institution.

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FOREWORD

The Academy is pleased to help the U.S. Department of Housing and Urban Development (HUD) improve its process for monitoring and overseeing the assisted housing provided to deserving Americans by public housing authorities and private owners. Today, 10 million individuals in 4.3 million households rely on HUD-assisted housing. About 28 percent of this housing is traditional public housing. The remaining 72 percent is provided by the private sector.

In recent years, HUD lost the ability to keep track of the condition of the housing units it was supporting. Both the General Accounting Office and HUD's Inspector General have criticized the department for this lapse. Under the leadership of Secretary Andrew Cuomo, HUD has made considerable progress over the past three years in rectifying the situation. It has installed a performance measurement system to assess the quality of most assisted housing units, the financial and management stability of the housing providers, and the satisfaction of residents. However, the system was installed rapidly, with inadequate industry and resident consultation. It is not a perfect system, but it is operating and improving.

The thrust of the Academy's report is to recommend improvements to the system and urge HUD to take a more consultative approach when implementing them. Public administration is becoming increasingly collaborative. The use of service delivery partnerships is now the norm in many federal programs. We believe this report provides HUD with important advice about how to transform its housing programs into more responsive, customer-oriented activities for serving the American people.

The Academy thanks Congress for mandating this study and HUD for its cooperation throughout the effort. We also appreciate the many federal, state, local, and private-sector advisors who worked with the panel throughout to help us understand the many complexities of this important subject. The Academy panel assembled to direct this study also is to be commended for pursuing a collaborative process with the industry and residents. The process yielded many

valuable insights, and mirrors the process that the panel recommends for use by HUD.



Robert J. O'Neill, Jr.
President
National Academy of Public Administration

EXECUTIVE SUMMARY

As requested by Congress, the National Academy of Public Administration (Academy) panel on HUD-assisted housing has evaluated alternative approaches to evaluating the effectiveness of the local public housing agencies and private providers who implement the HUD programs. The panel found that:

- HUD's monitoring and oversight role is an essential core function that cannot be delegated to others.
- HUD's system needs significant modification.
- Modification of HUD's system needs to be done in effective consultation with HUD's customers and partners—including the industry that provides the housing, the residents who live in the housing, and the communities where the housing is located.
- Elements of other systems—including accreditation—could usefully supplement a modified HUD system, but they cannot replace it.

These findings led the panel to recommend that HUD:

- modify its evolving quality-assurance system significantly, using elements of other approaches to make it more complete, more acceptable to the housing industry, and less burdensome
- make certain urgent operational improvements in the system that is now being used
- refine the system by making a series of longer-term systemic improvements to achieve greater simplicity and flexibility and to increase the focus on results
- transform the governance of the quality-assurance system into a highly consultative process in partnership with the housing industry and residents

This executive summary briefly highlights the congressional study request, the panel's overall views, the study's methodology, the characteristics of a good quality-assurance system that the panel used to evaluate and compare alternative approaches, and the panel's formal findings and recommendations.

THE CONGRESSIONAL STUDY REQUEST

Section 563 of the Quality Housing and Work Responsibility Act (QHWRA) of 1998 (PL 105-276) called for a study of alternative approaches to evaluating the effectiveness of local public housing agencies (PHAs) and other providers of housing that are assisted by the U.S. Department of Housing and Urban Development (HUD). The Academy panel responsible for the study has examined HUD's system as well as several other approaches for assessing HUD-assisted housing providers. The panel refers to HUD's system as a "quality-assurance system," because that is the system's ultimate purpose.

In addition to requiring a comparison of HUD's current system with several other approaches, the congressional mandate for this study also required an evaluation of whether HUD's monitoring and oversight activities "should be eliminated, expanded, modified, or transferred to other entities (including governmental and private entities) to increase accuracy and effectiveness and improve monitoring." The Academy submitted an *Interim Report* in June 2000, as required by QHWRA. That report summarized the data collected to that point, but it did not make recommendations. In this final report, the Academy panel presents its findings and recommendations.

OVERALL VIEWS

The panel's findings, briefly summarized above and presented in full below, are neither simple nor uniform because HUD's system operates differently for its three major assisted housing programs. Those programs are administered by two different HUD program offices and are overseen with the help of several new HUD organizations and performance measurement mechanisms that are still evolving. In one program (traditional public housing), housing is provided directly by PHAs; in the other two programs (Section 8 tenant-based and Section 8 project-based), private rental units are made available to needy people through HUD subsidies. The Section 8 Tenant-Based Program is administered by HUD's Office of Public and Indian Housing (PIH), while the Section 8 Project-Based Program is administered by HUD's Office of Housing.

During this study, it also became apparent that PIH and the public housing industry needed to have a much better working relationship. This finding is just as important as those that address the effectiveness of HUD's quality-assurance system. The issue is not just whether accreditation—or some other system—is a better method for assessing and helping to improve the quality of HUD-assisted housing, or how HUD's system compares to other systems. It also is whether it is possible to improve the relationship between HUD and its partners for providing low- and moderate-income housing. In the panel's view, this relationship needs urgent repair. Until that happens, the problems that caused Congress to call for this study cannot be fully addressed.

HUD has moved aggressively to address past criticisms from the General Accounting Office and HUD's Office of Inspector General that HUD had failed to

oversee assisted housing. Both said that HUD did not know the physical and financial condition of its assisted housing inventory and should do more to ensure its quality. Secretary Cuomo and his staff deserve credit for developing new systems and processes that HUD can use to improve performance and accountability in this important area. Certain functions were centralized for the sake of efficiency. HUD established two new organizations under the Deputy Secretary that measure the performance of public and private providers of HUD-assisted housing (the Real Estate Assessment Center—REAC) and enforce compliance with housing laws (the Departmental Enforcement Center—DEC). In addition, PIH added an Office of Troubled Agency Recovery that works through two Troubled Agency Recovery Centers (TARCs) to help deficient PHAs improve their performance and avoid legal actions by DEC. However, these reorganizations occurred when HUD was being sharply downsized. Because of downsizing and personnel transfers, HUD's front-line staff became less capable of working with the public and private providers of HUD-assisted housing.

As much as HUD deserves credit for this initiative, the credibility of HUD's new system has been undermined by its adversarial relationship with many of the entities that implement HUD-assisted housing programs. This relationship, especially with local PHAs, was problematic even before HUD began to assess and monitor them more systematically and effectively. Furthermore, the relationship has deteriorated, at least in part, because HUD used an inadequate consultation process to create and implement its new quality-assurance system. On the private assisted housing side, a more collegial relationship between providers and HUD has helped to smooth over the rough spots in the new system.

The Academy panel believes that HUD cannot achieve an effective, well-run quality-assurance system for its assisted housing programs without a more effective working relationship with the assisted housing industry. Improved working relationships are needed to raise the credibility of the assessment tools being used, reduce the system's administrative burden, and better align the system's goals with the outcomes that well-run assisted housing providers are trying to achieve. Failing this, the industry and HUD will continue to have unproductive confrontations over the assessment scores from HUD's new quality-assurance system.

The panel recognizes the importance of HUD's regulatory role and its fiduciary responsibility to ensure that the federal funds entrusted to the department are spent in accordance with laws and regulations. It also recognizes that regulation and enforcement are essential components of HUD's quality-assurance system for assisted housing providers. But the panel believes as well that regulation and enforcement should not be the primary means of conducting daily business with partners and stakeholders. These legalistic approaches imply that the relationship between HUD and its partners is one-way—HUD directs and the housing providers, including PHAs, comply. However, PHAs are instrumentalities of state and local governments. As such, they are components of the federal system and should be treated as partners rather than simply as contractors. A partnership between HUD and PHAs can create an environment that is more conducive to meeting the current challenges facing the assisted housing community, and more

effective in building trust and goodwill with the housing providers whose work is essential to meeting HUD's assisted housing goals.

Despite HUD's large investment in its new system, the panel also believes that HUD needs to be open to looking at other quality-assurance approaches that can bring supplemental benefits to its own evolving system for assessing, monitoring, and overseeing assisted housing providers. Both HUD and the public and private providers need a well-functioning quality-assurance system to help them achieve the statutory outcomes for which they share joint responsibility.

METHODOLOGY

The Academy panel directed extensive research, including numerous document reviews and over 100 detailed interviews in Washington, DC and 18 other cities nationwide. Academy staff interviewed officials at HUD headquarters and HUD offices in eight states. They also interviewed a host of interested parties, many of whom were named in QHWRA. Academy staff interviewed not only organized interest groups, but also actual providers and residents of HUD-assisted housing and local government officials. The panel's methodology reflected congressional intent that there be broad consultations. The wide exchange of ideas that resulted was very useful to the panel as it prepared its interim and final reports.

Written comments on the draft of this final report were received from HUD and five other parties. The comments, which are reproduced in Appendix D as required by QHWRA, include both technical corrections and views on the panel's findings and recommendations. Some views on the findings and recommendations agree and others differ with the panel's views.

In most cases, the technical corrections have been made at appropriate places in the report. The principal views expressed in the written comments have been noted at appropriate points in the body of this report. An introduction to Appendix D summarizes the comments received and describes how they have been reflected in the final report. The panel appreciates the contributions that HUD and the other parties have made in the final review and comment stage of this study.

CHARACTERISTICS OF A GOOD QUALITY-ASSURANCE SYSTEM

To provide a basis for evaluating HUD's current quality-assurance system, and for comparing it with several alternative approaches, the Academy panel, in consultation with the HUD-assisted housing industry, developed 14 characteristics of a good quality-assurance system:

1. system goals consistent with mutually agreed-upon outcomes, assessment standards, and procedures
2. self-assessment and continuous improvement processes
3. on-site peer review to provide independent, outside perspectives and suggestions

4. internal quality-assurance procedures
5. independent physical inspections
6. independent financial audits
7. independent management audits
8. resident surveys
9. community and resident involvement in the assessment process
10. mechanism to score/certify housing providers using agreed-upon assessment standards
11. appeals process
12. recovery mechanism to help housing providers identify and remedy problems
13. enforcement mechanism to sanction housing providers for non-compliance
14. cost-effective and affordable process

FINDINGS

In examining the facts and the research, the Academy panel agreed on 12 findings. They are grouped below in three major categories:

- findings on consultation and relationships
- findings on HUD's current system
- findings on other approaches

Findings on Consultation and Relationships

FINDING 1. Public housing agencies are important components of the federal system of American government and are HUD's partners.

PHAs are neither contractors nor simple extensions of HUD. They are governmental entities in their own right, created under state and local laws that are consistent with federal law. Local officials appoint their boards, conduct their business in public, and frequently extend their activities beyond the bounds of federal programs. For these reasons, they are separate from HUD, even though they are subject to HUD oversight because of the federal financial relationship. PHAs are key partners with HUD in achieving the mission of providing decent, safe, and sanitary housing to low- and moderate-income people, and in meeting other statutory goals.

FINDING 2. Consultation and collaboration are key tools for creating effective relationships among partners; they could play a significant role in improving relationships between HUD and PHAs.

Consultation is important for HUD because of its dependence on its partners in carrying out its mission. It is particularly important for HUD to consult with PHAs and other units of local government as fellow governments, instead of simply as contractors. Reducing tension and improving performance require redefining the roles of institutions, building new capacities, and redefining basic

relationships. That will require HUD and its partners to place greater emphasis on consultation.

In carrying out consultations, HUD should adhere to principles that provide or promote:

- an inclusive process that facilitates participation by all key stakeholders and gives them a role in establishing the process
- assistance for stakeholders who need it to participate effectively in the consultations
- free and effective exchange of information about the issues on which the parties will be consulted
- timely access to information and timely feedback to stakeholders about how their input was used and what changes it caused
- stakeholder satisfaction with the process
- stakeholder influence on decisionmaking

Findings on HUD's Current System

FINDING 3. The department is moving in a positive direction by demonstrating a commitment to improving the quality of HUD-assisted housing and the performance and accountability of the organizations that implement HUD's low- and moderate-income housing programs.

By implementing its new quality-assurance system, the department has demonstrated a commitment to improving the performance and accountability of the organizations that provide HUD-assisted housing. HUD also has shown a commitment to strengthening the public's trust in the department. This new system is an important step toward addressing historical concerns about HUD's management of its assisted housing programs. HUD's new system is pursuing the following improvements:

- It contains essential assessment tools—physical condition, financial condition, management performance, and resident satisfaction—that are needed to judge the performance of HUD-assisted housing providers.
- The assessment tools enable the department to provide a more complete report to Congress and the American people about the status and condition of the nation's public and assisted housing stock and the organizations that provide low- and moderate-income housing with HUD assistance.
- Initiatives to contract-out the management of HUD's Section 8 Housing Assistance Payments (HAP) contracts, which support private housing

providers, are designed to increase the resources that are devoted to overseeing and monitoring the Section 8 project-based program.

- The new system HUD is developing to assess the Section 8 tenant-based program (SEMAP) appears to be attracting substantial industry support.

FINDING 4. Providing credible and effective monitoring and oversight is an essential mission for HUD.

HUD must have a reliable and effective means of determining whether it is discharging its inherently governmental responsibilities for spending federal funds in accordance with law and good practice standards. None of the other approaches the Academy panel considered can substitute for this essential core mission of HUD.

FINDING 5. HUD's new quality-assurance system has design deficiencies and barriers to effective implementation.

HUD's new quality-assurance system is still evolving. Currently, it lacks some important attributes of a good quality-assurance system. In this respect, HUD's system is not unique. None of the other approaches that the Academy panel examined has all of the desired attributes. In addition, the new quality-assurance system's requirements are exceeding the capacity of HUD and the industry to implement them. The principal concerns are:

- HUD's system lacks the following key characteristics: (1) broadly agreed-upon outcome goals, assessment standards, and procedures; and (2) programs to promote continuous improvement by housing providers.
- Other elements of HUD's system are not well developed. They include: (1) internal quality-assurance procedures; (2) community and resident involvement; and (3) the appeals process.
- HUD and many housing providers lack the necessary staffing, automated systems, technical assistance, and training capacity to effectively manage and implement the department's quality-assurance system.
- The current system does not tailor its assessment procedures sufficiently to recognize differences among PHAs. Those differences include their size, style of operation, responsibilities for more than HUD programs, and performance status.

FINDING 6. Although HUD continues to refine its assessment tools, assisted housing providers, particularly PHAs, continue to raise questions about whether they accurately portray the condition of HUD-assisted housing.

Some of the concerns identified by assisted housing providers have resulted from the rapidity with which HUD developed and deployed its new assessment

tools, and the insufficient consultations it conducted with assisted housing providers, residents, and community representatives during that process. The concerns include:

- The physical inspection system is not currently providing fully accurate and replicable assessments of housing providers' performance.
- The physical inspection scoring process sometimes places burdensome and disruptive administrative and regulatory requirements on housing providers and PHAs in particular. This strains their budgets without demonstrating added value in terms of outcomes sought. For example, a number of PHAs reported that they feel compelled to "manage to the physical inspection score" they receive. Several executive directors said their boards and communities look critically at the physical inspection score, and create pressure to correct all physical deficiencies identified by the inspection, regardless of their severity, in order to raise the inspection score. This strategy could redirect funds from initiatives with higher priorities. Thus, by focusing narrowly on raising the physical inspection score, PHAs may forgo other investments that could improve their residents' lives more significantly. An overemphasis on minor problems may put regularly scheduled maintenance and renovation programs at risk.
- The physical inspection system is not flexible enough to deal with local situations and housing/building codes except through the appeals process. Obvious errors and misunderstandings can be adjusted administratively by contacting REAC before final scores are issued, but other matters must be appealed more formally after the scores are issued.
- HUD has not moved swiftly enough to finalize an effective appeals program. As of August 2000, only interim guidelines were in effect.

FINDING 7. HUD and the public housing industry have not established a partnership based upon governmental agencies working together to achieve common goals. Instead, there are longstanding perceptions that PHAs are HUD's subordinates, not its partners.

While PHAs must comply with the terms of their HUD contracts, they are units of local government created under state law, consistent with federal law. Their goals are determined locally as well as nationally. HUD needs to recognize PHAs' governmental status and build an intergovernmental partnership with them based on this status.

FINDING 8. HUD's new assessment tools are not the product of a strong consultation process.

In the public housing arena especially, HUD's culture, program structures, staffing, and practices have evolved over many decades without fostering effective consultation with partners and stakeholders. This lack of effective consultation has hampered:

- effective stakeholder participation in the development of assessment tools
- industry and resident acceptance of the new tools
- constructive partnerships with public housing agencies

Meetings alone do not constitute effective consultations. The Academy panel found that HUD's consultations with its assisted housing partners would be more effective if they were based on the systematic application of the six principles set forth in Finding 2. Applying these principles for more effective consultation with housing providers, residents, and community representatives could enhance acceptance and implementation of HUD's new quality-assurance system.

FINDING 9. Partnerships can produce benefits.

Comparing the public housing and Section 8 project-based programs shows that partnerships can produce positive results. HUD is using similar assessment tools for the public housing and Section 8 project-based programs. However, the Office of Housing has taken a more consultative approach to working with its private provider partners than PIH's approach to working with PHAs. As a result, the Office of Housing has found it easier to obtain its housing providers' acceptance of needed system adjustments. Earlier training of multifamily field staff and a greater ability to adjust how scores apply to individual projects have made it easier for Section 8 private providers to address assessment results. The Office of Housing's efforts to partner with private housing providers to implement the new assessment tools have neither reduced its ability to carry out its fiduciary responsibilities, nor lessened housing providers' accountability for providing decent, safe, and sanitary housing.

Findings on Other Approaches

FINDING 10. None of the other approaches examined included all of the key characteristics of a good quality-assurance system or the HUD regulatory functions.

None of the other approaches includes all of the characteristics. Also, none of them can provide the regulatory functions that HUD must exercise in order to discharge its responsibility for spending federal funds in accordance with law and current standards of good practice. Thus, none of the other approaches that were considered could substitute for HUD's core mission.

FINDING 11. All of the other approaches that were considered have characteristics which, if used appropriately, could supplement and improve the current HUD system.

- **Accreditation.** Accreditation and accreditation-like systems include 8 of the 14 characteristics of a good quality-assurance system, the same number as HUD's system, but a somewhat different set of characteristics. Four charac-

teristics—widely agreed-upon standards and procedures, self-assessment and continuous improvement, peer review/site visits, and community and resident involvement—are absent from HUD’s current system. The international quality standards (known as ISO) emphasize internal quality assurance, another weakness of HUD’s system. However, none of the accreditation models include physical and financial reviews comparable to those in HUD’s system. Nor do they include recovery and enforcement characteristics, two major elements of HUD’s system.

- **Private Services.** Models examined in this area include 7 of the 14 characteristics. One model includes peer review, which is not in the HUD system. There was substantial overlap in the private models’ ability to conduct financial and management audits similar to those that HUD performs now. Some private companies have also developed, or are developing, a physical inspection capacity comparable to HUD’s system.
- **Devolution.** The devolution models examined include 8 of the 14 characteristics of a good quality-assurance system. Several—physical and financial inspections, scoring, recovery, and enforcement—overlap HUD’s system. This is partly because several of the examined devolution models are HUD-administered programs. Using the Government Performance and Results Act (GPRA) to support a performance-based form of devolution could combine HUD’s regulatory responsibilities with increased responsibility for its partners.
- **Self-Assessment.** Self-assessment models include 6 of the 14 characteristics, depending on which model was being examined. Several models include characteristics that are not found in HUD’s system, including widespread agreement on standards and procedures, self-assessment, and peer reviews.

FINDING 12. The other approaches to quality assurance that this report examines could help HUD tailor its approach more fully to the different HUD-assisted housing programs and providers.

There already are considerable differences in how HUD oversees and monitors its three main housing assistance programs. The different political and market conditions that apply to them as well as the different cultures of the HUD offices that administer them contribute to these differences in oversight and monitoring.

However, there are additional needs for tailoring the quality-assurance system to the needs of specific HUD-assisted housing programs and providers. For each program, it also is prudent to reassess how much monitoring and oversight is necessary. For example, would it be better to catch 90 percent of the problems with an affordable, non-burdensome monitoring and oversight system, or 99 percent with an unaffordable and overly burdensome one?

The panel emphasizes that adding new, finely tailored components should be approached carefully, in consultation with affected housing providers, residents,

and community representatives. The scope of this study did not permit the full development of this important notion of tailoring HUD's monitoring and oversight system.

RECOMMENDATIONS

In view of these findings, the Academy panel makes the following four major recommendations to HUD and Congress:

RECOMMENDATION 1: A Modified Approach

HUD should continue to modify its current quality-assurance system for HUD-assisted housing programs, and should move toward a hybrid approach. The approach should blend elements of HUD's current system with those of other approaches so that all the characteristics of a good quality-assurance system are incorporated without increasing the burdens on HUD-assisted housing providers. Reducing existing burdens in the monitoring and oversight system should be an important goal in modifying HUD's system.

The purpose of the recommended modifications is to ensure accountable performance by housing providers without excessive oversight or intervention in their operations, as well as to promote continuous improvement in HUD's assisted housing programs. The elements of a good quality-assurance system that are absent from HUD's system are:

- widespread agreement on the system's goals and standards
- use of self-assessment and peer-review processes to motivate continuous improvement processes within housing provider organizations
- use of internal quality-assurance processes by housing providers
- provisions for community and resident involvement in developing and implementing improvements

In consultation with all of the affected parties, HUD should proceed to refine and modify its current quality-assurance system for the public and assisted housing programs along three paths—operational, systemic, and governance. Initiatives in these areas can begin concurrently. Because all future assessment scores for PHAs, as well as for private housing providers, will be official (not advisory), and because there is still significant controversy within the public housing community about the credibility and accuracy of those scores, HUD should give top priority to incorporating these changes into its system.

RECOMMENDATION 2: Operational Improvements

HUD, in consultation with all of the affected parties, should make the following urgent refinements to its new quality assurance system. The modifications should be made in an open consultative environment where all parties have access to information about the changes. The modifications also should be thoroughly tested.

HUD recognizes that its new quality-assurance system needs improvement. It has taken steps to correct many problems, and has expressed its willingness to make additional modifications. Although the system is evolving, HUD now is giving official assessment scores to both PHAs and assisted private housing providers. In this situation, the department now needs to ensure that its new quality-assurance system is fair and accurate, and that HUD and its assisted housing providers can administer it effectively. The following five modifications are needed:

- **Finalize and implement the appeals process for PHAs.** PHAs have reported enough disputes about advisory Public Housing Assessment System (PHAS) scores to support the need for a readily available and timely appeals process that begins at the local level. As of August 2000, the department was actively developing an appeals process for PHAs that would establish local review boards in each PIH hub; however, it was not yet fully operational. Now that PHAS scores are official, the need for such a fully functioning appeals process is even more acute. The department should move quickly to establish local review boards in each of its hubs, disseminate to HUD and its partners information on the appeals processes and procedures that must be followed, and train review-board members to execute their responsibilities. HUD also should establish a quality control mechanism to ensure that the review boards are effectively carrying out their responsibilities.
- **Enhance HUD's capacity to administer the system.** Many PHAs, private providers, and accounting firms have had difficulty communicating in a timely, effective way with REAC and other HUD housing program offices by phone and electronically. HUD is taking steps to address these problems. These essential communications problems should be remedied as quickly as possible to avoid the additional time and costs they cause housing providers, and to avoid any improper penalties for assisted housing providers and unnecessary appeals. In addition, HUD should empower its field offices to be more reliable and effective as partners and as initial points of contact for public and private housing providers.
- **Upgrade the capacity of housing providers.** The public and private providers that HUD assists—the department's program delivery partners—need current program information, training opportunities, improved computer capacity, and software upgrades to remain capable of working effectively and efficiently with HUD. Delays in making these tools available create frustrations, present barriers to effective and efficient implementation of HUD programs, and may unfairly reduce housing providers' scores.

- **Continue refinement of assessment tools.** HUD has been refining numerous aspects of its four assessment tools to address problems that it and its partners have identified. These refinements should continue in consultation with all affected parties in order to improve industry, residents, and community support for the tools. This will require HUD to expand discussions beyond definitions of deficiencies so that they include an examination of the formula factors that convert inspection findings into official scores. HUD also should consider adding a fair housing assessment element to the management assessment subsystems for the public housing and Section 8 tenant-based programs. It could be based on the protocols that PIH and multifamily field staffs use when they perform on-site assessments. Elements for assessing compliance with requirements for accommodating persons with disabilities and conserving energy should also be considered. In addition, REAC should amend the inspection protocol by adding a step where HUD would consult with housing providers before it issues an official score. This would allow housing providers and HUD to resolve any misunderstandings, correct obvious errors without overburdening the appeals system, and place identified deficiencies within the context of the provider's own improvement plans and priorities. Unscheduled diversion of resources into lower priority activities would be avoided.
- **Retain existing distinctions in current assessment practices among the three assisted housing programs.** The distinctions in monitoring and overseeing HUD's three main assisted housing programs should be retained. These distinctions accommodate the programs' unique histories, features, and clienteles. Any additional distinctions that can be agreed on quickly in order to facilitate implementation should be made in consultation with the all affected parties.

RECOMMENDATION 3: Systemic Improvements

HUD should redesign the following aspects of its new quality-assurance system for assisted housing in order to achieve greater simplicity and flexibility and to increase its focus on outcomes.

- **Conduct an effective consultation process that is consistent with the principles cited in Chapter 2 to reassess and agree upon the outcomes that the assessment system should measure.** Inadequate agreement on goals and standards of the current system has perpetuated much of the resistance to implementing it. Long-term modifications to HUD's current system should flow from broader agreements between HUD and its partners about the desired outcomes. Those agreed-upon outcomes—dealing perhaps with quality of living units, safety of residents, and similar goals—should form the basis for what the quality-assurance system is designed to measure. Except where statutory requirements provide no discretion, HUD should pursue collaborative decisionmaking with all of the affected parties making joint decisions.

- **Provide flexible, tailored approaches to quality assurance.** HUD should allow housing providers to use other approaches for evaluating their performance as long as they measure the broad outcome goals discussed above and meet HUD's assessment standards. This flexibility would allow for different assessment approaches for different types of housing providers based upon their size, type, and performance status. Assessment approaches may combine elements of HUD's new quality-assurance system and other approaches identified in Chapter 4. To the extent practical, HUD should allow housing providers to choose other assessment mechanisms, including approved private services, to measure their progress toward achieving the agreed-upon outcome goals. HUD also should identify barriers to flexibility and initiate regulatory and statutory revisions to reduce them.
- **Approve the use of private services.** The department should approve the use of private assessment services that use HUD approved assessment standards, subject to departmental audits, in lieu of HUD assessments. An array of approved private services would allow housing providers to choose services that best match their program needs and resource constraints.
- **Reduce data collection requirements to alleviate administrative burdens.** HUD should reduce its data collection and reporting requirements for assisted housing providers to include only the information needed for management and program evaluation purposes or for reporting to residents and others.
- **Enhance flexibility at the local level to achieve outcome goals.** HUD should use existing federal block grants, demonstration programs, and waiver provisions as models for modifying HUD's public housing programs. The objective should be to transfer substantial flexibility and discretion over the use of funds for legislatively authorized purposes to state and local housing agencies that have a record of administering HUD programs responsibly. QHWR already provides for some of this flexibility via the fungible use of capital and operating funds. HUD should take full advantage of these provisions and look for other avenues to increase flexibility and authority at the local level. HUD should use streamlined monitoring and oversight mechanisms to hold local officials accountable for meeting performance goals that are clearly outlined in performance contracts and legislation. Increased flexibility in how to comply with statutory requirements—including those in civil rights and fair housing laws—should not relieve HUD-assisted housing providers of their responsibilities to comply with these statutory requirements.
- **Manage PHAs through performance contracts.** HUD should use an outcome management approach to improve its relationship with PHAs as well as to improve their performance. Using this approach, HUD and PHAs should jointly identify outcome-oriented performance goals and measures that are consistent with provisions in GPRA, negotiate the terms of their working relationships, and incorporate these agreements into their performance con-

tracts. HUD should initiate the regulatory and statutory revisions that are necessary to provide the flexibility that is needed to support effective performance contracts.

- **Extend special assistance to near-troubled housing.** HUD should provide special technical and/or financial assistance where it is needed to prevent housing providers from becoming troubled in the first place or from returning to troubled status.
- **Enhance HUD staff capacity.** HUD should assess its staff capacity to implement the new quality-assurance system and allocate appropriately skilled staff as needed. This effort also should focus on enhancing HUD's capacity to provide technical assistance to assisted housing providers. The resource estimation study HUD is pursuing should be able to identify where revised staff allocations are needed. HUD also should initiate a program for staff exchanges between PIH and PHA employees under the Intergovernmental Personnel Act. This would enhance staff knowledge and skill and promote greater understanding of respective roles and viewpoints.

RECOMMENDATION 4: Governance Improvements

HUD should actively seek to improve its relationship with the assisted housing industry and the public housing industry, in particular, by transforming its style of governance from a regulatory and enforcement approach to a more balanced approach that is based on consultation and, where appropriate, collaboration. To do so, HUD should initiate the following:

- **Housing Quality Board.** Using authority under the Federal Advisory Committee Act (FACA), the secretary of HUD should create a Housing Quality Board with the primary responsibility of advising HUD on: (1) performance goals for assisted housing providers; (2) goals for the quality-assurance system for HUD-assisted housing; (3) assessment standards for measuring the performance of assisted housing providers; and (4) alternative procedures for implementing the assessment standards. HUD also could assign the board broad responsibilities for advising the department on issues of deregulation, inconsistencies in regulatory requirements, and initiatives to promote continuous performance improvement. Such a board should have balanced representation from public and private landlords, the industry groups that represent them, and the residents who are being served. The secretary should establish the board in consultation with the groups represented.
- **Consultative Rulemaking.** The current regulatory process gives HUD's partners and stakeholders an opportunity to comment on proposed regulations that affect HUD-assisted housing programs. In some instances, Congress also has required negotiated rulemaking between HUD and the industry. The Academy panel believes that HUD should use an effective consultation approach, as defined in Finding 2, to involve the affected public and private landlords and residents early in the development of future regula-

tions for HUD-assisted housing programs. Consulting with the industry and residents during the development of regulations can be expected to reduce the number of comments and/or the amount of opposition to regulatory proposals. The time spent on the consultative process in the early part of the rulemaking process likely would be offset by the reduced time that is needed later to deal with industry and other stakeholder concerns. And the resulting rules are likely to be more appropriate and more workable.

- **Resident and Landlord Role in Assessments.** In consultation with all of the affected parties, HUD should establish a meaningful role for public and private landlords and residents in HUD's process for assessing the quality of the provided housing services.
- **Regular Meetings between HUD and Residents of HUD-Assisted Housing.** HUD should hold regular meetings with residents to give the department the opportunity to hear residents' concerns directly and give residents the opportunity to hear directly from the department. Such meetings, some of which have been held with promising results, should involve HUD field office and headquarters program staff. Also, they should be held regionally periodically to make them more accessible to residents.

CHAPTER

1

Introduction

Section 563 of the Quality Housing and Work Responsibility Act (QHWRA) of 1998 (PL 105-276) called for a study of alternative approaches to evaluating the effectiveness of public housing agencies (PHAs) and other providers of housing that are assisted by the U.S. Department of Housing and Urban Development (HUD). The mandate required a comparison of the current system used by HUD with alternatives, and an evaluation of whether HUD's monitoring and oversight activities "should be eliminated, expanded, modified, or transferred to other entities (including governmental and private entities) to increase accuracy and effectiveness and improve monitoring."

The National Academy of Public Administration transmitted to Congress an *Interim Report*, required by Section 563, on June 15, 2000.¹ That report summarized results of the data collection phase of the study without coming to conclusions and recommendations. This *Final Report*, also required by the statute, contains the Academy panel's findings, conclusions, and recommendations. It does not repeat the basic descriptive material in the *Interim Report* except as required to ensure clarity and understanding.

This chapter describes the context in which the study began and the Academy's approach to it.

HUD'S REDESIGNED QUALITY-ASSURANCE SYSTEM

For many years, Congress has been critical of HUD's management of assisted housing programs. The General Accounting Office (GAO) and HUD's Office of the Inspector General (IG) have issued several critical reports on the subject.² In addition, problems with HUD's assisted housing programs contributed to GAO designating HUD as a federal entity at "high risk" of not carrying out its fiduciary responsibilities. In response to these criticisms, HUD redesigned its system of monitoring and overseeing its public and assisted housing programs, and began to implement a new approach to systematically assess the quality of its housing portfolio.³

This report refers to HUD's new system for monitoring and overseeing public and assisted housing programs as a "quality-assurance system" because its purpose is to ensure the quality of HUD's assisted housing programs. From HUD's viewpoint, its new quality-assurance system has two primary purposes:

- improving the lives of HUD-assisted housing residents
- reestablishing the credibility of, and public trust in, HUD's ability to implement its housing programs⁴

HUD's strengthened oversight system rests on a foundation of statutory goals, administrative regulations, and management reforms. Although it is not clear exactly how these three different sources of goals and requirements interact, there appears to be agreement that the system's underlying goals include:

- a fundamental focus on providing decent, safe, and sanitary housing in a suitable living environment at an affordable price (applies to all HUD-assisted housing programs)
- a variety of enhancements to the lives of the residents, including fair housing opportunities, drug control, gun control, de-concentration of poverty, access to public services, and income self-sufficiency of residents (applies most directly to the traditional public housing program)
- assuring that federal funds are used in accordance with the law (a fiduciary responsibility that applies to all HUD housing programs)
- effective and responsible management by the public and private organizations providing HUD-assisted housing facilities and services (applies to all HUD housing programs—see box next page)

For the public housing program, the U.S. Housing Act of 1937, as amended, sets forth a series of specific monitoring requirements. They include:

- ensuring the lower-income character of the provided housing
- prescribing sound management practices and assuring that they are followed
- determining and publishing indicators that reflect the management performance of public housing agencies (PHAs)
- identifying and commending exemplary performers, in cooperation with national organizations that represent PHAs
- establishing methods to determine and assist troubled PHAs

ORGANIZATIONS THAT PROVIDE HUD-ASSISTED HOUSING

Affordable housing made possible by HUD financial assistance, is provided through and administered by large numbers of public and private organizations. They include:

Public Housing Agencies. The original federal affordable housing program—still provided through the 1937 Housing Act, as amended—is the “public housing program.” It is administered by over 3,000 local public housing agencies (PHAs), which are units of local government. Most PHAs continue to administer the traditional public housing program in publicly owned properties. However, many also administer rental vouchers that qualifying families and individuals may use to rent housing in qualified private apartments in their community. In some cases, state housing agencies (SHAs) also administer a rental voucher program.

Private Apartment Owners and Management Companies. In addition to the rental voucher program, private owners of buildings may construct or convert their properties to HUD-assisted projects that are financially supported by annual rent-subsidy payments under contracts with HUD. These private owners often hire housing management firms that specialize in HUD-assisted projects to manage these properties. These newer rent-subsidy and project-subsidy programs have grown rapidly, and now house more HUD-assisted families and individuals than the traditional public housing program. The number of private properties in these programs is substantially larger than the number of PHAs.

Landlords. The term “landlords” is more often applied to the private owners or managers of HUD-assisted housing, than to PHAs. However, PHAs also function as landlords, and they may be referred to as such.

HUD’s new quality-assurance system (see box on next page) is largely evolving from the department’s Management Reform Plan (MRP 2020) that was published in 1997. That plan called for:

- increasing program monitoring and measurement to ensure higher performance
- reorganizing HUD into discrete functions to serve distinct customer groups instead of having it administer specific programs

SYSTEMS TO HELP ENSURE THE QUALITY OF HUD-ASSISTED HOUSING PROGRAMS

The terms “assessment,” “monitoring,” “oversight,” and “quality-assurance” are all used in this report and other sources to describe HUD’s new initiative to measure, report on, and improve the quality of HUD-assisted housing facilities and the organizations that provide them. Brief definitions follow in order to clarify these closely related terms.

Assessment System. HUD’s new “assessment system,” administered by the recently created, departmentwide Real Estate Assessment Center (REAC), measures the following four qualities:

1. physical quality of the housing facilities
2. financial soundness of the housing organizations that provide them
3. management performance of the housing-provider organizations
4. resident satisfaction with the facilities and provider organizations

REAC uses four distinct “assessment tools” to make the measurements outlined above. It develops “assessment scores” and provides them to the HUD program offices that oversee the housing provider organizations.

Monitoring and Oversight System. The assessment system described above is only the beginning of HUD’s overall system to help and hold accountable housing providers. HUD also monitors providers through direct contact by its field staff, the activities of the Office of Troubled Agency Recovery and the Departmental Enforcement Center, and by other means. This larger system is the “monitoring and oversight system.”

Quality-Assurance System. The combined purpose of HUD’s “assessment system” plus its broader “monitoring and oversight system” is to help improve the quality of HUD-assisted housing facilities and programs—not simply to assess, measure, or hold them accountable for following proper procedures. The Academy panel believes that it is most appropriate to evaluate HUD’s new system in terms of the larger desired outcomes rather than just the assessments, monitoring, and oversight activities that are carried out. To emphasize this point, the term “quality-assurance system” has been introduced into this report.

Functional reorganizations have created several new units in HUD. The following are directly related to monitoring and overseeing HUD-assisted housing programs:

- **Real Estate Assessment Center (REAC)**, which provides four principal assessment services (physical condition, financial condition, management quality, and resident satisfaction) and reports directly to the deputy secretary

- **Office of Troubled Agency Recovery** in the Office of Public and Indian Housing (PIH), which works with troubled PHAs (through two national Troubled Agency Recovery Centers, or TARCs) to help raise PHA performance to acceptable levels
- **Departmental Enforcement Center (DEC)**, which reports directly to the deputy secretary and takes legal action, if necessary, either to restore HUD-assisted housing providers to acceptable levels of performance, or to take them over

HUD has stated its goal for these reforms as follows: “For the first time in HUD’s history, all properties will be physically inspected and financially audited by outside contractors using a comprehensive and uniform protocol. Portfolios will then receive a risk assessment based on these reports. HUD staff can focus on

PRINCIPAL HUD-ASSISTED HOUSING PROGRAMS

HUD has a large number of housing assistance programs. Their descriptions may be found in the Academy’s *Interim Report*.^{*} However, most HUD-assisted units now are accounted for in three main programs. This report focuses on them, and they are described briefly as follows:

Public Housing Program. This program was begun in the 1930s. It is still the main program administered by many, if not most, of the local PHAs. It provides for the construction, maintenance, and rental of publicly owned housing units to low- and moderate-income families and individuals. The amount of rent charged to the residents varies according to their financial situation and family size. This program is coordinated increasingly with the state-administered welfare-reform programs.

Section 8 Tenant-Based Program. This newer program provides rental subsidies in amounts based on need. The subsidies enable qualified families and individuals to rent apartments in private apartment buildings that have been offered by the private owners for this purpose, and have been approved by the PHA as being “decent, safe, and sanitary.” The PHA issues the rent-subsidy vouchers to residents, maintains lists of participating private apartments, monitors the private owners, and reports program results to HUD.

Section 8 Project-Based Program. This program, also much newer than the public housing program, provides long-term rent-subsidy contracts to private owners of housing projects who make an entire property available for rent to HUD-qualified low- and moderate-income families and individuals. The contracts are made directly between HUD and the private owners. However, the administration of these contracts now is being turned over to qualified administrative entities, including state housing agencies.

^{*} <http://www.napawash.org/napa/hudinterim2000.pdf>

the most troubled and neediest properties.”⁵ HUD’s current monitoring and oversight system, as well as this study, focus primarily on HUD’s three main low- and moderate-income housing programs: (1) the public housing program; (2) the Section 8 tenant-based program; and (3) the Section 8 project-based program (see box on previous page). These programs and others in HUD’s portfolio are described in greater detail in the Academy’s *Interim Report*.⁶

THE PANEL’S APPROACH TO THE STUDY

The Academy panel recognizes that HUD needs a system for holding housing providers accountable for implementing its assisted housing programs. Currently, the regulatory element of HUD’s housing monitoring and oversight system dominates. However, program monitoring and oversight, as well as the quality-assurance systems developed for those purposes have the potential to go well beyond regulation. For example, these activities and systems can assist the monitored organizations to maintain adequate performance and improve their operations. Representatives of the HUD-assisted housing industry expressed interest in this study because they saw it as an avenue for improving the performance of the industry’s “poor performers,” and for examining what they perceived as micromanagement by HUD.

As the Academy’s panel began its review of HUD’s current monitoring and oversight system, it noted that federal agencies increasingly are seeking more involvement by other governmental agencies and non-governmental institutions. They are doing this to secure greater acceptance of the approaches to be used to pursue their missions and improve their performance. As this occurs, roles are being redefined, and the capacities and relationships among all those involved are being transformed. This new way of doing business, which extends to many programs both inside and outside of HUD, requires agencies to place greater emphasis on consultation. Congress has recognized the need for increased consultation to produce desired outcomes by enacting provisions that require it in both the Government Performance and Results Act of 1993 (GPRA) and QHWRA.

Criteria for Comparing Alternative Approaches

Considering the changes taking place in the way federal agencies are conducting business, and the diverse purposes that monitoring and oversight can achieve, the Academy panel adopted a broad, quality-assurance approach to assessing both HUD’s current system and any potential alternatives. This approach recognizes that the organizations being assessed have a valid role in the overall assessment process. It also provides for examining the extent to which an assessment system (1) contains preventative measures that could help avoid mismanagement, and (2) focuses on actions that are needed to raise the quality of the housing that is receiving HUD assistance. To emphasize quality improvement, the Academy panel’s approach has two main parts:

1. identifying the high-quality outcomes that HUD-assisted housing providers should be held responsible for achieving

2. establishing characteristics of the quality-assurance system that will measure and encourage attainment of those outcomes

Outcomes to be Achieved

Good physical condition of the housing and sound finances are obvious outcomes on everyone's list. However, there is less agreement about three others: (1) opportunities for the residents to become self-sufficient; (2) tenant relations that help to maintain and improve the housing facilities and living conditions; and (3) community relations that help improve and develop support for HUD-assisted housing as a compatible part of the community that provides positive assets rather than negative influences. These more recently enacted statutory goals have not been fully incorporated into the operations of HUD-assisted providers yet and are more difficult to achieve.

Characteristics of a Good Quality-Assurance System

In consultation with the HUD-assisted housing industry, the Academy panel developed the following 14 characteristics of a good quality-assurance system. The panel used these characteristics to assess HUD's current quality-assurance system, and to compare it with several other approaches.⁷

1. **System Goals Consistent with Mutually Agreed-Upon Outcomes, Assessment Standards, and Procedures:** Quality-assurance system goals for HUD-assisted housing should be based upon clearly stated outcome goals for well run assisted housing providers that are widely accepted by HUD and the housing industry; and, they can be clearly linked to standards and procedures by which HUD-assisted housing may be assessed.
2. **Self-Assessment and Continuous Improvement:** A good quality-assurance system should include some elements of self-assessment and continuous improvement that are designed to help assisted housing providers improve their performance.
3. **Peer Review/Site Visit:** A good quality-assurance system should provide some degree of on-site peer review to infuse housing providers' programs for performance improvement with independent, outside perspectives and suggestions.
4. **Internal Quality-Assurance Procedures:** A good quality-assurance system should incorporate and encourage internal procedures within housing organizations that ensure the quality of their operations and results.
5. **Independent Physical Inspections:** A good quality-assurance system should include some form of independent, on-site, physical inspection of HUD-assisted housing properties.
6. **Independent Financial Audit:** A good quality-assurance system should include an independent audit of HUD-assisted housing providers' finances.

7. **Independent Management Audit:** A good quality-assurance system should include a management audit of housing providers.
8. **Resident Survey:** A good quality-assurance system should provide opportunity for residents' feedback on the quality of their housing and their relations with the housing-provider organization. A survey is one way to obtain such feedback.
9. **Community and Resident Involvement:** A good quality-assurance system should include a mechanism to determine how HUD-assisted housing providers involve residents in management and community representatives in meeting local needs in ways that reflect community values. Community leaders and assisted housing residents should also be actively involved in the assessment process.
10. **Scoring/Certification Mechanism:** A good quality-assurance system should include a mechanism for certifying the extent to which housing providers meet the agreed-upon assessment standards.
11. **Appeals Process:** A good quality-assurance system should include a fair and easily accessible mechanism to correct errors.
12. **Recovery Mechanism:** A good quality-assurance system should include mechanisms that help housing providers remedy problems identified by the assessment process.
13. **Enforcement Mechanism:** A good quality-assurance system should have an enforcement capacity to sanction providers when they do not comply with program and regulatory requirements.
14. **Cost-Effective and Affordable Process:** A good quality-assurance system should be cost-effective and affordable to assisted housing providers.

Evaluating HUD's New Quality-Assurance System

The Academy panel's first task was to evaluate HUD's current quality-assurance system. HUD's newly established system continues the department's traditional regulatory approach to monitoring and overseeing its housing assistance programs, but it seeks to make it more systematic, better documented, and more effective. Traditionally, it has been difficult for HUD to sanction poorly performing housing providers because of deficiencies in its quality-assurance system.

The new quality-assurance system establishes a series of uniform national standards for measuring the physical and financial condition of the housing; the quality of the management organizations responsible for delivering the programs to the residents; and residents' satisfaction with the facilities and services. These standards, embodied in REAC's four main assessment subsystems, are described in the Academy's *Interim Report*, and are summarized in Chapter 3 of this report. The new quality-assurance system is implemented somewhat differently for

HUD's three main housing assistance programs, and incentives for good performances recently have been incorporated into the public housing program. At the other end of the spectrum, each program has regulatory sanctions for poor performance, which may include receivership or foreclosure. The Academy panel's evaluation of HUD's current system appears in Chapter 3.

Considering Other Approaches

In the legislation that calls for this study, Congress asked for a comparison of HUD's current monitoring and oversight system with the following alternative models: accreditation, performance-based, local review, private contractor, and other. The Academy panel identified and examined the accreditation and private contractor models, but it interpreted the remaining models on Congress' list as follows:

- Performance-based models were interpreted as: (1) HUD strategic and annual performance planning under GPRA, which includes goals for HUD-assisted housing programs; and (2) performance contracting practices by HUD. The panel considered them applicable to all of the other approaches, but not alternatives to them. Thus, they have not been treated as separate "models."
- Local review models were interpreted to be "devolution" and "self-assessment."
- The "other" models named in the law were interpreted to be hybrids of the previously named models.

In light of these interpretations, the Academy panel directly evaluated four main types of other approaches to the existing HUD system for monitoring and overseeing its assisted housing programs:

1. accreditation
2. private assessment services
3. devolution
4. self-assessment

Some of these other approaches have previously been considered or used in HUD-assisted housing programs. For example, accreditation of public housing authorities and other HUD-assisted housing providers has been debated for many years in Congress and elsewhere. It was a key alternative that Congress wanted considered in this study.

Self-assessments are part of accreditation, but some PHAs and many other public agencies in a variety of fields perform self-assessments for their own benefit, quite apart from any formal accreditation process. Self-assessments often include various elements of self-study, strategic planning, and reassessment of relationships with customers and partners. These activities are similar to some elements of an accreditation process, but they do not have the independent outside review and certification that a full accreditation process would normally encompass. Self-

assessment in this sense, however, is a much more substantive, self-improvement process than the self-certification (checklist) process formerly used in HUD's housing programs, often with unsatisfactory results. Self-assessment remains a component of HUD's current management assessment subsystem.

Independent audits, generally performed by private assessment firms, also are a well-established mechanism for assessing the soundness of assisted-housing program delivery organizations. The audit concept is being broadened beyond its roots in finance to encompass many other management and operational activities.

Devolution is exhibited by various forms of increased state and local discretion in the use of federal grants.

The devolution and private services approaches, which would partially transfer responsibilities from HUD, raise definitional issues that often have caused confusion in debates about their advisability. To help clarify the consideration of these approaches, frameworks for considering devolution and privatization follow.

A Framework for Considering Devolution

Figure 1 depicts a simple matrix with four cells. In the upper left-hand cell, the federal government pays for and delivers a service. This is easily recognized as a completely centralized model. In the diagonally opposite cell, state and local governments pay for and deliver the service all by themselves. This is easily recognized as a model of complete devolution (with no remaining federal role). In the other two boxes, there is a "mixed" situation where the federal government and its state and local governmental partners both play important roles. The cell on the lower left could represent a program of federal grants to state or local governments (a very common type of shared responsibilities). Of course, if a state or local match is required, then there is a need for another cell in the matrix. Expanding the matrix with many additional cells could depict the wide range of complexities encountered in federal-aid programs. The upper, right-hand cell represents a reverse form of devolution in which some state and local responsibilities are transferred to the federal government. Thus, many **degrees of devolution** can be visualized through this conceptual framework.

For purposes of this study, a devolution strategy is any proposal that would move some existing federal responsibilities or activities more toward state and local responsibility. The strategy does not have to aim for complete devolution; in general, it does not.

A Framework for Considering Privatization

In Figure 2, a similar matrix has been constructed for visualizing privatization.⁸ The upper left cell is the one where the function is performed and paid for entirely by government. The lower right cell represents a function completely performed and paid for by the private sector. The other two cells represent mixed responsibilities, a situation which is becoming increasingly common.

FIGURE 1
DIMENSIONS OF GOVERNMENTAL DEVOLUTION

	Federal Payment	State or Local Payment
Federal Delivery	Completely Federal Program	State and Local Payments or Fees for Services from the Federal Government
State or Local Delivery	Wide Open Non-Matched Block Grant	Completely State and Local Responsibility

For purposes of this study, any proposal for transferring public responsibilities or activities toward the private sector may be considered a **degree of privatization**. Thus, contracting out, which makes up much of the literature on privatization, and many other proposals that do not completely remove all governmental responsibility, may be considered to be forms of privatization.

Considering Regulatory Analysis Requirements

Title II of the Unfunded Mandates Reform Act of 1995 (UMRA), along with related Office of Management and Budget (OMB) guidance,⁹ requires federal agencies to perform special analyses when they propose new regulations that would impact state, local, and tribal governments in major ways, including devolution. This analytical process requires the federal agency to: (1) consider alternative approaches; (2) consult with the affected governments; (3) estimate any costs that would be imposed (which would not be federally reimbursed) and the benefits that would accrue to the various parties; and (4) strive to choose the options that would impose the least burden on the affected governments and the national economy. Special consideration is to be given to the effects on small governments (under 50,000 in population). For purposes of this act, state and local housing agencies are included in the definitions of state and local governments.

If the estimates of un-reimbursed costs imposed on state, local, and tribal governments exceed \$50 million in any single year, or if the costs to private companies exceed a nationwide aggregate of \$100 million in any single year, these analyses and consultations must be a formal part of the rulemaking process. Thus, UMRA could apply to new regulations designed to improve HUD's current system (addressed in Chapter 3), or to replace or supplement it (addressed in Chapter 4).

FIGURE 2
DIMENSIONS OF THE PUBLIC/PRIVATE CHOICE
GOVERNMENT

	Government Payment	Private Payment
Public Sector Delivery	Completely Public	Private-Public Partnership
Private Sector Delivery	Public-Private Partnership	Completely Private

The “Moving Target”

The introduction to the Academy’s *Interim Report* pointed out that this study addresses activities that are undergoing change. Many of the systems that are described are relatively new, without final regulations in some cases, and not fully implemented. Since the *Interim Report* was issued, new legislative proposals have been introduced which could change the situation even further. If enacted, some of the major proposals that could become relevant to this study are:¹⁰

1. **Program consolidation**—would reduce the number of HUD-assisted housing programs through consolidation and termination.
2. **Permanent “Moving-to-Work” (MTW) authorization**—would require the secretary to approve MTW for any PHA applicant, except for the lowest performing ones, as long as the applications comply with law.¹¹
3. **Reduce the burden of housing quality standard inspections**—would allow Section 8 landlords the option of having annual inspections on a property or building basis, instead of a unit basis.
4. **Capacity building for affordable housing program**—would reauthorize and increase grants to non-profits in order to expand affordable housing capacity.
5. **Work requirement for public housing residents**—would coordinate work requirements for all residents of public housing with state welfare reform work requirements.
6. **State housing block grants**—in the original version, would give states the option of taking some or all of HUD’s state, local, and private housing assistance as a single block grant under the terms of a five-year performance agreement negotiated with HUD.¹²

The Academy panel asked HUD to provide an update about the changes that are taking place so that this report would be as current as possible. However, because HUD continues to make changes—many of them in response to industry complaints that were documented in the panel’s *Interim Report* and elsewhere—it is possible that some of what is discussed in this report may not be current at the time this report is published.

METHODOLOGY

The *Interim Report* includes an extensive section on the methodology that was used to develop its information.¹³ The research that is documented in that report was used to develop this *Final Report* as well. The Academy panel notes that the extensive interviewing documented in the *Interim Report* includes not just organized interest groups, but also the providers and residents of HUD-assisted housing. The criticisms documented in the *Interim Report* came from too many sources to be ignored. The methodology and list of interviews, contacts, and forum participants originally included in an *Interim Report* appendix also may be found in Appendix A of this *Final Report*. The Academy panel believes it is important to note that a wide range of interested parties, regardless of their affiliation, were given the opportunity to participate in an open process—and many did so.

The panel’s study also carefully examined HUD’s new protocols for measuring and scoring the performance of HUD-assisted housing providers. The panel disagrees with HUD criticisms to the effect that the Academy research was not adequately representative and that it did not include enough contact with REAC to adequately understand the department’s current housing assessment systems.¹⁴ Members of the study team met with REAC officials on several occasions. A lengthy meeting with several REAC officials involved in developing the assessment protocols was held in Washington near the end of the study to clarify many points and to be updated on the implementation of the system. Although HUD’s system was still evolving when the Academy study was concluding, making it difficult for the study team to stay current, Academy staff maintained contact with REAC staff throughout the study to exchange information by phone, fax, and e-mail about the specifics of the protocols. The study team placed heavy emphasis on the physical condition and financial scoring systems. A detailed explanation of REAC’s physical condition assessment protocol was published in Appendix E of the panel’s *Interim Report*. The study team is confident that it understands the essentials of REAC’s protocols.

The study team, however, did not assess the appropriateness, significance, and reliability of each measure included in the PHAS protocols. The panel believes that those technical details should be a matter for the technical experts in HUD and the industry to determine through consultations. That is generally how standards are set in accreditation systems, and the panel believes that is how they should be set in the housing industry.

An Open Process

In accordance with congressional intent, the Academy panel's methodology included as wide a consultation process as possible. As a result, many of the deliberations that led to both the *Interim Report* and this *Final Report* were conducted in virtually a public setting.

Following preparation of the *Interim Report*, the Academy staff conducted two additional forums with interested groups—including organizations representing HUD-assisted housing providers, tenants, and advocacy groups of sometimes opposing views, as well as individual housing providers. Academy staff also conducted follow-up interviews with officials at HUD, OMB, GAO, and other organizations. These consultations enabled a wide exchange of ideas which was very useful to the panel as it prepared this report. It also led to the general distribution of discussion papers, some of which were quoted in the industry press and other printed sources. The Academy panel wishes to stress that those discussion papers contained concepts that were under consideration and for which the panel sought industry and HUD input in an open discussion and consultation process. Following the open forum discussions, the Academy panel met to discuss the forum input and to develop its report. This report contains the Academy panel's findings, conclusions, and recommendations. It also contains comments on the draft final report, which were received from HUD and five other organizations. These comments are reproduced in Appendix D and are reflected and/or referenced throughout the report.

The Project Panel

Appendix B provides brief biographical sketches of the panel of Academy Fellows who were selected to direct this study, as well as the panel staff. The panel members include individuals with knowledge and perspectives in the fields of housing, education, and health, plus state and local government. Some panel members also participated in forums and meetings with senior HUD officials.

ORGANIZATION OF THE REPORT

Chapter 2 frames the study with a discussion of the importance of sound relationships between HUD and the public and private housing providers it assists. It also frames the principles of effective consultation that can strengthen these relationships and build mutual trust among the parties. Chapter 3 provides the panel's evaluation of HUD's approach to monitoring and overseeing its assisted housing programs. It also discusses some possible methods for modifying or supplementing HUD's existing system to address current problems and tailor it to the different delivery programs and organizations. Chapter 4 describes and evaluates potential alternative approaches to HUD's system that might be used to improve and tailor it further. Chapter 5 provides the Academy panel's conclusions and recommendations.

CHAPTER 2

Roles and Relationships

Chapter 1 provided essential background for the study by describing the organizations involved, the systems being reviewed, the criteria for review, the other approaches being studied, and other general information about how the Academy panel proceeded and what other factors the panel considered. This chapter moves from general background into a more specific discussion of the relationship between the department and the organizations that actually carry out HUD's programs using HUD-provided funds.

HUD WORKS THROUGH OTHERS

To implement its programs and achieve its mission, HUD relies on a wide variety of state, local, and private organizations. As the Academy's 1994 study of HUD states:¹⁵

Though it serves many people, HUD does not build housing or plan community development projects. HUD is an insurance and grant-making agency that provides a very broad range of financial assistance to diverse public and private organizations in hundreds of communities.

This chapter explores this federal-industry relationship. It examines the implications of the relationship for how HUD should deal with public and private organizations that receive HUD financial assistance to help carry out HUD's missions.

The Academy has done extensive research on the changing roles of government. The theme of a paper presented at the Academy's Spring meeting in June 2000,¹⁶ is this: American government has been undergoing a steady, but often unnoticed, transformation where new processes and institutions, many non-governmental, are becoming central to carrying out governmental programs. In order to meet their missions, federal agencies have been sharing responsibility with other levels of government, with private companies, and nonprofit organizations to an

unprecedented extent in recent years. HUD and many other federal agencies exemplify this transformation.

CUSTOMERS AND PARTNERS

The organizations that help HUD carry out its mission are its “customers and partners.” The Academy’s 1999 report on HUD’s implementation of GPRA¹⁷ stressed the important role that HUD’s customers and partners can and should play in developing strategic goals and objectives. During that study, the Academy staff consulted extensively with a wide range of HUD’s customers and partners. As a result, they developed a framework for strategic planning that HUD has largely adopted. HUD’s annual performance plans have improved substantially as a result.

Regarding the housing programs in this study, HUD works through private organizations—both for-profit and non-profit—and public organizations, such as PHAs. HUD provides funding, technical assistance, and oversight to ensure that the programs are carried out according to congressional intent. Therefore, HUD must exercise a regulatory function that is consistent with its fiduciary responsibilities to Congress. To accomplish its mission, however, HUD must also depend on the capabilities, professionalism, and good will of the various public and private organizations that implement housing programs. To get the job done, HUD must carefully balance its regulatory/fiduciary role with its need to develop and maintain effective working relationships with outside organizations.

The 1999 Academy report on GPRA in HUD stated the following:¹⁸

Consultations with affected parties, whether they are program delivery partners or program beneficiaries, are important and creative sources of new ideas about desired outcomes, how things are working, and customer satisfaction. The representatives of constituency groups with whom the Academy staff met were eager to share their thoughts and anxious to have an opportunity to consult directly with HUD. The GPRA requirement for customer/stakeholder consultations can significantly improve the strategic planning process.

This panel believes that such consultations can improve not only the planning process, but also program implementation. In other words, developing goals and objectives in consultation with customers and partners can have significant impact. However, that impact will not reach its full potential unless customers and partners also are consulted on how to carry out those goals and objectives.

Some of the officials interviewed for this study indicated that HUD has no partners—it has only contractors who carry out the programs in accordance with their contractual requirements. While it is true that contracting is part of the process, the organizations with whom HUD contracts deliver a product not so much for HUD—as is typically the case in a standard contracting process—as they are for individual beneficiaries of HUD’s programs. HUD clearly recognizes these dif-

ferences since it does not process its contracts with assisted housing providers through the department's contracting office. Instead, it goes through the program offices that administer these programs' funds.

This partnership theme was further developed in the Academy's 1999 GPRA report.¹⁹ That report called for HUD to use its programs in cooperation with its state and local partners to achieve desired outcomes. It also raised the question of "who is accountable?" and suggested that HUD needs to work with its partners toward joint accountability.

HUD has said publicly that it accepts and is implementing the concepts and recommendations in the Academy's 1999 GPRA report. However, it appears that HUD would benefit if it broadened the application of effective consultation concepts to its assisted housing programs.

Recent research on the transformation of government²⁰ indicates that government must change to meet the challenges created by new ways of doing business. Most government agencies remain structured and staffed to manage direct programs through traditionally structured and staffed bureaucracies. While HUD has begun to transform itself, it has not yet approached its responsibilities in light of the most recent research that poses three governance issues stemming from partnering relationships:

1. adaptation—fitting traditional systems to the new challenges of devolution
2. capacity—enhancing government's ability to manage effectively in this transformed environment
3. scale—sorting out the functions of different levels of governance and redefining the role of the federal government in particular

This report cannot address all of the challenges created by the transformation of government. However, the Academy panel believes that an important part of this study relates to the third problem set forth above—redefining HUD's relationships with providers of HUD-assisted housing, both private and public. An important part of that redefinition pertains to the need for HUD to consult more effectively with its customers and partners.

The next section explores what the Academy panel means by "consultation."

PRINCIPLES OF EFFECTIVE CONSULTATION

With HUD's dependence on both public and private partners to carry out its mission, it must find effective ways of working together with them at all levels—federal, state, local, and private. In light of HUD's experiences with GPRA that are documented in the Academy's 1999 report, as well as the clear need for a mechanism for effective communication among all of the involved levels, the Academy panel believes that effective consultations are a key to success.

The principles of effective consultation described in this study were derived from two sources: a review of research and practices in a variety of public and private fields that relate to communications with external parties; and additional research in connection with an Academy report on rural consultation processes for transportation programs that was issued in May 2000.²¹ Although that report was done in connection with another program area, its principles adapt well to other programs in the federal system.

Consultations with external parties may include consultations with members of the public (often referred to as citizen participation or public involvement); government officials from other agencies and other levels of government (including elected officials); program beneficiaries; and other affected or impacted parties. For HUD's housing programs, consultations are most needed with officials of PHAs, private housing owners and managers who participate in HUD programs, residents of HUD-assisted housing, and representatives of communities where HUD-assisted housing is located. Sound principles of effective consultation are the same for each group.

Reviewing Research and Practices Relating to Communication With External Parties

Congress increasingly has been calling for consultations in federal-aid programs. For example, the legislation that mandated this study calls for extensive consultations. Beyond that, the new QHWRRA legislation also includes provisions for negotiated rulemaking²² which, of necessity, must involve a substantial amount of dialogue among parties.

Some of the research the Academy panel reviewed in order to develop principles of effective consultation reflects broad-based efforts to enhance service through greater customer and citizen participation. Other research specifically addresses public involvement requirements in federal, state, and local aid programs. While the research was developed for other programs, it is equally applicable to assisted housing. The research presented here is drawn from the May 2000 Academy report, but the application to housing programs—and to the customers and partners HUD has in the assisted housing area—is clear. In HUD's case, "citizen participation" could be read as "participation of housing providers, residents, and community representatives," while "give information to citizens" could be as read as "give information to housing providers, residents, and community representatives."

The Quality Management Movement

Ever since the book *In Search of Excellence*²³ was published, corporations and governments have been seeking ways to get "close to their customers." This quest is part of a larger effort to improve quality in products, services, and management.²⁴ The international standard for quality management (ISO 9000)²⁵ addresses external communications needs; similar features are included in the Malcolm Baldrige National Quality Award for businesses, the President's Quality Award (for federal agencies), and similar awards in other countries. These practices are discussed in Chapter 4 as possible supplements to HUD's oversight and monitoring practices.

The standards for excellence in external communications extend to customers, suppliers, and partners. Increased outsourcing of tasks throughout business and government makes such communications a growing necessity for success. This practice is similar in many ways to the partner relationships found in federal-aid programs, for example, those in HUD where state and local governments, private companies, and non-profit organizations provide the actual services and facilities financed with federal dollars. Increasingly—and not surprisingly—success comes to those who can work together most smoothly and productively with their counterparts in the total enterprise.

In the civic sector as well, good external communication is taken as a sign of excellence. The civic index, used to help judge candidates for the All-America City Award, is heavy on inter-group communications and the ability to work together within local communities and regions. The index contains 10 sections that evaluate “the social and political fabric of a community: how decisions are made, how citizens interact with one another and government, and how challenges to the community are met.”²⁶ The 10 sections in the index are:

1. citizen participation
2. community leadership
3. government performance
4. volunteerism and philanthropy
5. intergroup and intragroup relations
6. civic education
7. community information sharing
8. capacity for cooperation and consensus building
9. community vision and pride
10. regional cooperation

The relationship of these 10 sections to HUD’s relations with assisted housing providers is clear. However, as indicated earlier, “citizen participation” in the housing context refers to housing providers, residents, and community representatives.

Studies by the Advisory Commission on Intergovernmental Relations

Public involvement requirements in federal-aid and state and local programs have a long history. In 1979, the U.S. Advisory Commission on Intergovernmental Relations (ACIR) prepared and adopted an exhaustive study of them. ACIR found them to have a wide variety of purposes, and they are implemented through a wide variety of techniques.²⁷ The ACIR report listed eight main purposes of citizen participation:²⁸

- give information to citizens
- get information from or about citizens
- improve public decisions and programs

- enhance acceptance of public decisions and programs
- supplement public agency work
- alter political power patterns and resource allocations
- protect individual and minority group rights and interests
- delay or avoid difficult public decisions

In the housing context, “citizens” are housing providers, residents and community representatives—HUD’s customers and partners. The reader should keep this in mind.

For each of these purposes, ACIR found multiple forms of participation being used. About 50 techniques were identified.²⁹ However, after reviewing several studies on the effectiveness of these participation activities, the Commission reached two conclusions:

Many Americans expect a great deal of participation in governmental affairs to be open to them, even though they may not always take advantage of the opportunities to participate.

There is a substantial gap between the amount of influence that many participants expect their involvement to have and the actual effects of participation. Some believe this gap arises largely from deficiencies in the current citizen participation processes and that it causes substantial dissatisfaction. The legal opportunities for citizen participation—whether or not they are exercised—may have a substantial indirect effect on the actions of public officials. Yet, direct effects often are limited because:

- Citizen participation opportunities are not provided until the latter stages of decisionmaking (for example, providing for public hearings just before a decision actually is made).
- Opportunities for participation are frequently limited to a small advisory committee and an open public hearing at the end of the process.
- The opportunities provided are too passive (leaving to citizens’ own devices the initiative and the development of capabilities to participate constructively in very complex governmental processes).
- Citizens don’t have the time, information, or experience to participate in a meaningful way.³⁰

As will be shown in Chapter 3, these “citizen concerns” are very similar to those expressed by housing providers—especially PHAs—in their dealings with HUD.

However, the Commission also recognized that an elaborate participation program could be expensive. Therefore, it cautioned governments not to require more participation than needed to meet the purposes of a program. Recognizing that state and local governments have many participation requirements of their own, the Commission recommended the following components of a cost-effective participation policy for federal-aid programs:

- establish clear objectives for citizen participation in federal aid programs
- enunciate performance standards that encourage the use of timely, effective, and efficient citizen participation methods tailored to diverse situations
- prohibit detailed federal specification of exact techniques and procedures to be followed by state and local recipients of federal aid
- through a certification process, to the maximum extent consistent with objectives established [by the federal government], rely upon citizen participation provisions of state and local law and established practices there under
- authorize the use of federal research, technical assistance, and training resources for the support of citizen participation objectives in federal aid programs³¹

Although they are couched in terms of citizen participation, these components or principles of a public participation process clearly can be applied to HUD consultations with its customers and partners—housing providers, residents, and host communities.

In a more recent study of collaborative intergovernmental decisionmaking that focused on water resources programs, ACIR emphasized the need to:

- analyze the applicable historical, legal, and political contexts for planning—including planning for needed changes—in the targeted area
- identify the key organizations, decisionmakers, and other stakeholders, and involve them in constructive interactions that get them to see each other's viewpoints
- get separate governments and agencies to see how their responsibilities interrelate
- assist non-technical citizens and elected officials to understand the key facts
- develop plans and necessary implementation elements through an open and visible involvement process
- get the key decisionmakers to take responsibility for needed actions³²

Measures for Assessing Effective Involvement in Transportation Decisionmaking

A 1996 study of transportation decision-making found that a wide variety of public involvement techniques were used for statewide and metropolitan planning and for project planning. The study recommended basing effective public involvement programs be based on the following five fundamental guidelines:³³

1. acting in accord with basic democratic principles
2. continuous contact between agency and non-agency people throughout [the] ... decisionmaking [process]
3. use of a variety of public involvement techniques
4. active outreach
5. focusing participation on decisions

Although the study focused on the full range of participants outside the agency, its advice is applicable to consultations with local officials. The guidelines also have potential use in decisionmaking in housing programs.

In 1999, the Transportation Research Board's (TRB's) Committee on Public Involvement issued a draft self-assessment tool for use by transportation agencies in assessing the effectiveness of their project-based public involvement processes.³⁴ Peer-reviewed, this tool was developed over a substantial period of time by public involvement professionals. It includes 14 indicators of effectiveness, each supported by several quantitative measures. They are:

- accessibility to the decisionmaking process
- diversity of views
- opportunities for participation
- integration of concerns
- information exchange
- project efficiency
- project/decision acceptability
- mutual learning
- mutual respect
- cost avoidance
- indirect cost of time
- indirect opportunity costs

- indirect costs associated with authority and influence
- indirect costs associated with emotional issues

This self-assessment tool provides instructions and a scorecard to facilitate its use. It could be adapted for use in housing programs.

Another 1999 study by TRB specifically addresses effective methods for working with elected officials. It suggests keeping the following principles in mind:³⁵

- They do not like to be surprised.
- They do not like to be backed into a corner.
- Help them with intermediate decisions.
- Be sensitive to election cycles.
- Be sensitive to budgeting cycles.
- Bring newcomers up to speed.
- Be cognizant of established positions.
- Elected officials need information that takes only a short time to absorb and is simple to understand.
- Develop good communication linkages with elected officials' aides.
- Work with the town, city, or county clerks to understand their basic procedures for notification and when information needs to be submitted for placement on their agendas.

Summary

Meetings alone do not constitute effective consultations. The Academy panel believes that HUD's consultations with its assisted housing partners and stakeholders would be more effective if they were based on the systematic application of six principles that evolved from the research described in the Academy's rural transportation consultation study. They are:

- Provide a well-understood process for consultations. It should facilitate and provide opportunity for participation by all the key stakeholders; and give participants a role in establishing the process.
- Assist stakeholders, who request assistance, to acquire the levels of knowledge and capabilities needed to participate effectively in the consultations.

- Promote free and effective exchange of information about the issues that prompt consultation.
- Provide timely access to information before decisions are locked in, and timely feedback to stakeholders about how their input was used and the changes it caused.
- Promote satisfaction among stakeholders with the consultation process.
- Influence responses to stakeholders' needs, recognizing the larger decisionmaking context and resource constraints that may exist when one balances the needs of multiple stakeholders.

Figure 3 links the six principles of effective consultation to their strong underpinnings in both research and practice.

Acceptance and implementation of HUD's new quality-assurance system could be enhanced by greater consultation that uses these principles with housing providers, residents, and community representatives. Used here, "consultation" refers to a process of listening genuinely to others' views before making decisions and reflecting those views to the greatest extent possible in the final decision. Adherence to this approach over an extended period of time has been found to develop trusting and constructive relationships among parties.

None of the measures of effectiveness for consultations is an all-or-nothing proposition. For example, the complete satisfaction of partners will probably never be possible. However, a relatively high level of satisfaction, or greater satisfaction from one year to another, may indicate the improved effectiveness of consultations. All of these measures can be thought of in terms of "the extent to which" their goals are being met. Ultimately, it is a matter of degree and seeing trends head in desirable directions.

Collaboration and Cooperation

In this chapter, "effective consultation" does not mean joint decisionmaking. For purposes of this study, that is called "collaboration." "Cooperation," which is defined in the dictionary³⁶ as a "common effort" or an "association of persons for common benefit," does not necessarily mean joint decisionmaking, although it can result in that if the parties agree to it. Those who cooperate or collaborate would use the principles of effective consultation to achieve the desired end results through joint decisionmaking and action.

While effective consultation is itself a powerful tool for reaching agreement on contentious issues, collaboration can be very effective in a number of circumstances where there are no statutory bars to joint decision-making. For example, the development of performance standards for a well run housing provider can be a collaborative effort. However, it must be understood that the outcomes sought by individual providers would be set within the context of the broader goals that are defined in the statute that also sets goals for an assessment system.

Figure 3 gets placed here

DIFFERENT WAYS OF WORKING TOGETHER

Federal programs commonly require that the parties targeted for assistance consult, cooperate, and collaborate with each other. But it is much less common for these programs to require consultation, cooperation, and collaboration between federal agencies and their program customers and partners. Nevertheless, the same principles should apply in both cases. The following definitions clarify the distinctions between three closely related terms:

Effective Consultation. Everyone affected by policies, plans, and decisions naturally wants the opportunity to be consulted in a fair, timely, and influential manner. This is simply human nature and common sense.

This report sets forth six principles of effective consultation. Consultation is recommended at many points. Fair and fruitful consultations can help build trust among the parties. In the end, however, even effective consultation assumes that one party is responsible for making the final decision after listening to all of the other parties.

Cooperation and Collaboration. Often, these two words are defined as going a step beyond consultation. They connote a more equal partnership; furthermore, “collaboration” connotes joint decisionmaking.

Some federal agencies have a hard time with this concept because it seems to conflict with the supremacy clause in the U.S. Constitution and their statutory responsibilities. Indeed, in matters of truly national concern, the federal government is and must remain superior. However, state and local concerns are central in many matters and they may not conflict with national interests. In those cases, a joint decisionmaking process could ensure that no national interests are compromised while state and local discretion is honored and encouraged. In this sense, cooperation and collaboration can open up opportunities for exercising the necessary flexibility for meeting local conditions and national performance goals simultaneously instead of as a challenge to national sovereignty.

The words “cooperation” and “collaboration” are used carefully in this report to suggest areas where an enhanced relationship that includes true partnership and joint decisionmaking may be the most effective way to enhance intergovernmental and public-private service delivery in HUD’s housing programs.

Once trust is established among all parties through effective consultations, setting goals for an assessment system could become a collaborative venture. Establishing trust through effective consultations should be a cooperative effort; all of the parties involved should agree on how they wish to proceed. Over the past decades, legislation that governs the nations’ federal-aid highway and transit programs has developed distinctions between consultations among

THE CASE OF PUBLIC HOUSING AGENCIES

Although consultation is important with all customers and partners, it is particularly important when dealing with other governmental entities—whether they are states, cities, or other units of local government. These are all established partners within the state and local framework of governance of this country. PHAs, although authorized in federal law,³⁸ are units of local government. They are created in accordance with state statutes, consistent with federal law. In accordance with the 1937 act, localities establish these public agencies in order to develop, own, and manage low-rent housing. PHAs exist in cities and counties all across the country. Many states have granted them powers that go well beyond those contemplated in the 1937 act. As partners in the federal system, collaboration would be a useful technique where not otherwise barred by statute, particularly when HUD's resources are not the only ones being used to develop affordable housing.

Just as cities are not mere contractors in the implementation of the Community Development Block Grant (CDBG) program, PHAs are not mere contractors in the implementation of the public housing program. This study's *Interim Report* notes that many PHAs are not limited to administering federal public housing programs.³⁹ High performing large and medium size PHAs have developed into housing development and management agencies with diverse responsibilities and access to a variety of public and private financing tools. Private bond rating agencies—Moody's Investor Services and Standard and Poor's (S&P)—told Academy staff they are convinced that PHAs have evolved in this manner. PHAs are using low-income housing tax credits, tax exempt bond financing, Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) financing and other resources to develop mixed income, mixed financing projects. HUD has fostered this development through HOPE VI and MTW programs where PHAs have used federal funds to leverage additional financing. These expanding capacities of PHAs make it imperative for HUD to move quickly toward a more collaborative working relationship with PHAs.

The evolution of PHAs is not a new phenomenon. Literature on the subject traces this evolution back to the 1980s. For example, one author⁴⁰ traces the development at the local level of public-private partnerships, local housing trust funds, linkages between public and private development, and uses of innovative financing techniques from the 1980s into the 1990s. While none of these techniques were exclusive to PHAs, they all set the stage for the participation of PHAs in these non-traditional forms of housing development for lower income Americans. The report of the National Commission on Severely Distressed Housing⁴¹ called on PHAs to play a role in constructing housing—not just public housing—to replace severely distressed public housing.

FINDINGS

The Academy panel has identified two findings related to roles and relationships as they pertain to HUD's quality assurance system (Findings 1-2).

FINDING 1. Public housing agencies are important components of the federal system of American government and are HUD's partners.

PHAs are neither contractors nor simple extensions of HUD. They are governmental entities in their own right, created under state and local laws that are consistent with federal law. Local officials appoint their boards, conduct their business in public, and frequently extend their activities beyond the bounds of federal programs. For these reasons, they are separate from HUD, even though they are subject to HUD oversight because of the federal financial relationship. PHAs are key partners with HUD in achieving the mission of providing decent, safe, and sanitary housing to low- and moderate-income people, and in meeting other statutory goals.

FINDING 2. Consultation and collaboration are key tools for creating effective relationships among partners; they could play a significant role in improving relationships between HUD and PHAs.⁴²

Consultation is important for HUD because of its dependence on its partners in carrying out its mission. It is particularly important for HUD to consult with PHAs and other units of local government as fellow governments, instead of simply as contractors. Reducing tension and improving performance require redefining the roles of institutions, building new capacities, and redefining basic relationships. That will require HUD and its partners to place greater emphasis on consultation.

In carrying out consultations, HUD should adhere to principles that provide or promote:

- an inclusive process that facilitates participation by all key stakeholders and gives them a role in establishing the process
- assistance for stakeholders who need it to participate effectively in the consultations
- free and effective exchange of information about the issues on which the parties will be consulted
- timely access to information and timely feedback to stakeholders about how their input was used and what changes it caused
- stakeholder satisfaction with the process
- stakeholder influence on decisionmaking

CHAPTER

3

HUD's Approach to Monitoring and Overseeing Its Assisted Housing Programs

HUD is responsible for managing its assisted housing programs to ensure that housing providers are meeting program requirements as defined by statute and regulations. In the past few years, HUD has significantly changed the organization, processes, and systems it uses to oversee and monitor the public housing and Section 8 programs. These changes have redefined performance measures to enable HUD to hold housing providers more accountable for achieving national goals. As a result, HUD-assisted housing providers are making significant adjustments to their operations.

This chapter assesses the effectiveness of HUD's current system for monitoring and overseeing the public housing and Section 8 project-based programs;⁴³ it briefly describes HUD's system and compares it to the characteristics of a good quality-assurance system that was developed for this study. The chapter also discusses key issues regarding the current system. They were identified from the data gathered for this project, along with options for modifying the system to address concerns.

HUD'S CURRENT SYSTEM⁴⁴

Under HUD's new quality-assurance system, PIH and Office of Housing field staff continue to have primary responsibility for monitoring and overseeing the HUD-assisted housing providers. In PIH, the primary housing providers are PHAs that implement the public housing and Section 8 tenant-based programs.⁴⁵ Office of Housing staff monitors private building owners who have entered into Housing Assistance Payments (HAP) contracts with HUD to provide Section 8 project-based housing.

HUD's new quality-assurance system has taken some of the formerly weak monitoring and oversight functions and created new organizations and systems to address those weaknesses. REAC provides HUD's core mechanism for collecting data, analyzing and summarizing them, and disseminating information. This dissemination is to HUD's internal customers, including PIH and the Office of

Housing, and to its external partners such as PHAs and private multifamily owners/agents. REAC has developed new assessment tools and procedures to improve the quality of data about housing providers' performance so that they can be made more accountable. The TARC and the DEC represent HUD's increased commitment to helping assisted housing providers and sanctioning them if necessary.

New Assessment Tools

Working with PIH and the Office of Housing and using input from the assisted housing industry, REAC has developed four new assessment tools that measure the performance of HUD-assisted housing providers—the Physical Assessment Subsystem (PASS); Financial Assessment Subsystem (FASS); Management Assessment Subsystem (MASS); and Resident Assessment Subsystem (RASS).

Physical Inspections

One of REAC's major responsibilities is to assess HUD-assisted properties through standard, objective, quantitative, replicable, and valid evaluations. This work includes regular physical inspections for the nation's traditional public housing and HUD-assisted multifamily properties.⁴⁶ The primary purpose of the independent physical inspections is to ascertain whether PHAs and HUD-assisted multifamily property owners are providing residents with decent, safe, and sanitary housing. To achieve this objective, REAC developed uniform protocols—uniform physical condition standards (UPCS)—for use in all physical inspections. Based on the pre-existing Housing Quality Standards (HQS), these new protocols are much more quantitative.⁴⁷

After the inspection takes place, the inspector transmits the data electronically to REAC. These data feed PASS, which collects information on 41 inspectable items for each property. Using mathematical algorithms, PASS generates a score for the property's physical condition.

Financial Assessments

To correct the department's previously inconsistent administration of financial compliance and reporting requirements, REAC has undertaken annual assessments of the financial condition of PHAs and multifamily properties. Here, too, HUD has developed uniform protocols – one for PHAs and one for multifamily properties – to measure financial health. The resulting financial assessments produce scores based on a set of financial ratios. PHAs and private property owners are required to submit electronically, in a HUD-prescribed format, audited and unaudited financial information to REAC. That information is based on Generally Accepted Accounting Principles (GAAP) and supplemental compliance data.

Management Operations

MASS assesses PHAs' management operations using five sub-indicators derived from HUD's predecessor monitoring and oversight system—the Public Housing

Management Assessment Program (PHMAP). The indicators include modernization; work orders; annual inspection of units and systems; security; and economic self-sufficiency. PHAs electronically submit their self-assessment of performance under these management indicators 60 days after the end of their fiscal year. Using MASS, REAC calculates an overall score based on the self-certifications. As with the physical and financial inspection scoring, the management score is based on weights that reflect each indicator's importance. HUD staff no longer perform confirmatory reviews of the PHAs' management self-assessment as they did under PHMAP. Instead, the PHAs' independent public auditors (IPAs) verify the results. Discrepancies between a PHA's self-certification and the IPA's results can cause a management operations score adjustment.

Resident Assessment

REAC developed a survey to measure resident satisfaction with living conditions in conventional public housing and Section 8 project-based housing. During this study, HUD was sending surveys to public housing residents and was pilot testing the multifamily survey. The survey is administered to a statistically valid sample of residents who are computer-selected. Survey questions are designed to measure satisfaction with maintenance and repair; communication with management; safety; services; and neighborhood appearance.

Scoring the Public Housing and Section 8 Project-Based Properties

PIH uses all four new assessment tools to assess PHAs. HUD has developed the Public Housing Assessment System (PHAS) to electronically compile the individual scores from the four subsystems and produce a composite score that represents overall PHA performance. The PHAS scores changed from advisory to effective status July 1, 2000.

Based on the overall PHAS score and the scores of the four subsystems, PHAs receive status designations. If it is applicable, corrective action is initiated. The designations are:

High Performer, reserved for PHAs that achieve an overall PHAS score of 90 percent or greater, and at least 60 percent for each of the four components

Standard Performer, for which PHAs receive an overall score not less than 60 percent and not less than 60 percent on the physical, financial, and management components

Substandard in One Area, a designation for PHAs receiving less than 60 percent of the total points available under only one of the physical, financial, or management components even if the overall score is 60 percent or better. HUD refers to these PHAs as "substandard" in the area concerned.

Troubled Performer, a designation for PHAs that achieve an overall score less than 60 percent or achieve less than 60 percent under more than one of the physical, financial, or management components

According to the PHAS final rule, incentives for high performing PHAs can take different forms. PHAs could be subject to fewer reviews and less monitoring. For example, PHAs that receive 90 percent or more on the physical condition indicator will be inspected only every other year. High performers could receive certificates of recognition and be eligible for bonuses in funding competitions. Under QHWRRA, there also is a bonus for high performing PHAs in the new capital fund formula.

When research by Academy staff ended (August 2000), the Office of Housing was using only the PASS and FASS scores to assess Section 8 project-based providers. HUD was developing but not yet using a resident satisfaction survey for Section 8 residents. Section 8 project-based properties do not receive a single composite score similar to the PHAS score for PHAs. The multifamily field offices evaluate subsystem scores separately. These subsystem scores have been in effect since late calendar year 1999.

Assessing the Section 8 Tenant-Based Program

The Section 8 Management Assessment Program (SEMAP), the system under development for the Section 8 tenant-based program, will perform similar assessment functions for that program. Currently, REAC is only involved in collecting and analyzing financial data for Section 8 tenant-based providers. HUD is not using PASS to assess the physical condition of tenant-based properties. It continues to use the traditional (non-quantitative) HQS for that purpose.

Using SEMAP, PHAs will submit annual self-certifications of their performance under 14 indicators (within 60 days after their fiscal year ends). PIH field offices will verify the agencies' performance through annual audit reports, confirmatory reviews, and other document reviews. PHAs will be rated under SEMAP as follows:

High Performer, reserved for PHAs that achieve a SEMAP score of at least 90 percent

Standard Performer, for which PHAs receive an overall score of 60 to 89 percent

Troubled Performer, a designation for PHAs that achieve an overall SEMAP score of less than 60 percent

Figure 4 depicts how these new assessment tools are intended to work. When fully refined and implemented, they are designed to provide systematic data to help HUD assess the operations of assisted housing providers and the housing they provide. With these data, HUD's field offices will have more objective, quantified, and nationally comparable data in order to determine where to target resources for on-site monitoring and technical assistance.

FIGURE 4

HUD ASSESSMENT SYSTEMS FOR HOUSING PROGRAMS

Field Staff Monitoring and Oversight Activities

PIH's on-site and remote monitoring activities are meant to assess compliance with federal regulations and to target needed technical assistance most effectively to safeguard both public investments and residents' quality of life. Because HUD can no longer fund its PIH field offices to perform on-site, in-depth monitoring and oversight for all PHAs, PIH has instituted a risk assessment system to identify those PHAs that pose a higher risk and need more attention as a result. Based on their knowledge of the PHA from HUD's data systems (as identified during their risk assessment) and their ongoing contact with PHA staff, PIH staff will determine what needs to be covered during the site visit. Often, technical assistance is provided as part of an on-site monitoring visit to maximize the use of PIH resources.

Like PIH, the Office of Housing has developed a mechanism to assess risk in its portfolio of HUD-assisted housing. The multifamily field offices use this risk assessment to identify the level of oversight and monitoring that is required.

The Office of Housing has developed a Management Review Questionnaire (HUD-9834) for conducting its management reviews. The 17-page form includes questions about maintenance and security; financial management; leasing and occupancy; tenant/management relations; drug-free housing policy; and general management practices. The form also includes a one-page Management Review Summary Sheet that scores items in each of the categories as acceptable, needing correction within one year, or needing immediate action. Both PIH and multifamily field office staff use a checklist for monitoring Fair Housing and Equal Opportunity (FHEO) program requirements.

As HUD reduced the size of its staff and streamlined its operations under MRP 2020, it decided to contract out the administration of the Section 8 project-based program. The current multifamily housing staff levels are based on the assumption that the monitoring and oversight of the majority of Section 8 HAP contracts will be contracted out and that the multifamily housing field offices will be responsible for overseeing the contract administrators.

Correcting Deficiencies

As Figure 4 shows, there are differences in the processes for correcting deficiencies in the public housing and Section 8 programs. PIH field staff work with PHAs that do not warrant referral to a TARC to help them correct operational deficiencies. PHAs that receive a PHAS score between 60 and 69.99 must prepare an improvement plan within 30 days of receiving their score.⁴⁸ Those that receive a PHAS score below 60 are referred to a TARC to help restore their performance to acceptable levels.⁴⁹

Once a PHA is deemed troubled, the PIH field office issues a letter of notification to the housing agency. The letter advises them that servicing responsibilities have been transferred to the TARC. The field office transfers its program files to the TARC, and the TARC assembles a team to develop a recovery plan for the troubled PHA. PHAs may have up to two years to get out of troubled status

before they are referred to DEC for legal actions that lead to receivership or other sanctions.

Once a PHA reaches a score of 60 on its failed indicators, it is no longer deemed troubled. Thereafter, it is returned to the PIH field office for servicing. The Office of Troubled Agency Recovery and the PIH Field Operations Staff have agreed that, under PHAS, if a PHA is returned to a field office for servicing before all items in the recovery plan have been completed, the field office must track those items until they are closed. However, at the time of the fieldwork for this study (Winter/Spring 2000), there was no system in place for the field offices to report how the PHAs are implementing the recovery plan.

Some TARC staff expressed concern that the time that is allowed to help turn around a truly troubled PHA is too short. Troubled PHAs often need long-term intensive care. Even after a PHA reaches a score of 60, which is just above failing, it may still require a great deal of assistance before it can move beyond the near-troubled category (scores between 60 and 70). There is some uneasiness in the TARCs that they may see “repeat offenders” if support is discontinued too soon.

Office of Housing field office staff work with Section 8 project-based providers to help them correct operational deficiencies that do not warrant referral to the DEC. For a multifamily project receiving a physical inspection score of 60 or above, the owner must correct deficiencies, but is not required to submit a corrective plan or a certification that the deficiencies have been corrected. For a property scoring 46 to 59 points, the owner/agent must submit a proposed plan for correction. When a property scores 31 to 45 points, the owner/agent must use a special Management Improvement and Operating plan format to outline the planned corrective actions. When their PASS scores are below 30, REAC refers Section 8 project-based providers directly to the DEC. If it believes conditions justify it, the Office of Housing also may refer a private provider to the DEC.

Over the last three years, the department has devoted considerable resources to improving the accountability of organizations that provide HUD-assisted housing. Its new quality-assurance system attempts to correct many of the deficiencies and weaknesses that were inherent in its former oversight and monitoring processes. It also is providing HUD with better data to ensure that assisted housing providers are providing decent, safe, and sanitary housing. However, several issues remain that Academy staff identified during its review of HUD's current system.

ISSUES REGARDING HUD'S CURRENT SYSTEM

The Academy panel identified several issues concerning the design and implementation of HUD's current quality-assurance system. They relate to:

- HUD's relationships with its partners
- administrative and regulatory requirements placed on providers

- the four new assessment tools
- tailoring the system
- HUD's capacity to implement its current system

HUD's Relationship with Its Partners

Because of the differences in HUD's housing programs and the way the department is organized to manage them, the two major offices that administer the assisted housing programs under review have different partners. The Office of Housing works primarily with private housing providers to administer the Section 8 project-based program. Meanwhile, PIH works primarily with PHAs to administer the public housing and Section 8 tenant-based programs. Each of these partner groups brings its own agenda, strengths, and shortcomings to the assisted housing arena. For these two offices, the nature of the relationship between HUD and its partners differs significantly.

Private Landlords

The relationship between HUD and its private assisted housing partners appears relatively collegial. Communication lines allow private providers a means for raising and resolving concerns. This has occurred frequently as HUD has implemented its new assessment tools, apparently with relatively satisfactory results. Because of staff shortages, the Office of Housing has not actively engaged in daily oversight and monitoring activities with providers in recent years. Increased monitoring and oversight are expected with the use of contractors. That may place a strain on the Office of Housing's relationship with its private providers. However, interviews with Office of Housing personnel and its interest groups lead the Academy panel to believe that the existing relationship between the Office of Housing and its private partners is strong enough to withstand this shift to a new way of doing business.

PHAs

The continuing disagreement over HUD's new assessment tools (see the next pages) is symptomatic of the more adversarial relationship that PHAs perceive they have with the department.⁵⁰ The relationship was somewhat strained even before the implementation of PHAS. And HUD's current regulatory approach, which is designed to tighten the reins on PHAs to avoid potential fraud, waste, and abuse, appears to be increasing the strain on the relationship felt by many PHAs. This approach reflects skepticism within HUD that PHAs will act responsibly without close oversight. This skepticism may be one reason why regulatory relief has been slow to materialize for PHAs.

HUD's lack of a close partnership with PHAs is reflected in one important area: its failure to effectively discuss and reach agreement with the public housing industry on the outcomes that HUD's quality-assurance system for HUD-assisted housing should be measuring. Before it developed and implemented its new system, HUD also did not consult effectively with its partners to identify agreed-

upon assessment standards and procedures. These omissions have undermined HUD's credibility and slowed its progress in implementing the new quality-assurance system.

As federal dollars for assisted housing programs have fluctuated in recent years, many PHAs have looked for other avenues to meet the housing needs of residents with low and very low incomes. They no longer provide only traditional public housing. As noted in Chapter 2, they are increasingly becoming entrepreneurial entities, engaged in a wide variety of housing activities. HUD and the public housing industry disagree on how HUD's quality-assurance system should address this evolution of PHAs. HUD's approach to working with PHAs does not appear to give adequate weight to the significance of the changes in its partners' roles. Many PHAs believe that HUD should not be involved in evaluating their non-HUD-related programs and activities. As both sides have criticized each other, much energy has been lost. This adversarial relationship has blocked the parties' ability to reach needed agreements about the outcomes that the quality-assurance system should measure and the standards and procedures for assessing housing quality that are needed to improve PHA performance.

In June 2000, HUD established a 12-member PHAS Advisory Panel to involve the public housing industry in the quality-assurance system. The panel is to serve as a sounding board and to provide recommendations to the assistant secretary for PIH about issues related to the PHAS indicators. It is too soon to determine how this panel will influence the relationships between PIH and the public housing industry. The industry has raised questions about the new panel's composition, legal status, and roles. Also, it has urged the establishment of the committee under the provisions of the Federal Advisory Committee Act to ensure that there is adequate advance of the new panel's meetings and that the meetings are open.

Reasons for Different Relationships

Several factors may help explain the differences in the relationships that HUD has with its assisted housing partners. In part, the difference may be traced to the different contractual relationships that HUD has with private providers and PHAs. Private providers are separate and distinct corporate enterprises. They are free to buy and sell real property; change corporate identity and ownership; opt in or out of HUD programs; and transact business in the open marketplace with little or no intervention by HUD other than specific, time-bound contract conditions. HUD and private providers make conscious business decisions about whether to contract with each other. Once those decisions are made, it appears that HUD treats private providers as equal partners in the relationship and is vested in helping the partnership succeed. This is because it is in HUD's interest to keep private providers that perform well in the program.

On the other hand, PHAs were established under state and local laws pursuant to the U.S. Housing Act of 1937, primarily to administer HUD's public housing program. Some PHAs are part of municipal or county governments, while others are separate governmental entities. But because PHAs were originally created specifically to implement HUD programs, the department appears to continue viewing

them as subordinate components of HUD, rather than partners in the governmental system.⁵¹

While many PHAs are actively trying to reduce or eliminate their dependence on HUD funding, many will probably always need HUD resources to survive. Because the total amount of HUD operating and capital subsidies is large, scrutiny of PHAs' operations is intense. This extensive oversight and tight regulation have an historical context within HUD's programs. They have created a tradition of micromanagement that reflects longstanding concerns by HUD and Congress about the ability of PHAs to effectively manage federal resources. Highly publicized scandals in recent decades that documented deplorable living conditions in some public housing properties have driven HUD's new approach to oversight and monitoring of PHAs, and intensified its relationship with the public housing industry. The evolving situation has made it difficult for HUD to consider the advances by the public housing industry to become more professional and entrepreneurial.

It is critically important to address this growing strain between HUD and PHAs. Until HUD and the public housing industry develop a better working relationship, HUD will find it difficult to develop an effective quality-assurance system that will maintain and improve the quality of HUD-assisted housing.

Administrative and Regulatory Requirements Placed on Providers

HUD's new initiatives and the passage of new legislation in recent years have created additional responsibilities and administrative procedures. These developments are increasing costs for HUD's housing providers. They include converting to GAAP accounting; making numerous changes to system software; and developing the new automated system capacity to transmit and receive data for HUD's new assessment tools. The requirements give little consideration to the wide variations in housing providers' compliance capacities and capabilities. PHA staff who were interviewed generally support HUD's desire to reinvent the way it does business, as well as the department's legislative visions. However, the massive, rapid and continuing nature of these changes has caused staff to devote a tremendous amount of resources to stay abreast of developments. Some PHAs have described the changes as "unrelenting," and they report that they must be implemented without additional HUD funds.

A 1994 Academy panel's report on HUD's operations raised concerns about the number of programs that the department must manage. This situation has worsened, despite HUD proposals to simplify its program structure. However, some recent legislative proposals could resurrect program consolidation.

More programs mean more regulations. The administrative requirements embedded in the statutes and regulations are numerous, especially for public housing programs. For traditional public housing—depending on whether a PHA receives funds for the comprehensive grant program, HOPE VI, modernization, or the various resident-initiative grant programs—a PHA may have to submit more than 40 reports to HUD. Although the majority of reports require an annual submission,

some are semi-annual, quarterly, or even monthly. For example, PHAs must submit quarterly progress reports for each HOPE VI project. For the Public Housing Drug Elimination Program, if the budget changes more than 10 percent, even for a minor line item change, HUD approval is required. And PHAs that administer the Section 8 tenant-based program must submit about 14 additional reports annually, semi-annually, quarterly, or monthly.

Some progress has been made toward reducing administrative burdens. For example, HUD successfully sponsored legislation that converted the drug elimination program and the comprehensive improvement assessment program from competitive to formula grants. That eliminated a significant administrative burden for PHAs. Also, new administrative regulations have attempted to lessen the reporting burdens for PHAs. High performing PHAs are relieved of submitting annual budgets and some parts of the agency plan; do not have to seek approvals to exceed line-item spending limits for funded programs; and have some flexibility to move funds between operating and capital accounts. However, they are still a long way from having the operational flexibility and freedom enjoyed by private assisted housing providers. Some resent this inequality, and believe that Congress mandated greater flexibility for them.⁵²

A growing number of PHAs are beginning to operate more like private sector corporations. They believe they should be treated more equally. While not all PHAs have evolved this way, there is clearly a movement within the industry to reinvent itself and to become more entrepreneurial.⁵³ This is becoming prevalent even among small PHAs, where many are seeking assistance from larger PHAs, consultants, and trade organizations to improve their operations. Also, there appears to be a realization within the industry that many small PHAs need to improve their efficiency by partnering with other PHAs to survive in the current operating environment.

It should be noted that greater flexibility in the means of complying with statutory requirements—including civil rights and fair housing laws—do not relieve PHAs of their responsibility to comply.

HUD's Assessment Tools

REAC defines its goals as “establishing a credible assessment process that will lead to a rise in the quality of the HUD housing portfolio and lives of housing residents, and reestablishing the ‘public trust’ in HUD’s housing program delivery.” To this end, HUD has devoted considerable time, energy, and resources to overhauling its quality-assurance system for HUD-assisted housing. The new assessment tools, designed to measure the physical condition, financial health, and management operations of HUD-assisted housing providers, as well as resident satisfaction, are key components. HUD has attempted to develop an “objective” system—one that minimizes subjective input from data collectors. The department is trying to maximize its use of technology by creating cutting edge, innovative business processes using automation. While this approach is sound conceptually, and it has been cited by GAO as “a positive step by HUD to address weaknesses in its oversight of multifamily properties,”⁵⁴ its implementation has revealed several problems, particularly with the physical inspection system.

System Goals and Assessment Standards

Good quality-assurance systems can achieve desirable results for the organizations being assessed as well as the organization doing the assessment. During the interviews, PHA executive directors and their staffs often raised questions about the goals of HUD's new quality-assurance system. They were uncertain about what HUD is trying to achieve. For a quality-assurance system to be most effective, the entities being assessed should participate in the development of the outcomes for measuring performance. Once the outcomes are agreed upon, the assessment standards and the procedures used to administer them can be developed in a consultative fashion that reflects the PHAs' own performance goals.

As noted above, HUD and its partners have not had a dialogue about the outcomes that the new quality-assurance system should measure. Although HUD has held numerous meetings with the assisted housing industry, there is a widespread perception in the public housing industry that HUD has not consulted effectively on the assessment standards or the procedures to administer them. Based on the definitions of effective consultation in Chapter 2, these perceptions appear to have merit. HUD cites many meetings, but those meetings do not appear to have produced effective consultation. This omission in HUD's system design has caused much of the controversy between HUD and its PHA partners. It also has resulted in months of friction between HUD and key elements of the public housing industry.⁵⁵

An example of how goals might be modified as a result of consultations lies with the physical condition system. At present, the system creates pressure to correct any and all physical deficiencies immediately to raise scores, even though such ad hoc actions may drain funds from systemic plans for more significant renovations.⁵⁶

System Complexity and Readiness

Within the 41 physical inspectable items⁵⁷ in HUD's new system, all of which have a basis in the traditional HQS measurement tool, inspectors may identify about 800 newly defined observable deficiencies. During the data collection phase of this study, Academy staff heard many allegations of flaws in the dictionary of observable deficiencies. In an effort to deal with these concerns, HUD held intensive meetings with PHA representatives over a three-month period in late 1999. Those sessions led to changes in the descriptions of 65 percent of the physical assessment protocols. The department has expressed its commitment to continue making revisions so the system will become more accurate and fair.

HUD developed the new uniform definitions of deficiencies and mathematical algorithms to create an objective physical inspection system, calculate point deductions for each deficiency, and compute scores for HUD-assisted properties and PHAs.⁵⁸ However, the department decided initially not to share how the scoring process worked with its industry partners. This failure to provide clear, easy-to-understand information on the inspection standards and scoring methodology generated considerable concern within the public housing industry. One PHA executive director interviewed for this study summed up the gen-

eral sentiment by stating: "What should be a straightforward rating system is loaded with land mines and pitfalls that could hamstring even a well-run and well-meaning PHA. The purpose of the system should be to encourage PHAs to do a good job, not to trap them in a no-win situation where no one, except HUD, knows what is really being measured."

A number of housing providers have raised concerns about the inspection procedure that limits the providers' ability to discuss the inspectors' findings during the inspection. HUD has established this procedure to help maintain the inspectors' independence and to avoid having time-consuming debates during the inspection that will slow down the process. While HUD's reasons for wanting to limit discussions between its contract inspectors and housing providers have merit, this procedure makes attempts to resolve misunderstandings or correct obvious errors more circuitous. Currently, housing providers can only raise certain obvious technical and database adjustment issues without going through the appeals process.

HUD's regulations for establishing the appeals process for PHAs did not become final until January 2000. As of April 2000, there still were no guidelines to process data correction requests from PHAs. Also, as of September 2000, there were no final regulations for multifamily property owners, but HUD was using interim guidelines to process their data correction requests. REAC also developed interim guidelines for processing technical review requests from multifamily owners and PHAs. However, as of April 2000, the guidelines were still in draft format. According to GAO, based on HUD's data on technical review and data correction requests from multifamily owners and PHAs, HUD has often been slow to resolve cases. For example, as of April 2000, HUD had received about 400 technical review requests and over half were still pending. In addition, on average, HUD took eight months to reach a decision, and over half of the cases warranted changes in the physical inspection score.⁵⁹

Despite HUD's intent to take as much of the 'human discretion' factor as possible out of the scoring process, the contract inspectors still must make some determinations based on what they observe. As part of the physical inspection protocol, housing provider staff must accompany the REAC inspectors during the inspections. For large PHAs or owners with large Section 8 portfolios, the inspection process may take several days. This has given the PHAs/owners an opportunity to observe the inspectors and the inspection process first hand. Many individuals interviewed by Academy staff expressed concerns about the expertise of inspectors and the different ways in which they approached the inspection process. Although HUD continues to refine and clarify the dictionary of deficiencies, retrain inspectors, and check on the quality of inspectors' work, examples of inconsistent applications of the inspection protocols have continued to surface. GAO noted in its recent report⁶⁰ that about 12 percent of 728 initial inspections, and about 35 percent of another 819 initial inspections, did not meet REAC's standards. In some cases, significant differences have occurred between the original inspector's and the quality control inspector's noted deficiencies.

The physical inspection system is very ambitious. In its attempt to be comprehensive and objective, HUD has developed a system that does not yet provide fully consistent and replicable results. Part of the problem is the speed with which the department has implemented the system. Understandably, HUD was anxious to implement its new physical inspection protocol. However, it appears that the department did not adequately test the initial version of the system. If HUD had performed a more thorough field test of PASS involving a representative group of PHAs and PIH field staff before it used it to generate advisory physical inspection scores, it might have avoided many of the criticisms and much of the current resistance to the system. Although HUD is taking steps to address the problems PHAs identify, key groups in the public housing industry are still not certain that the changes will correct the problems they have identified. The adequacy of the system's testing procedures remains a concern.

Problems also have surfaced with the financial assessment system. Several accounting firms that provide service to PHAs have identified problems in the system with consistency. For example, REAC staff has provided different answers to the same question, and there are inconsistencies in the approval of the Financial Data Schedule. With respect to the latter, HUD rejected the report of one PHA that had a balance in the HUD Contributions Account that was larger than the net fixed assets. However, it approved another PHA in the same situation. Another firm reported that REAC requires accounting procedures that do not conform to GAAP requirements.

While the physical and financial components of HUD's assessment system are very comprehensive, it appears that the scores from new assessment tools do not include other important aspects of assisted housing providers' performance. For example, it seems that compliance with civil rights requirements is not factored into a housing provider's assessment score. HUD field staff are supposed to assess housing providers' compliance with civil rights requirements when they go on site for any reason. However, HUD staff visits to most providers are sporadic. Many occur in intervals of years. In addition, it is unclear whether data from these on-site visits are consolidated and analyzed consistently. Also, requirements for conserving energy appear to be missing.

The current resident satisfaction survey also has raised concerns about the extent to which it adequately reaches across language and social barriers to provide a reliable cross-section of views in a form that housing managers can respond to meaningfully.

The new assessment protocol relies extensively on automation. Assisted housing providers have had to acquire the needed systems and/or software and modify their systems as the quality-assurance system evolves and as HUD continues to refine system requirements. Sending and receiving information electronically between HUD and its housing providers is innovative and appropriate. However, HUD's system capacity and design have not been able to handle the demands that have been placed upon it. Numerous PHAs and private housing providers have reported that they cannot access the system during normal busi-

ness hours and that HUD system failures have resulted in lost data on numerous occasions. Accounting firms are having similar difficulties. PHAs have reported that their accounting firms plan to increase their fees because of the increased frustration and time associated with HUD's financial assessment system. One accounting firm said that it has spent hundreds of additional hours trying to conform to HUD's new standards. Because only a portion of those costs can be passed on to the PHAs, it has had to absorb the additional time spent during the conversion process. In a letter that the firm sent to the assistant secretary for PIH, it said: "It seems somewhat unjust that the accountants and housing agencies are in effect paying for the inefficiencies of the system, when pleas for help to correct the problem seem to go unnoticed."

A major cause of the access problem is that housing providers and accounting firms must make their data entries while they are on-line on the Internet. HUD failed to anticipate that, like income tax reporting, a large portion of the housing providers and their accountants would wait to send the required reports until the actual due dates, which are based on the providers' fiscal year ending dates. As a result, many individuals try to access HUD's system at the same time, causing the system to slow down significantly or shut down. To address this problem, HUD officials informed Academy staff during an August 15, 2000 meeting that the department is upgrading its web access capacity by 600 percent. They also said that housing providers would not be penalized if they miss a reporting deadline due to the system's inaccessibility. For a longer-term solution, HUD also is exploring how to allow users to download the necessary programs, work off-line to enter the data, and then transmit the completed report. In the case of financial data, however, there are about 200 business rules written into the financial statements. The technology that can handle that is just emerging.

Yet, system problems have not been confined to the new assessment tools. PHAs have reported similar access problems to HUD's Multifamily Tenant Characteristics System (MTCS), which is used by PHAs to provide HUD with data on their tenants. HUD also has had to make system changes to MTCS to implement QHWRA. Several PHAs reported that their software contractors have had difficulty keeping up with these changes. The large number of changes is not the entire problem, however. HUD also has not given the PHAs' software vendors the methodology to test the new software. On occasion, the department has issued modifications to changes already in progress. These changes have been a particular problem for small PHAs that have had to spend funds from limited budgets to purchase new equipment and software and to hire consultants to help them.

Several PHAs noted that several times, HUD has not allowed enough time to complete system changes. As a result, some changes were tested in a live environment and PHAs received error messages because they didn't have time to make the necessary changes in their systems. In those instances, HUD has told PHAs to ask for forbearance so that they would not be penalized. But that requires expenditures of time and effort by both the PHAs and HUD.

System Training and Information Sharing

Major system changes create uncertainty. In some instances, they foster suspicion, particularly when a new system is evaluating organizational performance and when those who are being evaluated perceive that they have not had adequate input into the assessment process. Organizations also need to understand the standards by which they are being measured. HUD's implementation of the new assessment tools did not include a comprehensive training plan for HUD's staff and partners. REAC left it to the program offices to request such training.

The Office of Housing began to educate its staff and private housing partners about the system soon after HUD began using PASS. It asked REAC to conduct sessions around the country that explained the system. A commensurate effort in PIH was not begun until March 2000. This lack of open communication between HUD and the public housing industry early in the process has further complicated the implementation of the new quality-assurance system for HUD-assisted housing. During much of the nearly one-and-a-half years that HUD used PASS in an advisory mode for PHAs, a perception of secrecy surrounded the scoring system. That, in turn, increased the PHAs concerns about it. Inadequately prepared, the PIH field staff, and even REAC itself in some cases, could not provide answers or technical assistance. The public housing industry's independent efforts to unravel the secrets of the scoring system were not always accurate.

Ability to Absorb and Implement Change

If the development and implementation of the new assessment tools were the only changes facing HUD and its partners, most likely they would have greater ability to absorb and implement the new systems. However, the new systems are just one of many changes for both HUD and housing providers, particularly in the public housing arena. PIH field staff and PHAs appear overwhelmed by the amount of change they must assimilate. HUD's effort to produce rapid results in response to many statutory and other pressures taking place appears to have caused it to overrun its capacity to administer these initiatives and the public housing industry's capacity to absorb them.

Tailoring the System

HUD-assisted housing providers come in many sizes and have various levels of capacity and expertise. In increasing numbers, PHAs also are expanding their operations outside the realm of HUD programs. These different organizational operations call for different forms of monitoring and oversight.

There already are considerable differences in the way HUD's three main housing assistance programs are monitored and overseen. HUD oversees public sector housing providers more closely and examines a broader set of their management activities than private sector housing providers. In part, these variations stem from the different political and market conditions that apply to these programs, as well as from the unique origins and traditions of each program. This is reflect-

ed in the different cultures of the two HUD offices that administer the programs, and by the interest groups with which they must work. It is important to recognize these differences and reflect them in the quality-assurance systems.

Three of the most significant differences among the organizations that deliver HUD-assisted housing programs—other than whether they are public or private—are their size, level of performance (or status), and style of performance (whether they are traditional or more entrepreneurial, innovative, or ambitious). These differences raise two key questions with respect to the design of the quality-assurance system that assesses assisted housing providers' performance:

1. Should HUD apply the same assessment standards to the different types of entities?
2. Should HUD use the same procedures to administer the standards for all housing providers?

Assessment Standards

HUD already is using different standards to assess the financial operations of housing providers. The financial ratios used to assess PHAs are different than those used to assess private providers. And HUD has used size as the principal criterion when it places housing providers into peer groups to compare their operations. The assessment standards are established accordingly. Just as important, however, is the style and scope of a housing provider's operations. Some providers use only a single HUD program, others use multiple HUD programs, and still others use one or more non-HUD programs as well. Some communities also adopt higher standards of program administration and housing quality. This may be more costly, but it also may better suit the community. These factors all affect how a housing provider appear on paper.

Assessing housing providers' operations without accounting for these distinctions in the assessment standards can produce invalid comparisons. Several PHAs have been concerned about this lack of differentiation. Although it occurs largely in the financial assessment, too little differentiation may create problems in other assessment areas as well. It is better to recognize these differences explicitly, than to assume that they are insignificant. The assessment standards in HUD's quality-assurance system should ensure truly comparable comparisons between housing providers.

Procedures to Administer Standards

Once assessment standards are established, the procedures to determine whether they are being met can take on many forms. HUD's new quality-assurance system applies across the board to all housing providers. Little consideration is given to their different performance capacities.

Organizational size impacts an entity's ability to effectively implement management systems. Elaborate planning and management processes, internal control systems, and self-evaluations may be appropriate for large organizations with adequate staffs. However, they are out of scale for small, minimally staffed organ-

izations. Using informal procedures, small organizations can often accomplish goals that would require much more formal procedures in larger organizations. Likewise, monitoring and oversight requirements also should be kept in scale with the size of the organization being assessed. Alternative means to evaluate the performance of assisted housing providers against generally accepted assessment standards can be tailored to housing providers' size and resources, and still provide HUD with the assurance it needs that the housing that is being provided is decent, safe, and sanitary. For smaller housing providers, this suggests a search for less exacting ways of meeting the intent of the current quality-assurance system with less formality and documentation.

Similarly, the performance level of housing providers can influence the requirements of a quality-assurance system. HUD needs more intensive oversight and monitoring in order to help troubled providers get out of troubled status and stay out, and to prevent those providers whose operations are classified as near troubled from becoming troubled. HUD provides this kind of special help and more intensive departmental oversight primarily for housing organizations that are officially designated as troubled.

A quality-assurance system also can adjust its requirements for high performing housing providers. HUD has already done that to some extent. For example, high performing PHAs can be relieved of specific department requirements. They can be eligible for having fewer reviews and less monitoring; those that score greater than 90 percent on their physical inspection score are inspected bi-annually instead of annually. However, devolving further responsibility to high performing housing providers appears possible. Perhaps it could be accomplished in a manner that is being piloted under the MTW program⁶¹ or outlined in recent proposals for block grant options.⁶² Both would call for modifying HUD's approach to quality assurance. The hallmark of these proposals is direct decision making by housing providers on the use of HUD funds. This could involve flexibility to transfer funds among HUD funding categories. The transfer would be based on plans made collaboratively and publicly in accountable political processes to meet agreed-upon community goals and performance standards in the context of local needs and conditions. Earning this kind of freedom and flexibility could be a strong incentive for PHAs to become high performers and demonstrate a strong commitment to excellence. This approach implies a significant amount of regulatory relief and a shift from detailed to more general oversight procedures based on performance monitoring and local oversight.

HUD's Capacity to Implement Its Current System

It is critically important for HUD to have the staff, systems, and other resources to effectively meet its responsibilities to oversee and monitor the assisted housing programs using its current quality-assurance system.

Staffing

Does HUD have the right people with the right skills in the right places to achieve the ultimate outcome of having a high-quality portfolio of HUD-assisted housing? For the Section 8 project-based program, HUD has addressed this issue by

contracting out the administration of its Section 8 HAP contracts. HUD decided this as part of its MRP 2020 management reforms. Those reforms recognized that HUD would not have enough staff to perform the necessary monitoring and oversight and that contracting for those services was essential for good program management. HUD allocated staff to the Office of Housing on this basis and believes that the staff size and their skills will be adequate.

The situation in PIH is different. For the Section 8 tenant-based program, PIH has decided to rely on audited PHA self-assessments but acknowledges that it will still need to monitor this progress through its field offices. As PIH field offices were downsized substantially, they lost many of their most skilled and knowledgeable staff. These staff reductions occurred without a thorough analysis of the resources that are required to manage HUD's programs under the new quality-assurance system,⁶³ and they have left PIH vulnerable to being unable to adequately monitor and assist PHAs in achieving program success. A majority of PIH's field staff—both current and previous—have never worked for a PHA. A significant number of the current staff are former single-family housing specialists who transferred from the Office of Housing with little or no formal training in the public housing arena. The PHAS assessment tools were designed to help PIH staff execute their monitoring and oversight responsibilities. However, training in the use of these new tools came late in the system's implementation. This left PIH field staff not fully prepared to use the tools and address PHAs' concerns during the first year-and-one-half of the system's implementation, when one would expect the concerns and questions to be the greatest.

Although HUD centralized some of the work that used to be done in its field offices into new processing centers (Grants Management and Special Applications Centers⁶⁴), PIH field staff continue to play a significant role in the awarding of new grants (they review the applications) and in the special application processes. If PHAs experience problems or have questions in these areas, they often consult first with the PIH field staff with whom they have the closest relationships. As a result, HUD may have underestimated the amount of work that has remained in PIH field offices.

PHAS provides PIH field staff with more information to assess PHAs' operations. Yet, it is unclear whether the staffing levels and staff expertise will be adequate for field offices to perform sufficient oversight, monitoring and technical assistance to keep PHAs off the troubled list and to help them improve their operations. PIH will be included in the first phase of HUD's initiative to develop a resource estimation system. To date, however, HUD has not analyzed the necessary level of effort for field staff to operate under its new quality-assurance system.

System Capacity

As noted earlier, problems with the capacity of HUD's automated systems have limited their usefulness and imposed additional burdens on its users. System glitches should be expected during the initial implementation of any new system—particularly one as ambitious as HUD's new quality-assurance system. However, HUD's continuing modifications make it difficult for housing

providers and their software contractors to keep pace. They also increase their implementation costs. HUD's early information releases that inferred that its new system should impose no additional costs appear to have been incorrect.

COMPARISON WITH CHARACTERISTICS OF A GOOD QUALITY-ASSURANCE SYSTEM

This section of the chapter compares HUD's current system with the 14 characteristics of a good quality-assurance system that were covered in Chapter 1. It also assesses how HUD's current system applies differently to the public housing, Section 8 tenant-based, and Section 8 project-based programs.

1. System Goals Consistent with Mutually Agreed-Upon Outcomes, Assessment Standards and Procedures: Quality-assurance system goals for HUD-assisted housing should be based upon clearly stated outcome goals for well run assisted housing providers that are widely accepted by HUD and the housing industry; and, they can be clearly linked to standards and procedures by which HUD-assisted housing may be assessed.

HUD's current quality-assurance system contains goals determined largely by federal laws and HUD, without widespread industry agreement. HUD's dialogue with its housing providers has not included adequate discussion about the outcome goals for well run housing providers or the goals of the quality-assurance system. There has been a lack of effective consultation as defined in Chapter 2. The Interim Report identifies several goals for PHAs.⁶⁵ They include improving and maintaining the quality of living units, ensuring the safety of residents, providing opportunities for resident self-sufficiency, and preserving and improving the supply of housing. Effective consultation could have demonstrated to HUD how its goals and those of PHAs could easily be reconciled. HUD's system is rooted primarily in a regulatory model. It focuses on statutory goals, administrative regulations, and management reforms. Public housing industry representatives have said they want a quality-assurance system where self-improvement is key.

The new assessment standards use most of the same basic categories as the previous ones. However, HUD's current quality-assurance system for public housing and Section 8 project-based properties uses procedures that are significantly different than those familiar to the industry. They do not have widespread industry acceptance.⁶⁶ The public housing industry continues to take exception to the assessment procedures in both the physical inspection and financial assessment components of PHAS. It also has raised several concerns about the questions used in the resident satisfaction survey. The department has held a number of meetings with industry representatives. It listened to their concerns, and it is continuing its efforts to resolve these issues. In general, private providers have accepted the assessment standards that apply to them and the assessment procedures as currently revised.⁶⁷

2. Self-Assessment and Continuous Improvement: A good quality-assurance system should include some elements of self-assessment and continuous improvement that are designed to help assisted housing providers improve their performance.

HUD's current assessment system does not include a self-assessment element except for the self-reporting data required under the Management Assessment Subsystem of PHAS and the assessment system being developed for Section 8 tenant-based properties (SEMAP). These self-assessments focus on regulatory compliance rather than continuous improvement of housing providers.

3. Peer Review/Site Visit: A good quality-assurance system should provide some degree of on-site peer review to infuse housing providers' programs for performance improvement with independent, outside perspectives and suggestions.

HUD's current system does not include a peer review component. Although the TARC's contract with the National Association of Housing Redevelopment Officials (NAHRO) to review certain aspects of some troubled PHAs' operations, this is not a peer review in the sense traditionally found as part of an accreditation program. In addition, it applies to only a small number of PHAs.

4. Internal Quality-Assurance Procedures: A good quality-assurance system should incorporate and encourage internal procedures within housing organizations that ensure the quality of their operations and results.

HUD's current system depends largely on quality-assurance procedures that are external to the housing organizations being assessed. HUD's assessment procedures have some internal quality-assurance mechanisms, such as those for physical inspections. However, the overall assessment system does not rely on quality-assurance procedures within the provider organizations.

HUD's internal procedures have several mechanisms to ensure the accuracy of the scores it produces. For physical inspections, REAC has a Physical Assessment Standards Team that performs desk reviews of inspections, adjusts contractor training, and updates the Dictionary of Observed Deficiencies. It also has a Quality Assurance Inspection Team that evaluates the performance of contract inspectors by re-inspecting properties. REAC's Quality Assurance Division monitors and performs peer reviews of selected IPAs who perform the financial audits of HUD-assisted housing providers. REAC also has a Financial Laboratory that will continually reassess financial thresholds to determine whether significant inequities arise due to changed economic or industry conditions. For the management assessment indicator in PHAS, IPAs confirm the accuracy of the data PHAs submit.

Although these mechanisms are important for ensuring the quality of the scores issued by HUD, a recent GAO report⁶⁸ noted that HUD's quality-assurance procedures for its physical inspection system have gaps and

weaknesses. GAO found that “while REAC performed on-site reviews to assess the adequacy of the inspections, it did not have procedures for ensuring that these reviews were performed systematically, that problems identified during the reviews were resolved quickly and appropriately, and that its reviews were coordinated with those that its inspection contractors perform as part of their own quality control programs.” In addition, GAO noted that “REAC did not always report the results of its reviews to inspection contractors in a timely manner, and it did not have the systems and records needed to ensure that corrective actions are taken after problems have been identified.” REAC is taking steps to correct these deficiencies.

In some fields,⁶⁹ quality assurance relies primarily on quality-assurance plans and procedures within the monitored organization. External audits are used to make sure that the organization's plans and procedures operate reliably. Using this approach for HUD-assisted housing could reduce redundancy and HUD's workload. It also could place the primary quality-assurance activities within the housing organizations that are providing services. An assessment system that places greater reliance on housing providers' internal quality-assurance plans and procedures could enable providers to strengthen their capacity to meet quality standards continuously, instead of in response to identification of deficiencies by outsiders.

5. Independent Physical Inspections: A good quality-assurance system should include some form of independent, on-site, physical inspection of HUD-assisted housing properties.

HUD's current system includes independent, on-site inspections of HUD-assisted housing. However, the physical inspection protocol remains the most contentious aspect of HUD's current quality-assurance system. As noted above, the public housing industry still has several concerns about it.

6. Independent Financial Audit: A good quality-assurance system should include an independent audit of HUD-assisted housing providers' finances.

HUD's current system requires an IPA audit for housing providers that receive more than \$300,000 in federal funding. In accordance with OMB Circular A-133, entities that receive less than \$300,000 submit only unaudited financial statements. FASS evaluates this information and scores the providers accordingly. However, a number of PHAs and accounting firms have expressed concerns about some of the system requirements and implementation procedures, including problems with inaccessibility to HUD's financial assessment computer system. HUD believes it has expanded its computer system sufficiently to resolve these access problems, and has stated that it will make further expansions as necessary.⁷⁰

7. Independent Management Audit: A good quality-assurance system should include a management audit of housing providers.

HUD's current system includes management reviews of housing providers by HUD field offices.

8. Resident Survey: A good quality-assurance system should provide opportunity for residents' feedback on the quality of their housing and their relations with the housing-provider organization.

HUD's current system includes a resident satisfaction survey for public housing and one is being developed for project-based Section 8 residents. However, a number of PHAs and resident representatives interviewed do not believe the current survey questions provide an adequate measure of resident satisfaction. In addition, data are not reported to PHAs in a form that can be used constructively to initiate change. There also is a question about whether the current survey provides ample opportunity for resident feedback. Participants at the Academy's Spring forum with HUD's stakeholders and partners, which included resident representatives, also expressed the view that a survey alone is not an adequate form of resident involvement in the quality-assurance system. In addition, owners and managers of many privately-owned Section 8 properties believe that their tenants' market choices are a more appropriate gauge of their satisfaction than a resident survey. They also point to leases as enforceable contractual agreements between tenants and landlords that establish appropriate relationships.

9. Community and Resident Involvement: A good quality-assurance system should include a mechanism to determine how HUD-assisted housing providers involve residents in management and community representatives in meeting local needs in ways that reflect community values. Community leaders and assisted housing residents also should be actively involved in the assessment process.

HUD currently requires that communities have an opportunity to comment on the PHAs' five-year and annual plans, and local governments that receive CDBG funding must sign off on the PHA plans to ensure consistency.⁷¹ No other community or resident involvement protocols are built into the system. The extent to which PHAs and local governments work together to address housing needs varies considerably from one community to another. HUD's current system does not involve the community or assisted housing residents in the actual assessment process.

10. Scoring/Certification Mechanism: A good quality-assurance system should include a mechanism for certifying the extent to which housing providers and properties meet the agreed-upon assessment standards.

HUD's current system produces a score for HUD-assisted housing providers in two or more of the four areas covered by the new assessment tools. However, many PHAs do not yet accept that the scores are based on a fair method of measuring physical quality. For PHAs, the scores indicated whether the provider is a high performer, standard performer, or troubled performer. Now that these

designations have benefits and consequences, the reasonableness and equity of the system is crucial.⁷²

11. Appeals Process: A good quality-assurance system should include a fair and easily accessible mechanism to correct errors.

HUD's current system includes an appeals process to correct errors in the physical inspection and resident survey scores. As of August 2000, HUD operated under interim guidelines to process appeals for the physical inspection scores. HUD is developing final guidelines for the PHA appeals process in consultation with PHA representatives. In most cases, local appeals boards HUD field officials and industry representatives are expected to settle appeals. More difficult cases will be decided at the national level.

When the appeals process goes into effect for PHAs, it will enable them to correct simple errors and make a case for changing their PHAS scores when they believe that an increase in their score based on the appeal would move them into a higher category of performer (troubled to standard; standard to high). The public housing industry has raised several concerns with the appeals process that is evolving. One concern is the time limits allowed for filing appeals.⁷³ The industry also believes in modifying some of the assessment standards that are known to cause errors, rather than relying on the appeals process to make corrections.⁷⁴ Relying on an appeals process to correct known systemic design problems shifts the burden to the housing providers who must use resources to engage the appeals process.

12. Recovery Mechanism: A good quality-assurance system should include mechanisms that help housing providers remedy problems identified by the assessment process.

HUD's current system includes recovery mechanisms designed to help PHAs and private landlords remedy problems identified during the assessment process. PIH and Office of Housing field staffs have recovery protocols to correct deficiencies identified during the assessment process. For troubled housing providers, the TARC and the DEC have extensive policies and procedures to help bring providers into compliance.

13. Enforcement Mechanism: A good quality-assurance system should have an enforcement capacity to sanction providers when they do not comply with program and regulatory requirements.

HUD's current system includes an enforcement component. PHAs and private providers that do not comply with program or regulatory requirements are referred to the DEC for remedial action. These actions may include court cases.

14. Cost-Effective and Affordable Process: A good quality-assurance system should be cost-effective and affordable to assisted housing providers.

HUD has not prepared a cost-benefit analysis of its new quality-assurance system. Several PHAs involved in this study have commented that the additional resource requirements to adapt and operate under HUD's new system have strained their budgets. According to a September 30, 1999 HUD Inspector General report, REAC spent \$62.9 million in fiscal years 1998 and 1999 to develop and maintain the assessment tools. It could also pay up to \$57.4 million for 90,000 inspections under one procurement action (\$638 per inspection) and another \$60 million under another (\$667 per inspection). It is too soon to tell what impact this system will have on the quality of HUD-assisted housing and its residents' lives.

OVERALL COMPARISON

HUD's current system includes many characteristics of a good quality-assurance system. However, some—such as the self-assessment, continuous improvement, and internal quality-assurance procedures—are not well developed. In addition, some critical elements of a good system are missing. Most important are the lack of (1) widely agreed-upon outcomes for well-run assisted housing providers; (2) agreed-upon goals for the quality-assurance system (which should be based on (1)); and (3) generally accepted procedures for administering the assessment standards. These omissions have caused many of the public housing industry's concerns with HUD's new system.

The following section discusses potential modifications in HUD's current system that might be considered as means of dealing with key elements of these problems.

OPTIONS FOR MODIFYING HUD'S CURRENT APPROACH

QHWRA, which called for this study, asked the Academy to determine whether HUD's monitoring and oversight of its assisted housing programs "should be eliminated, expanded, modified, or transferred." The Academy panel's analysis presented above indicates that HUD's current system contains essential regulatory elements for carrying out HUD's fiduciary responsibilities, but it does not include all of the elements of a good quality-assurance system. In addition, some of the system's features need improvement.

The rest of this chapter explores ways to modify the existing elements of HUD's system to address the identified problems. Not all problems or options for dealing with them apply equally to the public housing and Section 8 programs. Much of the preceding and following discussion deals primarily with public housing. This does not mean that there are no problems in Section 8 project-based housing. But problems related to public housing predominate.

Supplementing a modified HUD system with elements of other approaches could help to overcome certain identified deficiencies. Chapter 4 evaluates those alternatives as well as opportunities for transferring certain responsibilities out of the department.

Building Better Relationships with the Public Housing Industry

When there are problems in a relationship, all parties usually contribute to them. For solutions, they must make an honest attempt to work together through the issues. The public housing industry has said that it wants to be an equal partner with HUD, and HUD has expressed willingness to consult the industry. However, HUD does not use the term “consult” the same way Chapter 2 does. While the department stresses the importance of carrying out its regulatory and fiduciary responsibilities – which requires sound assessment tools—the industry clearly disagrees with HUD about the soundness of those tools, the effectiveness of HUD’s consultations, and the relative balance between assistance and regulation.

A provider of few direct services, HUD is largely a grant-making agency. It needs to work in partnership with the public housing industry to fulfill its mission. But HUD and the public housing industry must first reach a joint understanding about what that means. They need to have a relationship that is based on respect and open and frank discussions of the issues. Moreover, all parties have to have the ability to influence decisions. The relationship also needs to permit disagreements. And the parties need to find ways to move beyond them without damaging their relationship. In HUD, this will require a cultural change in how it views PHAs and conducts business. The department will need to ensure that its efforts at consultation are as effective as they are defined in Chapter 2, and it will need to be open to making some decisions cooperatively with the public housing industry. Meanwhile, the public housing industry must accept HUD’s authority to monitor and oversee their operations; approach HUD’s efforts to consult and cooperate in a constructive fashion; and be willing to accede to HUD’s decisions once effective consultations have concluded.

Improving relationships is neither quick nor easy. HUD may wish to consider, in consultation with the industry, long-term steps to reorient how it does business. They could include:

■ *Convene roundtables*

HUD could periodically convene roundtables nationwide with PHAs and industry representatives to discuss public housing developments. Senior managers from HUD headquarters and local field office staff could participate, and video-conferencing could tie in those individuals unable to attend in person. HUD and the industry could jointly develop meeting agendas. Initially, meetings might focus on HUD listening to whatever issues are raised and sharing information, with building trust the objective. Ultimately, the roundtables could become working sessions where decisions are made and policies are drafted. HUD could distribute roundtable summaries via the web to all PHAs and invite comments and questions to further open communication lines with the industry.

■ *Use internal expertise*

To improve its relationships with PHAs, HUD could explore new ideas and ways of thinking by convening a small group of senior staff from the PIH field offices and tasking them with developing a plan to improve those relationships. Assigned staff would have to have a thorough understanding of the complexities of the public housing industry and the nature of partnerships.

■ *Develop staff exchanges*

To infuse HUD and PHAs with greater understanding of each other's roles and viewpoints, the department could invite PHA and PIH employees to participate in staff exchanges under the Intergovernmental Personnel Act program. This arrangement would permit senior PHA staff would work in key PIH headquarters and field positions, and senior PIH staff would serve a term on the staff of participating PHAs.

These approaches for establishing a long-term cultural change may not produce the immediate change that the current situation seems to call for. But some of the options covered below in connection with administrative and regulatory requirements could also address issues that are relevant to HUD's relationships with the public housing industry.

Addressing Administrative and Regulatory Requirements

Historically, the nature of HUD's relationship with PHAs is rooted in compliance with administrative and regulatory requirements. As Chapter 1 notes, the intent of UMRA is clear. Federal agencies—including HUD—should attempt to minimize the burden their regulations put on the regulated. With public housing, PIH needs to look not just at each new regulation, but at the cumulative impact of the administrative requirements on PHAs.

PIH has expressed reservations about reducing regulatory requirements for even well run PHAs because of the perceived difficulty of re-imposing regulatory constraints on a PHA whose performance deteriorates. While these concerns may be genuine, regulatory relief does not mean that PHAs should be held any less accountable for performance. Regulatory relief can be built around a performance contract between HUD and the PHA that provides regulatory relief only as long as performance standards are met.

Besides the administrative burden, a regulatory compliance model often causes HUD and its partners to focus more on processes than on outcomes, according to a 1999 Academy panel.⁷⁵ This study supports that finding. In public housing, the large number of regulatory requirements, compared to other HUD-assisted housing programs, exacerbates the situation.

The legislative intent behind GPRA is that federal departments and agencies will begin to identify the outcomes their programs seek to achieve and will manage to those outcomes. The act requires consultation with customers and partners, and the 1999 Academy report demonstrated how to conduct that consultation. HUD

has developed a five-year strategic plan and annual plans to meet GPRA's requirement for outcome-oriented goals. But HUD has failed to implement the consultation requirement of the act.

Outcome management also is a goal of the new planning requirements for PHAs in QHWRA. They endorse consultation between HUD, PHAs, and local communities. This Academy panel identified a number of problems with HUD's first-year efforts to implement the QHWRA's requirements. They include: (1) HUD's planning requirements under QHWRA duplicate PHAs' existing planning activities; (2) PHAs perceive that HUD's strategic goals compete with their locally established goals; (3) HUD's planning template is not perceived as real planning; (4) the coordination between the QHWRA plan and the Consolidated Plan is incomplete; and (5) small PHAs have had difficulty complying with HUD's planning requirements under QHWRA.⁷⁶

HUD has a much different perception of the PHA planning template. It views it as a tool for streamlined reporting of the results of planning, not as a tool for performing the planning process.⁷⁷ It may take several years before HUD and PHAs develop a common understanding of the QHWRA planning process which will allow it to evolve into an outcome-oriented management system that builds joint accountability between HUD and PHAs. For that to happen, HUD will need to work more cooperatively with PHAs.

The MTW demonstration exemplifies how HUD and a few PHAs have worked together to agree upon a program of regulatory relief and other program efficiencies for achieving outcome objectives that interest both HUD and the PHAs. Each PHA that participates in the demonstration has negotiated with HUD the terms, conditions, and goals of its MTW agreement. The Urban Institute has developed an evaluation design to assess the effectiveness of the demonstration. It contemplates assessing whether various objectives are accomplished. Examples include: (1) granting waivers from certain requirements to ease reporting requirements (2) facilitating the ability to increase rent revenues (3) flexibility to achieve a broader income mix of residents, and (4) initiatives to increase the share of working residents.

This demonstration creates a noticeable change in the relationship between HUD and the participating PHAs. It is a form of performance-based contracting. The MTW agreement clearly defines the outcomes to be achieved and the operating conditions under which the PHA will perform. The purpose of the demonstration is not regulatory or process relief per se, but it is thought to be providing significant relief for its participants. Some of this flexibility, including rent flexibility, income disregards, project-based waiting lists, and some fungibility of capital and operating funds, is also available now under QHWRA. In that sense, QHWRA has diminished the attractiveness of the MTW program. But MTW provides an excellent opportunity for HUD and its PHA partners to work cooperatively to find new ways of doing business that meet both HUD and PHAs' goals and are compatible with the PHAs' evolving nature and operations.

To lessen current administrative requirements and change the nature of the relationship between HUD and PHAs, there are several avenues HUD could explore, in consultation with PHAs. Because they contain requirements for consultation, some options also address the relationship issue covered earlier in this report.

■ *Identify avenues for deregulation in cooperation with the public housing industry*

PIH has a study underway to identify the statutory and other origins of requirements in its compliance monitoring efforts. PIH could use the information from that study to examine its non-statutory requirements for possible deregulation. It also could highlight areas where legislative remedies might be suggested. This project might be a good candidate for joint sponsorship between HUD and the public housing industry. Such a cooperative effort could identify opportunities for regulatory relief for PHAs and serve as a vehicle for improving relationships between PIH and the industry.

■ *Expand the Moving-to-Work program*

The MTW program is currently applicable to only a limited number of PHAs. Although a formal program evaluation will not be completed for several years, MTW already shows promise as a way to give PHAs greater flexibility to use funds creatively to solve locally identified problems, and for streamlining requirements in the public housing program. The consultative approach in the program also has the potential for addressing the relationship issues that were covered earlier, at least for the participating PHAs. The Academy panel notes that Congress is considering a legislative proposal to this effect.

■ *Propose a new outcome management demonstration program*

Expanding MTW would have limited impact because it is aimed at only certain specific outcomes (economic self-sufficiency; programmatic efficiencies and reduced costs; and increased housing choice), and it may not apply to all public housing. In addition, as previously indicated, it is not a regulatory relief program per se.

Building upon the concepts in GPRA and the experience with the MTW demonstration, HUD could propose legislation to initiate a new demonstration program that would change the contract between HUD and participating PHAs to an outcome management approach. Its goals could go beyond the formal program description for MTW and cover a broader array of PHA operations. HUD and participating PHAs would jointly identify goals and desired outcomes, and could negotiate the terms of their working relationship. This could include some negotiation about how PHAs are assessed.⁷⁸ HUD and the public housing industry also could jointly select the PHAs that participate. An evaluation component should be built into the demonstration.⁷⁹ This demonstration program could extend consultative outcome management to as much of the participating PHAs' operations as both the industry and HUD agreed were possible.

Refining HUD's Assessment Tools

Private providers continue to work with multifamily housing to refine HUD's assessment tools. While they may not agree with all aspects of HUD's system, there appears to be a general willingness to work with the new system. Where private providers have experienced problems, procedures are in place to address them. No apparent changes are needed at this time.

The public housing industry's continuing concerns about HUD's assessment tools—particularly the physical inspection system—need to be addressed, and HUD has expressed its willingness to do so. Changes to the assessment tools that result from meeting the concerns of public housing providers also could benefit private providers.

To accomplish needed refinements and increase acceptance within the assisted housing provider community, HUD could undertake several initiatives in consultation with the industry. They include:

- ***Consult on outcome goals and assessment standards and procedures***

HUD could undertake a formal initiative to consult with the public housing industry on the goals for the quality-assurance system, the remaining disagreements with the assessment standards, and opportunities to employ alternative procedures to administer the standards. This could be accomplished via a series of moderated roundtable discussions held nationwide. HUD headquarters and field staff should be involved in such a process.

- ***Simplify the physical inspection system design***

HUD could simplify the physical inspection system by being clear about what information is most essential, and limiting the system to that. A key goal should be HUD's ability to explain the system and its scoring, and the user's ability to understand and implement it.

- ***Further tailor the quality-assurance system***

HUD could begin a formal process to consult with housing providers about how the assessment procedures might be further tailored to address the differences in housing providers' size, capacity, and performance. Considering these differences, some elements of the alternative approaches covered in Chapter 4 may be more effective for assessing assisted housing provider performance.

- ***Facilitate system implementation***

HUD could accelerate its schedule for testing changes to its new assessment tools and upgrading its automation technology capacity to handle the volume of data anticipated from all of its assessment tools. Upgrades could include the ability to handle the receipt of data during HUD's partners' normal business hours.

■ *Provide training and other start-up assistance*

HUD could accelerate its schedule for training HUD staff and partners on the new system. HUD would identify those housing providers that are having difficulty transitioning to HUD's new e-based operations and provide technical assistance where it is needed.

***Addressing HUD's Staff Capacity
to Implement its Quality-Assurance System***

As previously noted, the Office of Housing is addressing its capacity issues by contracting out the administration of the Section 8 project-based program. It has staffed the multifamily field offices accordingly. For states not covered by a contract, the Office of Housing plans to redeploy field staff to handle the workload. HUD anticipates that all states ultimately will have a contract in place. However, the Office of Housing still plans to administer troubled Section 8 project-based contracts. The Academy panel supports HUD's decision to contract out, despite some union and private provider opposition.⁸⁰ Because the contracts are in their early stages, however, it is too soon to determine whether they will actually provide effective oversight and monitoring of Section 8 project-based housing.

Within PIH, there appears to be problems with the staff's capacity to implement the new quality-assurance system due to the changing nature of the work and lack of training. In consultation with the industry, HUD could consider taking the following actions to improve PIH's staff capacity:

■ *Formally assess PIH staff capacity and address deficiencies*

The work in PIH and the public housing industry is undergoing significant change. HUD is initiating a project, based on another Academy report,⁸¹ to analyze workforce needs for the department—including PIH. The project will identify the major work of that office and the knowledge, skills, and staff size that is needed to perform the work effectively. This could also include an assessment of how well PIH's current staff meets those needs and an action plan for addressing deficiencies.

■ *Assess the effectiveness of contracting out the administration of Section 8 project-based contracts*

In the absence of 100 percent contract coverage, HUD could conduct a comparative cost analysis of operating the program with staff versus a contractor. To ensure that all states will be covered by contracts, HUD also could ask Congress to allow for a broader range of contractors than those currently specified in the legislation.

Clarifying Organizational Relationships

MRP 2020 is the latest in a series of reorganizations that HUD has undertaken over the last decade. A significant impact of MRP 2020 on HUD's assisted housing programs has been the creation of REAC, the TARCs, and DEC. These new

organizations focus on key weaknesses in HUD's former assisted housing assessment operations.

Although this panel was not charged with examining organizational issues per se, some issues of this type surfaced during the course of this study. Foremost is the role of REAC. On paper, REAC is a service organization. Its purpose is to serve the program offices by collecting and analyzing data on HUD-assisted housing. It is not a policymaking organization. The assistant secretaries for PIH and the Office of Housing confirm this. However, REAC's responsibilities in the development of HUD's new assessment tools have given it a quasi-policymaking role as well as a decisionmaking one. When public housing interest groups discuss their concerns with HUD's new system, they speak largely in terms of REAC's decisions, not PIH's or the Office of Housing's. Within HUD, it does not appear that field office staff have taken ownership of the new assessment tools, which have ostensibly been created for their use.

The *Interim Report* noted that the work of the field staff was changing significantly, and the PIH field staff, in particular, appeared to be "out of the loop" with respect to HUD's new quality-assurance system. The role of field staff as decisionmakers and HUD's source of expertise for assisted housing providers appears diminished. Many industry sources question the PIH field staff's current capacity (in terms of numbers and expertise) to perform its assigned functions.

Finally, as an organization, HUD's focus on its assisted housing programs has become more scattered. Housing providers, particularly PHAs, must deal with a significant number of different headquarters and field offices as they administer HUD's assisted housing programs. HUD's operating procedures for how these various offices work together and communicate with one another are still evolving. These new uncertainties add to the difficulty of implementing HUD's new system.

To address these issues, HUD could undertake an initiative, in consultation with the industry, to:

■ *Clarify roles of HUD offices responsible for assisted housing programs*

HUD could clarify the roles, responsibilities, and relationships of the various organizational entities with responsibilities for HUD-assisted housing programs and ensure that its housing providers understand them. It also could ensure that adequate communication protocols exist among those organizations. In addition, HUD could reaffirm the field offices' primary decision-making authority with respect to its assisted housing programs. At the same time, it could clarify REAC's role as a service organization for the Office of Housing and PIH. To reinforce statements to this effect, field staff could play a more prominent role as HUD develops and implements its new quality-assurance system. Options presented earlier address this point. The program offices could assume primary responsibility for the new system's implementation and modifications. REAC, while still a principal catalyst for the new system, would work through and provide support to PIH and the Office of Housing.

HUD also could ensure that, as the department's principal assisted housing organizations, the PIH and multifamily field offices are adequately staffed and trained to address questions from housing providers about any assisted housing problem.

FINDINGS

Based on the research summarized in this chapter, the Academy panel has identified seven findings related to HUD's current quality-assurance system (Findings 3-9).

FINDING 3. The department is moving in a positive direction by demonstrating a commitment to improving the quality of HUD-assisted housing and the performance and accountability of the organizations that implement HUD's low- and moderate-income housing programs.⁸²

By implementing its new quality-assurance system, the department has demonstrated a commitment to improving the performance and accountability of the organizations that provide HUD-assisted housing. HUD also has shown a commitment to strengthening the public's trust in the department. This new system is an important step toward addressing historical concerns about HUD's management of its assisted housing programs. HUD's new system is pursuing the following improvements:

- It contains essential assessment tools—physical condition, financial condition, management performance, and resident satisfaction—that are needed to judge the performance of HUD-assisted housing providers.
- The assessment tools enable the department to provide a more complete report to Congress and the American people about the status and condition of the nation's public and assisted housing stock and the organizations that provide low- and moderate-income housing with HUD assistance.
- Initiatives to contract-out the management of HUD's Section 8 Housing Assistance Payments (HAP) contracts, which support private housing providers, are designed to increase the resources that are devoted to overseeing and monitoring the Section 8 project-based program.
- The new system HUD is developing to assess the Section 8 tenant-based program (SEMAP) appears to be attracting substantial industry support.

FINDING 4. Providing credible and effective monitoring and oversight is an essential mission for HUD.

HUD must have a reliable and effective means of determining whether it is discharging its inherently governmental responsibilities for spending federal funds in accordance with law and good practice standards. None of the other approaches the Academy panel considered can substitute for this essential core mission of HUD.

FINDING 5. HUD's new quality-assurance system has design deficiencies and barriers to effective implementation.⁸³

HUD's new quality-assurance system is still evolving. Currently, it lacks some important attributes of a good quality-assurance system. In this respect, HUD's system is not unique. None of the other approaches that the Academy panel examined has all of the desired attributes. In addition, the new quality-assurance system's requirements are exceeding the capacity of HUD and the industry to implement them. The principal concerns are:

- HUD's system lacks the following key characteristics: (1) broadly agreed-upon outcome goals, assessment standards, and procedures; and (2) programs to promote continuous improvement by housing providers.
- Other elements of HUD's system are not well developed. They include: (1) internal quality-assurance procedures; (2) community and resident involvement; and (3) the appeals process.
- HUD and many housing providers lack the necessary staffing, automated systems, technical assistance, and training capacity to effectively manage and implement the department's quality-assurance system.
- The current system does not tailor its assessment procedures sufficiently to recognize differences among PHAs. Those differences include their size, style of operation, responsibilities for more than HUD programs, and performance status.

FINDING 6. Although HUD continues to refine its assessment tools, assisted housing providers, particularly PHAs, continue to raise questions about whether they accurately portray the condition of HUD-assisted housing.

Some of the concerns identified by assisted housing providers have resulted from the rapidity with which HUD developed and deployed its new assessment tools, and the insufficient consultations it conducted with assisted housing providers, residents, and community representatives during that process. The concerns include:

- The physical inspection system is not currently providing fully accurate and replicable assessments of housing providers' performance.⁸⁴
- The physical inspection scoring process sometimes places burdensome and disruptive administrative and regulatory requirements on housing providers and PHAs in particular. This strains their budgets without demonstrating added value in terms of outcomes sought. For example, a number of PHAs reported that they feel compelled to "manage to the physical inspection score" they receive. Several executive directors said their boards and communities look critically at the physical inspection score, and create pressure to correct all physical deficiencies identified by the inspection, regardless of

their severity, in order to raise the inspection score. This strategy could redirect funds from initiatives with higher priorities. Thus, by focusing narrowly on raising the physical inspection score, PHAs may forgo other investments that could improve their residents' lives more significantly. An overemphasis on minor problems puts regularly scheduled maintenance and renovation programs at risk.

- The physical inspection system is not flexible enough to deal with local situations and housing/building codes except through the appeals process. Obvious errors and misunderstandings can be adjusted administratively by contacting REAC before final scores are issued, but other matters must be appealed more formally after the scores are issued.
- HUD has not moved swiftly enough to finalize an effective appeals program. As of August 2000, only interim guidelines were in effect.⁸⁵

FINDING 7. HUD and the public housing industry have not established a partnership based upon governmental agencies working together to achieve common goals. Instead, there are longstanding perceptions that PHAs are HUD's subordinates, not its partners.

While PHAs must comply with the terms of their HUD contracts, they are units of local government created under state law, consistent with federal law. Their goals are determined locally as well as nationally. HUD needs to recognize PHAs' governmental status and build an intergovernmental partnership with them based on this status.

FINDING 8. HUD's new assessment tools are not the product of a strong consultation process.⁸⁶

In the public housing arena especially, HUD's culture, program structures, staffing, and practices have evolved over many decades without fostering effective consultation with partners and stakeholders. This lack of effective consultation has hampered:

- effective stakeholder participation in the development of assessment tools
- industry and resident acceptance of the new tools
- constructive partnerships with public housing agencies

Meetings alone do not constitute effective consultations. The Academy panel found that HUD's consultations with its assisted housing partners would be more effective if they were based on the systematic application of the six principles set forth in Finding 2. Applying these principles for more effective consultation with housing providers, residents, and community representatives could enhance acceptance and implementation of HUD's new quality-assurance system.

FINDING 9. Partnerships can produce benefits.

Comparing the public housing and Section 8 project-based programs shows that partnerships can produce positive results. HUD is using similar assessment tools for the public housing and Section 8 project-based programs. However, the Office of Housing has taken a more consultative approach to working with its private provider partners than PIH's approach to working with PHAs. As a result, the Office of Housing has found it easier to obtain its housing providers' acceptance of needed system adjustments. Earlier training of multifamily field staff and a greater ability to adjust how scores apply to individual projects have made it easier for Section 8 private providers to address assessment results. The Office of Housing's efforts to partner with private housing providers to implement the new assessment tools has neither reduced its ability to carry out its fiduciary responsibilities, nor lessened housing providers' accountability for providing decent, safe, and sanitary housing.

CHAPTER

4

Assessing the Potential of Other Approaches

When there is general agreement about the goals and assessment standards of a quality-assurance system, the actual assessment practices and approaches can take many forms. The legislation that calls for this study asked the Academy to examine other approaches that might replace or supplement HUD's current oversight and monitoring practices. This chapter describes several other approaches and how they could be applied to HUD's assisted housing programs. It also comments on their potential for improving HUD's current approach to ensuring the quality of HUD-assisted housing and housing providers' operations.

OVERVIEW OF OTHER APPROACHES CONSIDERED

Table 1 compares the elements of a good quality-assurance system that are included in HUD's current oversight and monitoring systems for the public housing and Section 8 programs, with those that are included in the other approaches that the panel considered. The other approaches are grouped under four categories: (1) accreditation; (2) private services; (3) devolution; and (4) self-assessment.

As Table 1 shows, none of the other approaches includes the regulatory and enforcement functions of HUD's new quality-assurance system. At the same time, they can potentially improve HUD's system by providing characteristics that are absent. The specific gaps that could be filled are:

- industry-wide agreement on goals and standards
- peer review and site-visit assessment and assistance
- self-assessment and continuous self-improvement initiatives
- providers' internal quality-assurance programs

- resident involvement
- community involvement

Besides filling those gaps, some of the other approaches could substitute for undeveloped elements of HUD's system, or where it does not adequately address assisted housing providers' differences and needs. Some of the other approaches are available to the assisted housing industry; others would have to be developed further before they could be implemented effectively.

The four other approaches are described briefly below. The specific practices related to each are described more fully in Appendix C. Some instructive experiences from other fields where these approaches are used are also presented.

Accreditation⁸⁷

Accreditation is a formal process that evaluates the performance of an organization based on accepted professional standards established by an independent private accreditation board. It confers status on organizations that meet the standards. Accreditation is widely used in many fields. The federal government uses private accreditation processes to help it evaluate the performance of hospitals and colleges and universities that receive federal assistance. It also has been considered for use in federal housing programs.

Concept

The entity that seeks accreditation performs a thorough self-evaluation of its performance, and its programmatic and organizational soundness, based on established standards and good practices. During an on-site visit, a peer review team checks the self-assessment. The accreditation designation is awarded for a fixed period of time to certify compliance with established standards. The process is repeated periodically to ensure continued compliance.

Benefits

Being accredited provides assurances to customers and the public that the program or organization is using good practices and providing good services. The credibility of this designation comes from the independent, outside, expert-led process that awarded it. In addition, the self-evaluation and peer review elements of the accreditation process may lead to improved practices and higher performance if the recommendations that result from the process are followed. In some cases, certain recommendations may be required to be implemented as a condition of accreditation.

In no case did the panel find that accreditation substituted for government regulation. Rather, it is a supplemental mechanism. In general, it is done more to satisfy marketing and self-improvement needs of the applicant than to substitute for oversight by government authorities. Hospitals, colleges, and universities went through accreditation processes long before they participated in the federal financial assistance programs to which they are now linked. In these instances it

TABLE 1
MAJOR CHARACTERISTICS OF APPROACHES TO MONITORING AND OVERSEEING HUD-ASSISTED HOUSING PROGRAMS

Approaches Examined	Characteristics of the Approaches													
	Goals/Assessment Standards and Procedures	Self-Assessment Improvement	Peer Review/Site Visit	Internal Quality Assurance	Independent Physical Inspection	Independent Audits		Resident Survey	Community and Resident Involvement	Scoring/Certification	Appeals	Recovery	Enforcement	Cost to Housing Provider**
						Financial	Management							
1. HUD System					✓	✓	✓	✓		✓	✓	✓	✓	\$
	■ Public Housing				✓	✓	✓	✓		✓		✓	✓	\$
	■ Sec. 8 T				*	*	*	*		*	*	*	✓	\$
	■ Sec. 8 P				✓	✓				✓	✓	✓	✓	\$
2. Accreditation	✓	✓	✓						✓	✓	✓			\$\$\$\$
	■ IREM									✓				\$
	■ ISO	✓	✓	✓			✓			✓				\$\$\$\$
■ Hosing Quality Board	✓										✓			\$
	3. Private Services				✓	✓	✓			✓				\$\$
■ IREM						✓	✓			✓				\$
	■ S&P					✓	✓			✓				\$
	■ Moody's						✓			✓				\$
	■ NCHM						✓			✓				\$
	■ NAHRO			✓				✓						\$
	■ IPAs					✓				✓				\$
	■ Inspection Companies													\$
	4. Devolution				✓		✓	✓	✓					\$
■ PHA/SHAAdmin.ofSec.8 T					✓	✓	✓		✓	✓	✓	✓	✓	\$
	■ SHA Admin. of Sec. 8 P				✓	✓				✓		✓	✓	\$
	■ MTW		✓											\$
5. Self Assessment		✓	✓	✓					✓					\$
	■ NAHRO Peer Asst.													\$
	■ Housemark	✓	✓											\$
	■ ISO	✓	✓	✓					✓					\$

* SEMAP has been under development for three years, in consultation with the public housing industry, and is due to go into effect in 2000. The Academy has not analyzed it.
 ** These are relative costs of approximate magnitude, arrived at through a process of largely qualitative judgments made in consultation with informed parties.

was convenient as well as prudent to use the existing private accreditation process as a starting point for meeting the government's oversight and monitoring needs.

Examples of Federal Accreditation Programs

The two most common examples of using private accreditation processes to meet federal purposes are hospitals and higher education institutions. The Medicare statute provides that hospitals accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) are "deemed" to be eligible to receive Medicare reimbursements for providing eligible services. In higher education, federal funds available under Title IV of the Higher Education Act may go to colleges and universities only if they are accredited by a federally approved, private accreditation body. However, the federal government does not rely on the private accreditation bodies exclusively in either of these programs. The Medicare program also provides hospitals with the option of meeting federal standards directly, rather than going through the JCAHO accreditation process. And colleges and universities also must be licensed by the state and approved by the U.S. Department of Education (ED).

In the case of Medicare, it should be noted that accreditation does not substitute for hospital licensing, financial audits, or rate setting, all of which is done by states and Medicare. In addition, Medicare neither bears any direct responsibility for the financial or clinical failures of accredited hospitals, nor steps in to prevent the negative affects of such failures.

Regarding Medicare and higher education assistance, the private accreditation bodies were in existence long before the federal programs that now use them. They already had established standards and could meet federal needs quickly. As conditions changed and federal requirements evolved in the health care and education fields, the accreditation bodies adapted their standards to accommodate the changes. Some details about how these two federal programs use private accreditation findings are included in Appendix C. Additional information is in the Academy's *Interim Report*.⁸⁸

Accreditation Role in Federal Housing Programs

The idea of accreditation for federal housing programs has been under consideration for many years. Executive Order 11668, issued by President Nixon in 1972 to help meet the growing need for management manpower in the assisted housing field, established the National Center for Housing Management (NCHM). NCHM's primary role is to train and certify individual managers of publicly assisted housing programs, including many HUD personnel. However, under a contract with HUD in 1973, NCHM also developed a proposed housing management accreditation program.

A 1983 Senate Banking Committee report called for an accreditation board for HUD-assisted housing, and there have been other similar proposals over the years. For example, NCHM's collaboration with PHAs and HUD in 1985 led to (1) efforts aimed at deregulation, and (2) passage of the National Affordable

Housing Act of 1990, a law which mandated the development of PHMAP, the immediate predecessor to HUD's current PHAS system.

In 1992, the congressionally established National Commission on Severely Distressed Public Housing recommended a national accreditation system for public housing that is completely separate from and independent of HUD.⁸⁹ The Commission believed that this step was necessary to improve assessments of severely distressed public housing and to develop a sounder method of addressing management performance throughout the public housing industry. In making this recommendation, the Commission believed that an accreditation approach would increase both the quantity and quality of technical assistance. In 1995, Congressman Rick Lazio introduced a bill to establish a housing accreditation board that would have been required to consult with NCHM to set standards. But that legislation never passed.

Instead of enacting any particular housing accreditation proposal, Congress mandated the current Academy study when it enacted QHWA in 1998. NAHRO currently has an accreditation task force that is considering various options. The Council of Large Public Housing Authorities (CLPHA) and others continue to advocate accreditation.

The Institute for Real Estate Management (IREM) has developed an Accredited Management Organization (AMO) standard for identifying the best companies in the real estate management business. Applicant organizations pay a fee to IREM and undergo an extensive review process to receive AMO certification. Most certified organizations manage private apartment buildings, although two certified members are PHAs. IREM also offers a Certified Property Manager (CPM) designation to recognize highly qualified real estate management professionals. An organization seeking AMO status must be led by a CPM. In addition, IREM also offers an Accredited Residential Manager program that recognizes residential managers who succeed using IREM criteria.

IREM and NAHRO, like NCHM, also offer extensive training programs for housing providers, and certify individual housing managers. IREM concentrates largely on the private housing industry, while NCHM and NAHRO focus on the public housing industry. Neither NCHM nor NAHRO offers accreditation to housing organizations. Until 1995, HUD required managers of public housing who were responsible for more than 75 units to be certified by one of these three organizations. Even without this requirement, however, IREM reported an increased demand from PHAs for IREM-certified housing managers. Neither private accreditation nor the employment of certified housing managers currently carries any significance in HUD's housing assessment system.

The ISO Accreditation Approach

Management standards for ensuring quality products and compliance with government regulations play important roles in many industries. With the globalization of the economy in recent years, there has been growing attention to internationalizing these standards. The International Organization for Standardiza-

tion (commonly referred to as ISO⁹⁰) is a worldwide federation of national standard-setting bodies. Established in 1947, it is a non-governmental organization that represents many countries, including the United States, Great Britain, and the European Union. ISO has established a worldwide network for developing consensus on management standards. It also has provided mechanisms for accrediting ISO “registrars” and “auditors” to oversee the application of standards and registering organizations that demonstrate their compliance with the ISO standards. Some federal, state, and local agencies—including disparate ones such as the National Aeronautical and Space Administration (NASA) and the Northwestern Indiana Regional Planning Commission—have used ISO standards to improve their operations and become recognized.

The American National Standards Institute (ANSI) and the American Society for Quality Control’s Registrar Accreditation Board (RAB) are jointly the ISO accreditation body in the United States. ANSI/RAB operate the National Accreditation Program that (1) accredits organizations that conform to ISO standards (both 9000 and 14000⁹¹), (2) accredits auditor training course providers, and (3) processes registrar applications.

Application to Housing Programs

Applying the accreditation concept to HUD-assisted housing programs has been discussed and studied for many years. However, this option is not available to housing organizations, except in the limited form offered by IREM’s Accredited Management Organization designation. (See Appendix C for details.)

Potential accreditation models that could be applied to HUD-assisted housing organizations include: (1) the private model offered by IREM; (2) the international standards for quality assurance available from ISO, and (3) an accreditation program developed jointly by HUD and the assisted housing industry specifically for their use.

Developing a full housing accreditation program for HUD-assisted housing would require an expensive, long-term effort. The industry would have to be very committed to the accreditation model for it to be successful.

Costs

Accreditation is an expensive approach. It is intensive, long-term, and must be repeated periodically. The applicants for accreditation generally bear most of the costs. They usually pay a fee to the accreditation body to cover its relatively modest administrative and standard-setting costs. However, they also must bear the cost of conducting the extensive and intensive self-evaluation study; providing detailed documentation to the site-visit team; and hosting the site-visit team. These costs reoccur every few years. Generally, the accreditation body requires a re-accreditation every three years, but it could be as much as five or six years, or as little as one year or less, depending on the situation.

Private Services⁹²

Concept

For a fee, private companies evaluate many aspects of an organization or its programs. Generally, this work is guided by a contract that specifies the scope and nature of the evaluation, and it is performed using generally accepted professional standards. The most common example is a financial audit to check compliance with good accounting practices. But there is a trend toward broadening the scope of these audits. These other services—newer in origin and based on less well-established principles—include management audits, performance audits, fair housing audits, and customer or resident audits. A professionally qualified auditor or audit team visits the organization; examines documents, records, and data; talks to relevant officials; writes an audit report; and provides a formal professional opinion. It may be either unqualified or clean, indicating no problems, or qualified, identifying specific problems to which the auditor takes exception and that should be addressed by the recipient of the opinion. Professional societies or state licensing boards, which maintain the applicable standards, generally oversee the quality of these services. In some cases, federal agencies recognize and run quality-assurance checks on companies that provide such private services to organizations that participate in, or are regulated by their programs.

Benefits

This is a relatively inexpensive way to get an outside, independent opinion about the soundness of some aspect of an organization's operations. An unqualified opinion generally assures people who rely on the organization that it is using accepted practices. An organization that receives a qualified opinion that identifies exceptions can be judged by how well it responds to the need for improvements.

Examples of Federal Use of Private Assessment Services

It is a common practice for federal agencies to rely on certifying bodies or credentialed professionals (such as engineers), who are licensed or certified by industry groups or by state licensing authorities, to attest to compliance with federal requirements. The U.S. Coast Guard (USCG) makes extensive use of this approach. To ensure that it works satisfactorily, the USCG performs quality audits of the private certifying agents using a 10-percent random sampling method.

U.S. Coast Guard's Programs for Alternative Compliance and Approval of Shipbuilding Plans. Like many federal agencies, USCG's scope of work has expanded as it has had to cope with resource constraints—both human and budgetary. In response, according to one USCG official, the agency's philosophy is simple and straightforward: "We don't care who does the work, as long as we have the authority to delegate and hold them accountable to make sure they do the job right."⁹³ To implement this philosophy, USCG officials look at risk factors, performance targets, and quality-assurance plans for several safety-related programs and activities. Brief examples are cited below.

The USCG's Alternative Compliance Program delegates authority for verifying regulatory compliance to various standard-setting classification societies such as Lloyds of London and the American Board of Shipping (ABS). USCG's primary interest, which is safety, is slightly different and narrower than those of a typical classification society.

Also, certain categories of ships built for commercial service in this country must meet USCG standards. Ship owners are afforded three options: (1) submit plans to USCG for approval, which is a free service but time consuming; (2) submit plans to ABS, which uses USCG standards, charges a fee, but is a faster option than using USCG; and (3) submit plans for approval to an independent professional engineer, who also must evaluate the plans using USCG standards and charges a fee. Additional detail on these Coast Guard programs is available in the Academy's *Interim Report*.⁹⁴

Standard & Poor's and Moody's Services for Evaluating Public Housing.

Both Standard and Poor's (S&P) and Moody's, private bond-rating firms, have developed a service to evaluate PHAs. They advertise a comprehensive assessment of PHAs' operational capabilities as property managers, asset managers, and owners/developers of low-income and affordable housing. Although these programs are not bond-rating evaluations, they can serve as a precursor to them. Officials of diversified PHAs told Academy staff that one reason for using this kind of service was to provide their boards with a more comprehensive picture than is possible with reviews by either an IPA or HUD. They also said that their boards have more confidence in evaluations by a private firm than ones by HUD.

S&P and Moody's did not develop public housing evaluation programs to be a substitute for traditional HUD-assisted housing program evaluations. Like HUD, however, S&P and Moody have developed programs to provide a credible set of benchmarks for established performance standards that can be relied upon year after year. It is noteworthy that these programs cover—management and operations, portfolio assessment, and financial management—are similar to three of the four principal components of PHAS.

Further detail on S&P and Moody's can be found in Appendix C.

Application to Housing Programs

HUD-assisted housing organizations that receive \$300,000 or more per year from HUD must have independent, GAAP-based financial audits. Broader evaluations of PHAs are available from private organizations, such as S&P and Moody's, which use professional standards established by those organizations. HUD and the State of Massachusetts have accepted S&P assessments as eligible expenses for PHAs, and the State of New Jersey has shared the costs of preparing them for at least four PHAs. Many management consulting firms also offer management and performance assessments based on what they believe to be accepted general management practices. However, they are not specifically designed for housing organizations.

IREM's accreditation is really more of a management assessment than an accreditation in the more comprehensive sense defined by practices in the health and education fields. Essentially, it certifies that the top manager in the organization is a fully qualified professional in the real estate management field. Also, home inspection companies are available under contract to perform physical inspections of HUD-assisted properties and units. REAC contracts with such companies to inspect HUD-assisted housing that use HUD's new inspection standard.

The NCHM, NAHRO, and IREM all offer training opportunities to HUD staff and HUD's program delivery partners to improve their proficiency. HUD's Office of Troubled Housing Recovery contracts with NAHRO to provide peer review services to some troubled PHAs.

HUD could give private services such as these a greater role in monitoring and overseeing HUD-assisted housing providers. To the extent these private services use standards recognized by HUD, the department could substitute them for direct HUD assessments for high-performing and other low-risk partners, or as an interim substitute in years when HUD does not schedule a direct assessment.

The quality and usefulness of professional opinions received from a private services firm depend on the standards used, the experience of the person or persons assigned to perform the assessment, and the scope of the assessment defined in the contract for services. HUD could influence these factors through a process of recognizing, giving credit for, or licensing the private firms supplying such services. To the extent that the standards have HUD and industry-wide acceptance, these services could be consistent with overall efforts to improve the quality and effectiveness of the HUD-assisted housing industry.

Costs

Private services are less expensive than accreditation, primarily because they do not require the extensive self-evaluation, documentation, and peer review processes. Although the scope of these services is less than a full accreditation process, they are an efficient way to get a professional opinion of an organization and its programs. To the extent that HUD field offices do not have the capacity to perform on-site evaluations, these private services could serve as a substitute.

Devolution⁹⁵

Concept

The Academy panel looked at devolution to fulfill the local review model that QHWRA required this study to consider. Devolution is a proposal or action that shifts the responsibility for performing and/or paying for a program from the federal government to state and/or local governments. This approach generally shifts some of the accountability and responsibilities away from federal officials to state or local officials. In some cases, the transfer is actually to state and local political processes as well as substantially equivalent state and local laws and regulations.

Benefits

In a large and diverse country, there are many different settings, situations and conditions. Often, better results may be achieved by devolving administrative and other responsibilities to state and/or local governments where the workers are located, and where local concerns and values can be recognized and accommodated more quickly and effectively. Having the flexibility to make these adjustments may significantly improve results, so long as fundamental national principles and standards are observed. This balance needs to be carefully tailored to the specific circumstances of each program.

Examples of Devolution

Block Grants. Block grants are one of the best examples of devolution, although various block grant programs exhibit different degrees of devolution. In their purest form—illustrated by the nine block grants that were enacted as part of the omnibus budget reconciliation act of 1981⁹⁶—the federal government retained responsibility only for civil rights and environmental protection enforcement. The remaining program accountability provisions were transferred to the state and local governments that received the grants. The legislation relied on political accountability at the state and local levels to get results by requiring the grant recipients to develop a proposed plan for how the federal funds would be used in a way that is consistent with the broadly legislated purposes of the grant. Grant recipients had to make that plan available for public comment before they finalized their decisions about how to use the money.

Most other block grants are less open-ended than those that were passed in 1981. All of the traditional categorical grant programs contain significantly more federal controls on how funds may be used. Even the 1981 programs have picked up additional federal conditions over time. Thus, it is useful to think of devolution options in terms of the degrees of flexibility for state and local governments in the grant partnership.

Moving-to-Work Program. Enacted in 1996, MTW is a demonstration program that incorporates many aspects of devolution. As described in Chapter 3, it is a practical example of how HUD and a few PHAs can work together to agree on a program of regulatory relief and other efficiencies in the pursuit of mutually agreed-upon objectives. It involves placing a high degree of responsibility with the PHA for program implementation, and there is less oversight by HUD than in the regular public housing program. While MTW is not a complete devolution model, it has several aspects of devolution that are worth considering.

Performance-Based Contracts. Two examples of devolution that use performance contracts are (1) charter schools and (2) the application of GPRA.

Charter Schools. Charter schools exemplify performance-based contracting. Although definitions of them vary from state to state and even within states, charter schools may be defined as: schools that have been granted authority (a charter) to operate with greater autonomy (i.e., less regulatory oversight) within a public school system. The principal distinguishing char-

acteristic of a charter school is its formalized agreement with the school system, or sometimes with the state. This agreement is essentially a performance-based contract that describes a charter school's mission and goals and how it will be held accountable for them. Typically, charters are granted for 3-5 years and are renewable at the option of the grantor.

In general, there is no basis for arguing that charter schools should cost more or less than other schools in the same school system. General arguments in favor of charter schools derive from broader economic and public policy principles about the virtues of providing parents with educational choices for their children and inducing competition throughout the school system. Proponents believe this encourages experimentation and innovation as schools strive to improve education outcomes in order to compete successfully for students and the resources linked to them. However, considerable resistance to charter schools persists within the professional educational community. Several reasons account for this, but a main one is that the community does not embrace the value of competition.

The issues of alternatives and competition are key. The fundamental argument that charter school proponents advocate is that the competition charter schools induce will tend to raise educational outcomes for all students, not just those who attend charter schools. This argument could apply to HUD-assisted housing programs. There, competition induced by providing viable alternatives within the programs could ultimately produce improved outcomes. This could occur not just for those opting for the alternatives, but also for those in the traditional program design.

GPRA Model. The GPRA model is possibly the ultimate in “performance contracting.” One possible example of this, an outcome management demonstration, was discussed in Chapter 3. Whether in a separate demonstration or not, use of mutually agreed-upon performance goals and objectives, along with appropriate performance measures, provides a basis for changing the relationship between HUD and its partners from a regulatory environment to a performance oriented environment.⁹⁷

Application to Housing Programs

Administration of the Section 8 tenant-based program has been largely devolved to state and local housing agencies. HUD also is devolving the Section 8 project-based program by contracting out its administration, mostly to state housing agencies (SHAs). Compared to the specified requirements of HUD contracts and regulations, these arrangements for state and local agencies are more flexible, yet still enable them to meet performance objectives effectively and efficiently, in cooperation with the private owners and managers of the HUD-assisted units.

The MTW demonstration program (more fully described in Chapter 3) is designed to provide a degree of flexibility to transfer funds among related programs; waive certain standard requirements; and focus on broader objectives to improve overall program performance. To the extent that some of these efforts

are successful, the demonstration may support a broader application of devolution in the future.

One State Housing Block Grant proposal that was submitted for congressional consideration would also involve devolution. Under it, states could take some or all of HUD's housing assistance as a single block grant within the terms of a five-year performance agreement negotiated with HUD. State legislatures and governors would determine how the funds would be distributed among state agencies, PHAs, project owners, and tenants. Presumably, states would have some say in how the programs that are funded under this proposal would be monitored and evaluated.

The GPRA approach could also give HUD's partners more responsibility for program administration by substituting performance standards for regulations.

Costs

Devolution could reduce costs and/or improve performance for the same cost. This outcome could occur if the new flexibility makes program synergies possible or avoids unnecessary costs. Regardless of whether it shifts costs, devolution shifts responsibilities. If it were going to shift costs, a proposal may be subject to UMRA requirements that limit unreimbursed cost shifting (see Chapter 1).

UMRA provides a good framework for analysis and consultation with state and local program delivery organizations for the purpose of exploring alternatives and their potential impacts on the affected parties. Even if a regulatory proposal with respect to HUD's monitoring and oversight system is not subject to UMRA requirements, the analytical process set forth in UMRA could provide useful information and insights to all of the affected parties about likely costs of alternatives and who would have to pay them.

*Self-Assessment*⁹⁸

Concept

Although this approach is similar to accreditation, it does not take the concept as far in two respects, both of which derive from the absence of an organization that is responsible for the overall process. First, the individual organization that seeks to improve itself may not necessarily base its self-evaluation on generally accepted standards of good practice, or on agreed-upon national standards. Second, a self-initiated self-evaluation will not lead to a visibly recognized or prestigious affirmation of the organization's standing among its peers.

Nevertheless, this concept does involve self-study, which may be as extensive as it is in the accreditation process. In fact, a self-study process may voluntarily follow the same guidelines as accreditation, without necessarily adhering to the same timetable or other details. It also may voluntarily use a peer review element.

Awards Programs. The President's Quality Award program, which is modeled after the Malcolm Baldrige Awards program for business corporations, has been an important motivator for improving federal agency performance. It requires applicants to perform a rigorous and comprehensive self-assessment of their operations. Even those who do not win top honors generally believe they benefit significantly from going through the application process. A similar program for state and local governments that is sponsored by the Ford Foundation and Harvard's John F. Kennedy School of Government, has drawn the strong participation of hundreds of applicants and recently was opened recently to federal agencies and regional bodies. The All-American Cities award, which is given annually to outstanding city and county governments, requires a similar regime.

Food Safety and Inspection Service's Hazard Analysis Critical Control Point Program. The Food Safety and Inspection Service (FSIS), an agency of the U.S. Department of Agriculture (USDA), is responsible for inspections of all meat, poultry, and egg products that are for sale or distribution through interstate commerce, export, or import. Approximately three-quarters of the nation's raw meat, poultry, and egg products fall under FSIS jurisdiction. In response to highly publicized outbreaks of *E. coli* food poisoning in which some children died, FSIS developed a new program that fundamentally changed its system to improve safety practices. Under its old approach, federal inspectors inspected every meat carcass for disease and other abnormalities and chemical residues. Under the new program—Pathogen Reduction and Hazard Analysis Critical Control Point (HACCP, pronounced “has-sip”)—federal inspectors no longer inspect every carcass. Instead, they function more like auditors, less like inspectors. For quality control purposes, they rely on company self-inspections, and perform their own inspections on a sampling of the carcasses.

Originally developed by NASA and adopted in many industries, HACCP is a process control system where processing firms must write individual quality assurance plans. The HACCP rule imposes four performance-based requirements for all meat and poultry plants:

1. develop and implement a system of preventive controls (i.e., HACCP) to improve the safety of their products
2. meet salmonella pathogen reduction performance standards
3. write and implement standard operating procedures for sanitation
4. conduct microbial testing for generic *E. coli* to verify the adequacy of their process controls for the prevention of fecal contamination

Both federal and state inspection personnel underwent extensive training in preparation for implementing the rule.

U.S. Coast Guard's Streamlined Inspection Program. Cyclical and episodic compliance with safety regulations by vessels that support oil-drilling operations in the Gulf of Mexico led USCG to find a better and less adversarial way to ensure safety. After trial and error, USCG partnered with the oil-drilling industry to

design a highly successful voluntary program—Streamlined Inspection Program (SIP)—to empower and educate crews to periodically and more frequently verify that specified equipment and systems meet regulatory requirements. Each ship maintains a log of inspections and corrective actions that the USCG may audit. USCG regards vessels under this program as safer than those which are not.

Under SIP, each ship must have a quality-assurance plan. USCG inspectors and participating companies hold frequent meetings to review requirements. As companies become more familiar and comfortable with fulfilling the safety requirements, meetings are held only as they are needed. In lieu of detailed inspections of all ships, USCG inspectors conduct audits of vessels in the program by using a 10-percent sample.

HouseMark Benchmarking Tool. HouseMark is a privately developed computer system in Great Britain that provides management and benchmarking services to housing organizations to help them achieve continuous improvement. A joint effort of the Chartered Institute of Housing of Great Britain (CIH)⁹⁹ and the Arthur Andersen Company, a global management consulting firm, HouseMark is in the early stages of implementation in Great Britain, and it is now being marketed for adaptation and use in other countries.

HouseMark services are Internet based. They include benchmarking with other organizations that voluntarily subscribe to the service and contribute their own data to the system. Once signed up, a subscriber must specify, depending on its own goals, the number of benchmarking fields it will participate in. The level of confidentiality also must be chosen. Subscribers also provide examples of good practices, process maps for important housing activities, discussion groups, references to housing related web sites, and advice. Participation in this service is used for self-improvement. A housing organization's annual fee for using HouseMark services depends on the amount of housing the organization manages. Fees range from £1,750 to £17,250 (British pounds).¹⁰⁰

Benefits

An organization that performs a self-evaluation may expect to gain organizational and program performance improvements that are similar to those for organizations that seek formal accreditation. In fact, these improvements could be even greater if the organizations successfully tailor the process to their own needs and go beyond the minimum requirements of the accreditation process. This type of option is also open to organizations that apply for accreditation. Organizations that perform self-assessments often receive added benefits such as fresh perspectives when they invite outside peers into the process.

Application to Housing Programs

Except in cases where HUD identifies a troubled housing provider and requires it to develop a recovery plan with the department, this study did not identify any requirements for state or local housing agencies to use this approach. Yet, some agencies may be performing self-assessments voluntarily.

To help subscribers improve their own operations, HouseMark provides benchmarking comparisons within the housing industry; modeling of potential policy and management changes; and other services. For the benchmarking comparisons, individual subscribers can specify appropriate peer groups. This tool is described in Appendix C. S&P also is developing a proposal to provide statewide and/or nationwide comparison data for PHAs which could help the self-assessment process.

With or without specific standards, HUD could require periodic self-evaluations by the organizations it assists. Similarly, a national housing association could require its members to perform periodic self-evaluations in order to maintain their membership. Self-evaluations within the framework of agreed-upon industrywide standards and audited by a private services firm, could come close to providing the assurances of an accreditation process. The assisted housing industry could use ISO 9000/14000 standards as a starting point for developing such standards. HUD or a national association such as NAHRO could provide technical assistance tools such as an American version of HouseMark. To a limited extent, the new SEMAP quality assurance system for Section 8 tenant-based housing may be counted as an example of self-assessment. If carefully and thoughtfully used as a management improvement process, with adequate auditing, it might resemble the Coast Guard example cited above.

Costs

Self-evaluation is likely to be less expensive than accreditation. An organization that uses this approach would have more control over its costs than if it sought accreditation. As the description above under the private services approach indicates, a private company could assess the credibility of the organization's self-evaluation process. Alternatively, assisted housing providers could attain credibility through the discipline provided by state and local public involvement and political processes.

COMPARING COSTS

It is difficult to find reliable cost information on these alternatives. The relative cost notations in Table 1 are approximate magnitudes. Not definitive, they were arrived at through a process of largely qualitative judgments that were made in consultation with informed parties.

Generally, however, it may be said that the accreditation option—if modeled on how it works for hospitals and universities—is the most expensive one that the panel considered. It most likely would be used in addition to the current HUD system, and most of its costs would fall on the local housing agency or private owner. As Table 1 shows, the extra costs would be associated with the broader goals and standards-setting mechanism; self-study and peer review processes; and strengthened internal quality-assurance systems. To cover them, HUD would either have to reimburse assisted housing providers, or the providers would have to find new revenues or cut other costs.

By comparison, the current HUD system is relatively low-cost on a per-property basis. HUD pays most of its costs directly. HUD's system has fewer components (cost factors) than accreditation; some of the omitted ones are the most costly.

The private services alternative (associated with a small, professional review team) is probably more costly than the HUD system in most cases. However, it is considerably less than the more expansive accreditation approach. These costs would fall directly on the individual housing provider. Some of them (such as financial audits) are already required as part of customary good management practice. In the future, housing providers are likely to experience increased costs for this type of service as performance-based, and increasingly accountable, management practices are the expected norm.

POTENTIAL FOR OTHER APPROACHES TO FILL GAPS IN HUD'S CURRENT APPROACH

As outlined above, the other approaches to monitoring and overseeing HUD-assisted housing have a variety of advantages and disadvantages. The advantages include the potential to fill the gaps between the current HUD system and the characteristics of a good quality-assurance system identified in this study. Table 2 summarizes the principal advantages and disadvantages of these approaches.

The potential that these other approaches have for filling the gaps in HUD's current system are summarized below in three groups that are most relevant to public housing industry's concerns: (1) building consensus on goals and standards; (2) fostering assistance for continuous improvement and capacity building; and (3) providing regulatory relief.

Building Consensus on Goals and Standards

Consensus on the goals and assessment standards for a quality-assurance system is a key component of the accreditation and performance based models. Building consensus is clearly a matter of pursuing effective consultations with all of the affected parties in order to reach a substantial amount of agreement. If put on a tight timetable, this consensus-building process may not necessarily reach a successful conclusion.

Two main types of consensus are needed in HUD's assisted housing programs:

- agreement on the disputed parts of the REAC assessment standards—particularly the physical assessment standards and the financial assessment standards
- agreement on the outcome goals, assessment standards, and performance measures that are becoming part of HUD's strategic plan, annual performance plan, and performance budget

TABLE 2 SUMMARY EVALUATION OF APPROACHES EXAMINED		
APPROACHES*	ADVANTAGES	DISADVANTAGES
(1) Current HUD System	<ul style="list-style-type: none"> ■ Produces broad national statistics ■ Relatively inexpensive ■ Most costs borne by HUD ■ Includes enforcement and recovery mechanisms (HUD's approach is the only one that does this.) 	<ul style="list-style-type: none"> ■ Burdensome for some PHAs ■ Inadequate acceptance of goals and standards ■ Incomplete involvement in making assessments ■ No self-assessment, or peer-review ■ Too little emphasis on quality assurance by providers
(2) Accreditation Models	<ul style="list-style-type: none"> ■ Emphasizes self-assessment, peer-review, and broad involvement in making assessments ■ Rests on widely accepted industry-wide goals and standards ■ Provides a visible certification of good practices 	<ul style="list-style-type: none"> ■ Expensive (includes several costly elements not found in HUD's approach) ■ Requires an inclusive and independent goals and standard-setting organization (not currently available)
(3) Performance Based Models <ul style="list-style-type: none"> ■ GPRA ■ Performance Contracting 	<ul style="list-style-type: none"> ■ GPRA process is designed to establish and track visible performance goals and targets ■ GPRA is tied to both budget and reauthorization ■ Growing use of performance contracts by HUD 	<ul style="list-style-type: none"> ■ Weak involvement of stakeholders by HUD in establishing performance goals ■ Weak use of outcome-oriented management by HUD
(4) Local Review and Monitoring Models <ul style="list-style-type: none"> ■ Devolution ■ Self-Assessment 	<ul style="list-style-type: none"> ■ May reduce HUD workloads by having others do more ■ Gives housing providers greater flexibility to perform better ■ Focuses responsibility for self-improvement on housing providers 	<ul style="list-style-type: none"> ■ HUD capacity to hold housing providers accountable for outcome-oriented performance is weak ■ Potential danger of creating unfunded mandates
(5) Private Contractor Model	<ul style="list-style-type: none"> ■ A well known, frequently used practice (for some types of assessments) ■ Generally affordable 	<ul style="list-style-type: none"> ■ More available for financial audits and physical inspections than for other types of assessments ■ Goals and standards not well established except for financial assessments ■ Needs independent quality control
(6) Other Models Hybrids of 1-5	<ul style="list-style-type: none"> ■ Various 	<ul style="list-style-type: none"> ■ Various

* The numbered approaches in this table are those named in Section 563 of QHWRA. The bulletted approaches are panel interpretations of the numbered approaches. Where there are no bullets, the QHWRA and panel approaches are the same.

Assessment Standards

Regarding consensus building for assisted-housing assessment system standards, HUD could convene a Housing Quality Board of HUD and industry members. The board could be responsible for developing agreement on the performance goals for well run HUD-assisted housing providers that are consistent with federal legislation. HUD also could charge the board with developing widespread agreement on housing quality assessment standards that measure the performance of organizations that administer HUD-assisted housing programs.

There is a great deal of experience with standard setting in regulatory and non-regulatory settings. Strong industry representation on these decision-making boards is common. It is used to ensure that the board taps the experience and expertise of the whole industry; develops support for the standards once they are adopted; and updates the standards as conditions change. This collegial approach contrasts sharply with the more insular process for adopting the new standards that HUD is currently using.

There are two principal options for creating such a board. First, the board could be statutory, with authority to make its own decisions, through perhaps with concurrence by Congress or HUD. Second, it could be established as an advisory committee within HUD under the jurisdiction of the Federal Advisory Committee Act (FACA). Either the secretary or a regulatory provision could grant the committee a degree of independence, or it could develop it by consistent practice over time.

A variation on the statutory approach could be to make this a governmentwide board. Such a body would have the authority to set standards for use by HUD, the Department of Veterans' Affairs, USDA, the Department of Defense (DoD) and other federal agencies that rely on such standards in their housing assistance programs. The concept of joint industry-federal membership on the board would be the same as in the HUD-only case described above. However, multiple federal agencies would have a seat, and the board would be established as an independent agency. This option would have the advantage of managing all federal expenditures for affordable housing according to commonly accepted goals and standards.

GPRA encourages this governmentwide approach. However, there could be a significant delay in implementing this approach because of the additional parties involved within the Executive Branch, in Congress, and among the interest groups. Therefore, it might be best to start with the HUD-only option and then see whether it could or should be broadened.

Outcome Goals, Assessment Standards, and Performance Measures

Although the basic framework of goals for HUD's assisted housing programs are contained in legislation, they are constantly being translated into more specific operational forms by regulations and guidance. Also, some are revised from time to time by statutes. The GPRA planning, budgeting, and reporting processes are designed to bring multiparty consultations to bear on this activity. Those con-

sultations are to reach from Congress, through the agency, to the parties affected by the programs. The consultation elements of HUD's GPRA process are still embryonic; they should be further developed in the housing program area.

Fostering Assistance for Continuous Improvement and Capacity Building

Many resources are available or could be made available to enhance the ability of HUD-assisted housing providers to do their jobs better. These resources could use a performance-based approach to help move providers from troubled to standard status, or from standard status to high-performer status. Or resources could be used to prevent providers from falling to a lower performance level. Several examples follow.

Peer Reviews

Under contract with HUD, NAHRO currently provides peer-to-peer visits to assist troubled PHAs. This program could be expanded to near-troubled PHAs or could help high performers to keep improving.

Benchmarking

It may be worthwhile to consider applying the HouseMark program to this country. It provides financial, human resource, and other types of comparative data now, and it is being expanded to include additional types of information. The concept of the system is to allow system members to benchmark their practices against each other as a self-improvement tool.

Training

IREM, NCHM, NAHRO, and many universities currently have considerable training and education resources that include professional certifications in some cases. These resources promote professional growth within the staff of organizations that provide affordable housing. If HUD used these in a more focused way, it could help advance departmental program initiatives in a more timely and smoother manner.

Independent Management Assessments

Private organizations such as S&P and Moody's have developed new protocols to perform management assessments of PHAs. Also, IPAs are providing assessment services that go beyond the bounds of financial audits. If tied closely to HUD's program concerns, these assessments could help PHAs meet HUD requirements more effectively and efficiently.

Self-Assessments

Without having to go to the extra expense of being ISO-audited and registered, organizations that manage HUD-assisted housing could use ISO quality improvement standards to guide their self-improvement programs. They also should participate in HUD's strategic planning process. In doing so, they could learn from the experience and influence HUD's goals and strategies.

Technical Assistance

As needs arise, strengthened HUD field offices could provide greater technical assistance and individual help to their program delivery partners. In addition, HUD could consider more systematic and continuous university relationships to expand the research, training, and data resources for its housing program partners. Other federal agencies have made extensive use of this approach to enhance their programs. For example, USDA, the Department of Transportation, and the Economic Development Agency have extensive formal relationships with university research centers nationwide that provide training, statistics, research, and learning opportunities for the industries they serve.

Providing Regulatory Relief

HUD has a long tradition of strong regulatory control over its housing programs and especially over the traditional public housing program. This control has been reinforced by the intense scrutiny these programs have received from congressional committees, GAO, and HUD's Inspector General. This situation has created a considerable barrier to regulatory relief and devolution. However, some steps toward regulatory relief have been taken and they should be expanded. Several examples of them follow.

Devolution

The MTW program is exploring ways to introduce program flexibility and regulatory streamlining into traditional HUD programs. As it is implemented, it is being evaluated in order to learn systematically from the demonstration. This experiment in devolution bears watching. If this experimental program is successful, HUD could expand it to a larger number of its program delivery partners.

Streamlined Procedures

Streamlined administrative procedures offer potential for reducing the burdens of managing HUD-assisted housing programs. Some progress has been made on this front by converting programs to formula entitlements and developing computerized application and reporting systems. More progress should be expected along these lines. However, it will need to be carefully supported and monitored by HUD, the industry, and Congress to make sure it is smoothly implemented. That means using appropriate formats and adequate automated system capability, and providing the necessary technical assistance to HUD field personnel and housing providers to enable them to participate in these initiatives effectively and efficiently.

Less frequent formal assessments by HUD also have a strong potential for relieving regulatory burdens. This is feasible for standard and high performers with adequate internal quality-assurance programs, or the ability to contract for appropriate outside audits of their financial and management systems. For some time periods, these approaches would substitute for direct HUD assessments. For this to work well, HUD may have to recognize the private contractors that would be authorized to certify providers' compliance with HUD requirements. The Coast Guard uses such a system in its oversight of the shipbuilding industry.¹⁰¹

HUD-assisted housing providers could reduce their administrative burdens by contracting with other providers with greater experience and expertise in complying with HUD's program requirements. Private owners frequently follow this path by hiring experienced housing management firms that specialize in HUD programs. Also, small PHAs sometimes contract with nearby larger ones to do these tasks for them. HUD could facilitate these practices.

FINDINGS

The Academy panel has identified three findings related to approaches other than HUD's current quality assurance system. (Findings 10-12).

FINDING 10. None of the other approaches examined included all of the key characteristics of a good quality-assurance system or the HUD regulatory functions.

None of the other approaches include all of the characteristics. Also, none of them can accommodate the regulatory functions that HUD must exercise in order to discharge its responsibility for spending federal funds in accordance with law and current standards of good practice. Thus, none of the other approaches that were considered could substitute for HUD's core mission.

FINDING 11. All of the other approaches that were considered have characteristics which, if used appropriately, could supplement and improve the current HUD system.

- **Accreditation.** Accreditation and accreditation-like systems include 8 of the 14 characteristics of a good quality-assurance system, the same number as HUD's system, but a somewhat different set of characteristics. Four characteristics—widely agreed-upon standards and procedures, self-assessment and continuous improvement, and peer review/site visits—are absent from HUD's current system. Accreditation also includes community and resident involvement, which is absent from the HUD system. The international quality standards (known as ISO) emphasize internal quality assurance, another weakness of HUD's system. However, none of the accreditation models includes the physical and financial reviews comparable to those in HUD's system. Nor do they include any recovery and enforcement characteristics, two major elements of HUD's system.
- **Private Services.** Models examined in this area include 7 of the 14 characteristics. One model includes peer review, which is not in the HUD system. There was substantial overlap in the private models' ability to conduct financial and management audits similar to those that HUD performs now. Some private companies have also developed, or are developing, a physical inspection capacity comparable to HUD's system.

- **Devolution.** The devolution models examined include 8 of the 14 characteristics of a good quality-assurance system. Several—physical and financial inspections, scoring, recovery, and enforcement—overlap HUD’s system. This is partly because several of the examined devolution models are HUD-administered models. Using GPRA to support a performance-based form of devolution could combine HUD’s regulatory responsibilities with increased responsibility for its partners.
- **Self-Assessment.** Self-assessment models include 6 of the 14 characteristics, depending on which model was being examined. Several models include characteristics that are not found in HUD’s system, including widespread agreement on standards and procedures, self-assessment, and peer reviews.

FINDING 12. The other approaches to quality assurance that this report examines could help HUD tailor its approach more fully to the different HUD-assisted housing programs and providers.

There already are considerable differences in how HUD oversees and monitors its three main housing assistance programs. The different political and market conditions that apply to them as well as the different cultures of the HUD offices that administer them contribute to these differences in oversight and monitoring.

However, there are additional needs for tailoring the quality assurance system to the needs of specific HUD-assisted housing programs and providers. For each program, it also is prudent to reassess how much monitoring and oversight is necessary. For example, would it be better to catch 90 percent of the problems with an affordable, non-burdensome monitoring and oversight system, or 99 percent with an unaffordable and overly burdensome one?

Table 3 summarizes (in bold type) how the elements of the current monitoring and oversight systems vary among the three main HUD-assisted housing programs described in Chapter 3. It also indicates (in regular type) how the additional elements and practices described in this chapter might be added to each program to help fill the gaps identified in HUD’s current system. Some additions are hypothesized illustratively in all three programs based upon on the preliminary analyses in this study; more are suggested for the public housing program than in the two Section 8 programs.

Four of the additional elements suggested for consideration in Table 3 are similar for all three programs. First is the improved use of outcome management practices, which derives from GPRA requirements and applies to all three programs (see the first non-bold bullet in the table under HUD’s Current System). Second is the establishment of a Housing Quality Board. It would help HUD and the industry develop broader acceptance for the goals and standards by which the performance of housing providers are evaluated (see the last bullet for each program in the table under the Accreditation approach). Third is HUD’s use of private assessment firms to perform assessments in lieu of its own assessment

mechanisms (see the final bullet for each program in the table under the Private Services approach). Finally, HUD could place increased reliance on the housing providers' internal quality-assurance plans and practices (see the last bullet for each program in the table under the Self-Evaluation approach).

The panel emphasizes that adding new finely tailored components should be approached carefully, in consultation with affected housing providers, residents, and community representatives. The scope of this study did not permit the full development of this important notion of tailoring HUD's monitoring and oversight system.

TABLE 3
TAILORING OVERSIGHT SYSTEM ELEMENTS TO HUD PROGRAMS
(Bold = In Place; Regular type = Potential Element)

APPROACHES	PUBLIC HOUSING	SECTION 8 PROJECT	SECTION 8 TENANT
(1) HUD's Current System	<ul style="list-style-type: none"> ■ Physical Assessment ■ Financial Assessment ■ Management Assessment ■ Resident Assessment ■ TARC Help for Troubled PHAs ■ Regulatory Enforcement ■ Improve Use of Outcome Management ■ Extend Assistance to Borderline PHAs ■ Simplify Regulations ■ Upgrade PIH Administrative Capacity ■ Upgrade HUD's Technical Assistance 	<ul style="list-style-type: none"> ■ Physical Assessment ■ Financial Assessment ■ Resident Assessment ■ Office of Housing help for Deficient Private Providers ■ Regulatory Enforcement ■ Improve Use of Outcome Management 	<ul style="list-style-type: none"> ■ Financial Assessment ■ PHA Assessment of Private Providers ■ PIH help for PHAs with deficient programs ■ Regulatory Enforcement ■ Improve Use of Outcome Management
(2) Accreditation	<ul style="list-style-type: none"> ■ ISO Registration Option for Large PHAs ■ Require Stakeholder Participation in Assessments ■ Establish a Standards Board 	<ul style="list-style-type: none"> ■ Establish a Standards Board 	<ul style="list-style-type: none"> ■ Establish a Standards Board
(3) Private Services	<ul style="list-style-type: none"> ■ IPA financial audits ■ Standard & Poor's PHA Evaluations (potentially Moody's also) ■ NAHRO Peer Assistance to Troubled PHAs ■ Use Private Assessment Firms 	<ul style="list-style-type: none"> ■ IPA Financial Audits ■ IREM "Accreditation" ■ Use Private Assessment Firms 	<ul style="list-style-type: none"> ■ IPA Financial Audits ■ Use Private Assessment Firms
(4) Devolution	<ul style="list-style-type: none"> ■ Formula Grants to PHAs ■ MTW Pilots ■ Expanded Use of MTW ■ Block Grants (community control) ■ Outcomes Management Demonstration (accountability for performance) 	<ul style="list-style-type: none"> ■ SHA Administration of Contracts with Private Providers 	<ul style="list-style-type: none"> ■ PHA Administered Assessments of Private Providers
(5) Self-Evaluation	<ul style="list-style-type: none"> ■ Voluntary ■ Require Self-Evaluations ■ Require Peer Review ■ Recommend Use of ISO Guidelines ■ Internal Quality Assurance Plan 	<ul style="list-style-type: none"> ■ Internal Quality Assurance Plan 	<ul style="list-style-type: none"> ■ PHA Self-Certification ■ Internal Quality Assurance Plan

CHAPTER

5

Conclusions and Recommendations

By correcting long-standing weaknesses over the last three years, HUD has undertaken a massive effort to improve its quality-assurance system for HUD-assisted housing. This investment to improve the performance of assisted housing providers and the department's ability to hold them accountable for providing decent, safe, and sanitary housing is noteworthy. The new organizations and systems have consolidated operations, streamlined HUD's internal procedures, and produced improved data on the status of HUD-assisted housing and its providers.

The scores from the assessment tools are now official for both multifamily housing and public housing providers. But HUD's new system is still evolving. Providers of HUD-assisted housing, especially the PHAs, continue to raise questions about its reliability and credibility. Considering the number of unresolved concerns within the public housing community, the Academy panel initially believed that the scores should remain advisory until the operational concerns were resolved. However, on July 1, 2000, HUD decided that scores produced by its system would be official. Consequently, the Academy panel believes that there is an even greater urgency for HUD to resolve the outstanding issues in order to improve the system's operational capacity and its credibility among assisted housing providers.

Despite HUD's large investment in its new system, the panel also believes that HUD needs to be open to looking at other quality-assurance approaches to supplement a modified version of its own system for assessing assisted housing providers. Both HUD and its assisted housing providers need a well-functioning quality-assurance system. Its goals need to reflect the outcomes that HUD and its housing providers are trying to achieve, and the methods of assessment need to be compatible with all parties' needs and capabilities.

Perhaps even more important than the issues related to the system's design, HUD and the public housing industry also must address issues related to their working relationship. HUD and PHAs are both governmental entities—one fed-

eral, one local—and they both are responsible and accountable to elected officials for achieving the goals of the nation’s public housing programs. Therefore, their relationship should take on more attributes of a partnership, responsible for working together to seek continual improvement in the operations of those programs. The panel believes that continual improvement requires an inclusive process. All of the affected parties must have the opportunity to be at the table, heard, and have their views seriously considered in the decisionmaking process. The panel understands that HUD and the public housing industry have different perspectives about the subject of their relationship. But it strongly believes that if HUD does not change how it works with the public housing industry, it will perpetuate a hostile, regulatory relationship with PHAs that can only diminish the opportunities for quality improvement in public housing.

RECOMMENDATION 1: A Modified Approach

HUD should continue to modify its current quality-assurance system for HUD-assisted housing programs, and should move toward a hybrid approach. The approach should blend elements of HUD’s current system with those of other approaches so that all the characteristics of a good quality-assurance system are incorporated without increasing the burdens on HUD-assisted housing providers.¹⁰² Reducing existing burdens in the monitoring and oversight system should be an important goal in modifying HUD’s system.

The purpose of the recommended modifications is to ensure accountable performance by housing providers without excessive oversight or intervention in their operations, as well as to promote continuous improvement in HUD’s assisted housing programs. The elements of a good quality-assurance system that are absent from HUD’s system are:

- widespread agreement on the system’s goals and standards
- the use of self-assessment and peer-review processes to motivate continuous improvement processes within housing provider organizations
- use of internal quality-assurance processes by housing providers
- provisions for community and resident involvement in developing and implementing improvements

In consultation with all of the affected parties, HUD should proceed to refine and modify its current quality-assurance system for the public and assisted housing programs along three paths—operational, systemic, and governance. Initiatives in these areas can begin concurrently. Because all future assessment scores for PHAs, as well as private housing providers, will be official (not advisory), and because there is still significant controversy within the public housing community about the credibility and accuracy of those scores, HUD should give top priority to incorporating these changes into its system.

RECOMMENDATION 2: Operational Improvements

HUD, in consultation with all of the affected parties, should make the following urgent refinements to its new quality assurance system. The modifications should be made in an open consultative environment where all parties have access to information about the changes. The modifications also should be thoroughly tested.

HUD recognizes that its new quality-assurance system needs improvement. It has taken steps to correct many problems, and has expressed its willingness to make additional modifications. Although the system is evolving, HUD now is giving official assessment scores to both PHAs and assisted private housing providers. In this situation, the department now needs to ensure that its new quality-assurance system is fair and accurate, and that HUD and its assisted housing providers can administer it effectively. The following five modifications are needed:

- **Finalize and implement the appeals process for PHAs.**¹⁰³ PHAs have reported enough disputes about advisory Public Housing Assessment System (PHAS) scores to support the need for a readily available and timely appeals process that begins at the local level. As of August 2000, the department was actively developing an appeals process for PHAs that would establish local review boards in each PIH hub; however, it was not yet fully operational. Now that PHAS scores are official, the need for such a fully functioning appeals process is even more acute. The department should move quickly to establish local review boards in each of its hubs, disseminate to HUD and its partners information on the appeals processes and procedures that must be followed, and train review-board members to execute their responsibilities. HUD also should establish a quality control mechanism to ensure that the review boards are effectively carrying out their responsibilities.
- **Enhance HUD's capacity to administer the system.**¹⁰⁴ Many PHAs, private providers, and accounting firms have had difficulty communicating in a timely, effective way with REAC and other HUD housing program offices by phone and electronically. HUD is taking steps to address these problems. These essential communications problems should be remedied as quickly as possible to avoid the additional time and costs they cause housing providers, and to avoid any improper penalties for assisted housing providers and unnecessary appeals. In addition, HUD should empower its field offices to be more reliable and effective as partners and as initial points of contact for public and private housing providers.
- **Upgrade the capacity of housing providers.**¹⁰⁵ The public and private providers that HUD assists—the department's program delivery partners—need current program information, training opportunities, improved computer capacity, and software upgrades to remain capable of working effectively and efficiently with HUD. Delays in making these tools available create frustrations, present barriers to effective and efficient implementation of HUD programs, and may unfairly reduce housing providers' scores.

- **Continue refinement of assessment tools.**¹⁰⁶ HUD has been refining numerous aspects of its four assessment tools to address problems that it and its partners have identified. These refinements should continue in consultation with all affected parties in order to improve industry, residents, and community support for the tools. This will require HUD to expand discussions beyond definitions of deficiencies so that they include an examination of the formula factors that convert inspection findings into official scores.¹⁰⁷ HUD also should consider adding a fair housing assessment element to the management assessment subsystems for the public housing and Section 8 tenant-based programs. It could be based on the protocols that PIH and multifamily field staffs use when they perform on-site assessments. Elements for assessing compliance with requirements for accommodating persons with disabilities and conserving energy should also be considered. In addition, REAC should amend the inspection protocol by adding a step where HUD would consult with housing providers before it issues an official score. This would allow housing providers and HUD to resolve any misunderstandings, correct obvious errors without overburdening the appeals system, and place identified deficiencies within the context of the provider's own improvement plans and priorities. Unscheduled diversion of resources into lower priority activities would be avoided.
- **Retain existing distinctions in current assessment practices among the three assisted housing programs.**¹⁰⁸ The distinctions in monitoring and overseeing HUD's three main assisted housing programs should be retained. These distinctions accommodate the programs' unique histories, features, and clientele. Any additional distinctions that can be agreed on quickly in order to facilitate implementation should be made in consultation with all of the affected parties.

RECOMMENDATION 3: Systemic Improvements

HUD should redesign the following aspects of its new quality-assurance system for assisted housing in order to achieve greater simplicity and flexibility and to increase its focus on outcomes.

- **Conduct an effective consultation process that is consistent with the principles cited in Chapter 2 to reassess and agree upon the outcomes that the assessment system should measure.**¹⁰⁹ Inadequate agreement on goals and standards of the current system has perpetuated much of the resistance to implementing it. Long-term modifications to HUD's current system should flow from broader agreements between HUD and its partners about the desired outcomes. Those agreed-upon outcomes—dealing perhaps with quality of living units, safety of residents, and similar goals—should form the basis for what the quality-assurance system is designed to measure. Except where statutory requirements provide no discretion, HUD should pursue collaborative decisionmaking with all of the affected parties making joint decisions.

- **Provide flexible, tailored approaches to quality assurance.**¹¹⁰ HUD should allow housing providers to use other approaches for evaluating their performance as long as they measure the broad outcome goals discussed above and meet HUD's assessment standards. This flexibility would allow for different assessment approaches for different types of housing providers based upon their size, type, and performance status. Assessment approaches may combine elements of HUD's new quality-assurance system and other approaches identified in Chapter 4. To the extent practical, HUD should allow housing providers to choose other assessment mechanisms, including approved private services, to measure their progress toward achieving the agreed-upon outcome goals. HUD also should identify barriers to flexibility and initiate regulatory and statutory revisions to reduce them.
- **Approve the use of private services.**¹¹¹ The department should approve the use of private assessment services that use HUD approved assessment standards, subject to departmental audits, in lieu of HUD assessments. An array of approved private services would allow housing providers to choose services that best match their program needs and resource constraints.
- **Reduce data collection requirements to alleviate administrative burdens.**¹¹² HUD should reduce its data collection and reporting requirements for assisted housing providers to include only the information needed for management and program evaluation purposes or for reporting to residents and others.
- **Enhance flexibility at the local level to achieve outcome goals.**¹¹³ HUD should use existing federal block grants, demonstration programs, and waiver provisions as models for modifying HUD's public housing programs. The objective should be to transfer substantial flexibility and discretion over the use of funds for legislatively authorized purposes to state and local housing agencies that have a record of administering HUD programs responsibly. QHWR already provides for some of this flexibility via the fungible use of capital and operating funds. HUD should take full advantage of these provisions and look for other avenues to increase flexibility and authority at the local level. HUD should use streamlined monitoring and oversight mechanisms to hold local officials accountable for meeting performance goals that are clearly outlined in performance contracts and legislation. Increased flexibility in how to comply with statutory requirements—including those in civil rights and fair housing laws—should not relieve HUD-assisted housing providers of their responsibilities to comply with these statutory requirements.
- **Manage PHAs through performance contracts.**¹¹⁴ HUD should use an outcome management approach to improve its relationship with PHAs as well as to improve their performance. Using this approach, HUD and PHAs should jointly identify outcome-oriented performance goals and measures that are consistent with provisions in GPRA, negotiate the terms of their working relationships, and incorporate these agreements into their performance con-

tracts. HUD should initiate the regulatory and statutory revisions that are necessary to provide the flexibility that is needed to support effective performance contracts.

- **Extend special assistance to near-troubled housing.**¹¹⁵ HUD should provide special technical and/or financial assistance where it is needed to prevent housing providers from becoming troubled in the first place or from returning to troubled status.
- **Enhance HUD staff capacity.**¹¹⁶ HUD should assess its staff capacity to implement the new quality-assurance system and allocate appropriately skilled staff as needed. This effort also should focus on enhancing HUD's capacity to provide technical assistance to assisted housing providers. The resource estimation study HUD is pursuing should be able to identify where revised staff allocations are needed. HUD also should initiate a program for staff exchanges between PIH and PHA employees under the Intergovernmental Personnel Act. This would enhance staff knowledge and skill and promote greater understanding of respective roles and viewpoints.

RECOMMENDATION 4: Governance Improvements

HUD should actively seek to improve its relationship with the assisted housing industry and the public housing industry, in particular, by transforming its style of governance from a regulatory and enforcement approach to a more balanced approach that is based on consultation and, where appropriate, collaboration.¹¹⁷ To do so, HUD should initiate the following:

- **Housing Quality Board.**¹¹⁸ Using the authority under the Federal Advisory Committee Act (FACA), the secretary of HUD should create a Housing Quality Board with the primary responsibility of advising HUD on: (1) performance goals for assisted housing providers; (2) goals for the quality-assurance system for HUD-assisted housing; (3) assessment standards for measuring the performance of assisted housing providers; and (4) alternative procedures for implementing the assessment standards. HUD also could assign the board broad responsibilities for advising the department on issues of deregulation, inconsistencies in regulatory requirements, and initiatives to promote continuous performance improvement. Such a board should have balanced representation from public and private landlords, the industry groups that represent them, and the residents who are being served. The secretary should establish the board in consultation with the groups represented.
- **Consultative Rulemaking.**¹¹⁹ The current regulatory process gives HUD's partners and stakeholders an opportunity to comment on proposed regulations that affect HUD-assisted housing programs. In some instances, Congress also has required negotiated rulemaking between HUD and the industry. The Academy panel believes that HUD should use an effective con-

sultation approach, as defined in Finding 2, to involve the affected public and private landlords and residents early in the development of future regulations for HUD-assisted housing programs. Consulting with the industry and residents during the development of regulations should reduce the number of comments and/or opposition to regulatory proposals. The time spent on the consultative process in the early part of the rulemaking process likely would be offset by the reduced time that is needed later to deal with industry and other stakeholder concerns. And the resulting rules are likely to be more appropriate and more workable.

- **Resident and Landlord Role in Assessments.**¹²⁰ In consultation with all of the affected parties, HUD should establish a meaningful role for public and private landlords and residents in HUD's process for assessing the quality of the provided housing services.
- **Regular Meetings between HUD and Residents of HUD-Assisted Housing.**¹²¹ HUD should hold regular meetings with residents to give the department the opportunity to hear residents' concerns directly and give residents the opportunity to hear directly from the department. Such meetings, some of which have been held with promising results, should involve HUD field office and headquarters program staff. Also, they should be held regionally periodically to make them more accessible to residents.

The panel believes that HUD cannot achieve an effective, well-run quality-assurance system for its assisted housing programs without a more effective working relationship with the assisted housing industry. Improved working relationships are needed to raise the credibility of the assessment tools being used, reduce the system's administrative burden, and better align the goals with the outcomes that well-run assisted housing providers are trying to achieve. Failing this, the industry and HUD will continue to have unproductive confrontations over the assessment scores produced by HUD's new quality assurance system.

The panel recognizes the importance of HUD's regulatory role and its fiduciary responsibility to ensure that the federal funds entrusted to the department are spent in accordance with laws and regulations. In addition, the panel recognizes that regulation and enforcement are essential components of HUD's quality-assurance system for assisted housing providers. But the panel also believes that regulation and enforcement should not be the primary means of conducting daily business with partners and stakeholders. These legalistic approaches imply that the relationship between HUD and its partners is one way—HUD directs and assisted housing providers comply. This is not consistent with the fact that PHAs are instrumentalities of state and local governments. As such, they are components of the federal system of government and should be treated as partners rather than simply as contractors. A partnership between HUD and PHAs can create an environment more conducive to meeting the current challenges that confront the assisted housing community. It also is more effective in building trust and goodwill of housing providers whose work is essential to meeting HUD's goals for assisted housing.

To create a better environment where HUD and its partners can both succeed, HUD should redirect its normal way of doing business toward one that relies much more heavily on effective consultation with the housing providers it assists. HUD's relationship with PHAs needs to transcend a contractual and regulatory approach to one that accepts PHAs as partners in HUD's mission to provide decent, safe, and sanitary housing to low and moderate income people. To change this relationship, HUD needs to increase the level and quality of its consultations with the public housing industry and, in instances where there is no statutory prohibition, to reach decisions collaboratively.

ENDNOTES

1. National Academy of Public Administration, *Interim Report: Evaluating Methods for Monitoring and Improving HUD-Assisted Housing Programs*, June 2000 (<http://www.napawash.org/napa/hudinterim2000.pdf>).
2. GAO/RCED-97-27, January, 1997—*Public Housing: HUD Should Improve the Usefulness and Accuracy of its Management Assessment Program*; HUD Office of the Inspector General Audit Related Memorandum No. 96-PR-101-0801, dated July 1, 1996, *Limited Review of the Public Housing Management Assessment Program*. These reviews found that existing public housing oversight mechanisms were unreliable and inaccurate. GAO/RCED-99-217, July, 1999—*Multifamily Housing: HUD Missed Opportunities to Reduce Costs on its Uninsured Section 8 Portfolio*, found that HUD did not have adequate information on the physical and financial condition of its uninsured portfolio. Problems in the multifamily area have also been identified in several HUD Office of the Inspector General Audit reports (99-FO-177-0003, 98-FO-131-0003, 98-FO-177-0004) which made findings on inadequate monitoring, risk assessment, and physical and financial inspections.
3. In HUD's view, the Academy has not placed sufficient emphasis on the extent to which the historical context of past deficiencies and criticisms impelled HUD to take rapid and decisive action to dramatically improve the housing monitoring system. HUD's views on these historical factors are reproduced in Appendix D.
4. Paraphrased from the mission statement of the department's Real Estate Assessment Center (REAC).
5. HUD, *MRP 2020*, p. 15.
6. www.napawash.org/napa/HUDinterim2000.pdf. See also Chapter 3 of this *Final Report*.
7. HUD does not agree that characteristics 1-4 are necessary components of a good quality-assurance system. It also comments that the peer-review and independent management review characteristics (characteristics # 3 and #7) would not be consistent with the private competitive business environment in which the Section 8 project-based program operates. See Appendix D.
8. Derived from John D. Donahue, *The Privatization Decision: Public Ends, Private Means* (Basic Books, 1989), p. 7.
9. See P.L. 104-4 and OMB Memorandum for the Heads of Executive Departments and Agencies, M-95-09, March 31, 1995.
10. HUD commented that, because Congress has taken no action on these proposals, they should not be included in this report.
11. The MTW program is described on page 32 of the *Interim Report*: <http://www.napawash.org/napa/hudinterim2000.pdf>.
12. The version as of November 2000 excludes the public housing program.

13. National Academy of Public Administration, *Interim Report: Evaluating Methods for Monitoring and Improving HUD-Assisted Housing Programs*, June 2000, pages 5-6 (<http://www.napawash.org/napa/hudinterim2000.pdf>)
14. See Appendix D.
15. *Renewing HUD: A Long Agenda for Effective Performance*, National Academy of Public Administration, July, 1994, page 14.
16. *The Transformation of Governance: Globalization, Devolution, and the Role of Government*, June 1-3, 2000, prepared by Donald F. Kettl, Professor of Public Affairs and Political Science, University of Wisconsin-Madison and Nonresident Senior Fellow, Brookings Institution.
17. *GPRA in HUD, Changes for the Better*, National Academy of Public Administration, July 1999.
18. *GPRA in HUD*, *op. cit.* p 26.
19. *Ibid.* page 34.
20. *The Transformation of Government*, *op. cit.* Pages 12-13.
21. National Academy of Public Administration, *Rural Transportation Consultation Processes*, May 26, 2000, Washington, D.C.
22. Referred to by some as “enhanced rule making.”
23. Thomas Peters and Robert H. Waterman, *In Search of Excellence*, reissue edition (New York: Warner Books, 1988).
24. H. James Harrington, with James S. Harrington, *Total Improvement Management: The Next Generation in Performance Improvement* (New York: McGraw-Hill, 1995).
25. ISO 9000 is discussed in Chapter 4.
26. National Civic League, *All-America City Award 2000: Application and Instructions*, pp. 8-11.
27. U.S. Advisory Commission on Intergovernmental Relations, *Citizen Participation in the American Federal System* (Washington, DC: U.S. Government Printing Office, 1980).
28. ACIR, *Citizen Participation*, p. 72.
29. More recently, an inventory of public involvement techniques prepared for the Federal Highway Administration and the Federal Transit Administration found a similar number of techniques in use in the transportation field. See Howard/Stein-Hudson Associates, Inc., and Parsons, Brinkerhoff, Quade & Douglas, *Public Involvement Techniques for Transportation Decision-Making*, prepared for the Federal Highway Administration and the Federal Transit Administration (Washington, DC: U.S. Department of Transportation, 1996).
30. ACIR, *Citizen Participation*, p. 12.
31. ACIR, *Citizen Participation*, pp. 14-15.
32. ACIR, *Planning to Govern* (Washington, DC: ACIR, September 1994), pp. iii-iv. The points cited here are condensed and paraphrased.
33. Howard/Stein-Hudson, et al, *op. cit.* p. iii.
34. Committee on Public Involvement in Transportation, The Transportation Research Board, *Assessing the Effectiveness of Project-Based Public Involvement Processes: A Self-Assessment Tool for Practitioners* (www.ch2m.com/trb_pi).
35. Steven A Smith, *Guidebook for Transportation Corridor Studies: A Process for Effective Decision-Making*, NCHRP Report 435 (Washington, DC: Transportation Research Board, 1999), pp. 5-19.
36. Merriam Webster’s Collegiate Dictionary, Tenth Edition, 1995
37. National Academy of Public Administration, *Rural Transportation Consultation Processes*, May 26, 2000, Washington, D.C.
38. The U.S. Housing Act of 1937, which created the federal public housing program, provided for capital funding to localities to build affordable housing units.
39. *Interim Report*, pages 30-32.
40. Mary K. Nenno, *Ending the Stalemate: Moving Housing and Urban Development into the Mainstream of America’s Future*, University Press of America, Lanham MD, 1996.
41. *A Report to the Congress and the Secretary of Housing and Urban Development*, August, 1992.

42. HUD believes that the panel's report places too much emphasis on the need for consultation compared to the need for HUD action to ensure the quality of the housing that HUD helps to provide. HUD also believes that the panel's assessment of relationships with the housing industry is not balanced. See Appendix D.
43. The system to assess the Section 8 tenant-based program has been totally revised and was not scheduled for implementation until the end of June 2000. It is not included in this analysis.
44. A more complete description of HUD's current system is provided in Chapter 4 of the Academy's *Interim Report*: <http://www.napawash.org/napa/hudinterim2000.pdf>.
45. In limited instances, state housing agencies administer the Section 8 tenant-based program.
46. After the first (baseline) year, these physical inspections may be annual or at a more frequent or less frequent interval, depending on the quality of the inspected properties.
47. Based on its own detailed analysis of UPCS, PHADA believes that the new protocol is sufficiently expanded and more stringent as to constitute a new standard, not just a quantification of HQS. See PHADA's comments in Appendix D.
48. PIH field office also may require standard performing PHAs that score above 70 to submit an improvement plan based on risk based criteria that is developed by the hub/program center. In general, this would be the exception, not the rule.
49. Because PHAS was advisory until July 1, 2000, HUD used PHMAP scores to refer PHAs to the TARCs until then.
50. HUD commented that PIH has many good relationships with PHAs and does not perceive any general adversarial condition. See Appendix D for additional PIH views on this subject.
51. HUD disagrees with this conclusion. See Appendix D.
52. Section 501 of QHWRRA gives as an objective, "to vest in public housing agencies that perform well, the maximum amount of responsibility and flexibility in program administration, with appropriate accountability to public housing residents, localities, and the general public."
53. See discussion in Chapter 2.
54. GAO/RCED-00-168, "HUD Housing Portfolios: HUD has strengthened Physical Inspections but needs to resolve concerns about their reliability." page 28.
55. The effectiveness of HUD consultations continues to be a point of contention between HUD and PHADA. See Appendix D.
56. HUD comments that PHAs are unlikely to make "irrational repair decisions" based on PHAS scores. See Appendix D.
57. This number was accurate at the time the Academy staff completed its data collection. A HUD official advises that there are now 56 inspectable items.
58. The Academy panel did not attempt to determine whether the weights and criticality factors for each element in the system were appropriate. That level of effort was beyond the study scope and resources. Such determinations should be made in consultation with the industry.
59. GAO/RCED-00-168, *op.cit.*
60. GAO/RCED-00-168, *op.cit.*
61. For more information on MTW, see page 32 of the *Interim Report*. <http://www.napawash.org/napa/hudinterim2000.pdf>.
62. Senator Wayne Allard (CO) has circulated a discussion draft of legislation calling for a number of reforms in HUD programs. The major changes are listed in Chapter 1. Among them is a state housing block grant proposal which would provide states the option to receive certain federal housing funds in the form of a block grant. States accepted into the program would sign a five year performance agreement with the federal government that details how the state intends to combine and use housing assistance funds from programs included in the performance agreement to advance low income housing priorities, improve the quality of low income housing, reduce homelessness, and encourage economic opportunity and self-sufficiency.

63. In its October 1999 report entitled *Aligning Resources and Priorities at HUD: Designing a Resource Management System*, the Academy designed and recommended that HUD implement a resource management system to better define its resource needs. HUD has recently awarded a contract to implement the system.
64. For more information on the new centers, see pages 36-37 of the *Interim Report*. <http://www.napawash.org/napa/hudinterim2000.pdf>
65. *Interim Report*, p.78.
66. PHADA believes that, despite links between the previous physical condition standard (HQS) and HUD's new standard (UPCS), the new standard is significantly different and more stringent than the previous one. See PHADA comments in Appendix D.
67. Public housing industry concerns with HUD's assessment tools are discussed in Chapter 4 of the *Interim Report*: <http://www.napawash.org/napa/hudinterim2000.pdf>
68. GAO/RCED-00-168, *op. cit.*
69. An example from the Coast Guard ship safety program is provided in Chapter 4.
70. See Appendix D.
71. The requirements for PHA 5-year and annual plans and coordination with the CDBG Consolidated Plan are provisions in QHWRA.
72. PHAs receive a composite score derived from the scores produced by each of the four assessment tools. Private housing providers are scored by a less an inclusive set of assessment tools. The scores are discussed in greater detail in the *Interim Report*, pp. 46-47, and 49.
73. HUD officials informed Academy staff that the department currently is accepting appeals submitted after the allowable filing date.
74. There are three major areas that industry representatives would like to have removed from the assessment protocols: 1) non-PHA owned property, such as streets, sidewalks, and playgrounds that are not owned or maintained by the PHA; 2) property that is scheduled for modernization; and 3) areas where local codes conflict with HUD assessment standards such as requirements for child guards and means of egress.
75. *GPRA In HUD: Changes For The Better*, July 1999.
76. Refer to pages 76-80 of the Academy's *Interim Report* for more detailed information in this area. <http://www.napawash.org/napa/hudinterim2000.pdf>
77. See Appendix D.
78. Note that some PHAs in the MTW demonstration are not being assessed under PASS.
79. One of the problems in the MTW demonstration was the lack of a built-in evaluation component.
80. The unions believe HUD could manage the program more efficiently if the contract dollars were used to staff the hubs. Because of budget technicalities, however, HUD cannot use the contract funds for salaries. One private-owner group is concerned that the contract administrators will be more intrusive to its members than HUD, and that contract administration will be inconsistent from state to state.
81. *Aligning Resources and Priorities at HUD: Designing a Resource Management System*, October 1999.
82. HUD believes that this finding, and the analysis on which it is based, does not adequately recognize the improvements made in HUD's monitoring of quality in the housing it assists. See Appendix D.
83. HUD does not agree that characteristics 1-4 are necessary components of a good quality-assurance system. It also comments that the peer-review and independent management audit characteristics (characteristics #3 and # 7) would not be consistent with the private competitive business environment in which the Section 8 project-based program operates. See Appendix D.
84. While HUD has stated that it has now corrected the problems noted, PHA industry comments continue to disagree. See Appendix D for both views.
85. HUD advises that the appeals process is now in place. Appendix D.

86. HUD comments that its consultation has been extensive, and notes several points in the panel's report that describe the amount and results of these efforts. PHADA comments that much of the consultation undertaken by HUD was slow to materialize and resulted from legal and congressional pressures. See Appendix D.
87. A more complete description of accreditation is provided on pages 82-86 of the Academy's *Interim Report* (<http://www.napawash.org/napa/hudinterim2000.pdf>).
88. <http://www.napawash.org/napa/hudinterim2000.pdf>.
89. Chapter 7 of the Commission's report addresses this subject.
90. ISO is not an acronym for International Organization for Standardization but rather a derivation of the Greek word *Isis*, meaning "equal." (ISO web page, [Retrieved June 6, 2000] <http://www.iso.ch/infoe/intro.htm>)
91. ISO 9000 and 14000 are described in Appendix C and in the Academy's *Interim Report*.
92. See page 87 of the Academy's *Interim Report* for additional information on private services (<http://www.napawash.org/napa/hudinterim2000.pdf>).
93. The exceptions to this philosophy are for USCG's historically core responsibilities – fire fighting and life saving. The USCG believes there is not a great deal of expertise in these areas outside the agency.
94. <http://www.napawash.org/napa/hudinterim2000.pdf>.
95. See pages 88-89 of the Academy's *Interim Report* for more information on devolution. (<http://www.napawash.org/napa/hudinterim2000.pdf>)
96. These nine new block grants were: (1) Transit Capital and Operating Assistance; (2) Community Development States' Program; (3) Partnership for Educational Improvement; (4) Job Training Partnership Act; (5) Preventive Health and Health Services (replaced Partnership for Health); (6) Alcohol, Drug Abuse, and Mental Health Services; (7) Primary Care and Community Health Centers; (8) Maternal and Child Health Services; and (9) Low-Income Home Energy Assistance.
97. For additional information on the use of GPRA, see the Academy report, *GPRA in HUD, Changes for the Better*, issued in July 1999.
98. See pages 89-90 of the Academy's *Interim Report* for more detailed information on self-assessments. <http://www.napawash.org/napa/hudinterim2000.pdf>
99. CIH is the trade association representing local housing councils throughout Great Britain. These councils manage about 95 percent of all rental housing in Great Britain.
100. At current exchange rates, this range translates to \$2,500 to \$25,000.
101. Academy *Interim Report*, p. 92-93. <http://www.napawash.org/napa/hudinterim2000.pdf>
102. HUD believes that this recommendation tends to lose the fundamental point that HUD should build upon its current system, not start over. Comments from CLPHA and Reno & Cavanaugh argue that an independent accreditation process should be used instead of HUD's system, at least for PHAs that choose to do so. The views of the three organizations are reproduced in Appendix D.
103. HUD advises that the appeals process is now in place. See Appendix D.
104. HUD advises that it has added more servers to its computer cluster to solve its computer access problems, and will continue to do so as necessary. See Appendix D.
105. HUD advises that it has taken, and will continue to take, steps to upgrade the capacity of housing providers. See Appendix D.
106. HUD commented that it agrees with this recommendation, welcomes feedback on revising its protocols, and will consider adding a fair housing component to the assessment system. HUD believes that the current system already provides ample opportunity for housing providers to raise issues before their scores are finalized. See Appendix D. The Lawyers Committee on Civil Rights Under Law does not believe the panel's report sufficiently emphasizes the need for a civil rights and fair housing component. See Appendix D.
107. HUD commented that it may be willing to consider modifying the formula factors at a later time. See Appendix D.
108. HUD notes that significant changes in the assessment process for PHAs probably

- would require new legislation. It also notes that the peer reviews and independent management audits would be inconsistent with the private business environment in which the Section 8 project-based program operates. See Appendix D.
109. HUD does not believe that widespread agreement should be a condition for implementing needed reforms. See Appendix D.
110. HUD emphasizes the need for a single definition of “decent, safe, and sanitary” housing. See Appendix D.
111. HUD warns of introducing uncertainty and inconsistency by this means. See Appendix D.
112. HUD would welcome specific, justified suggestions. See Appendix D.
113. HUD does not believe that further devolution or deregulation would be wise at this time, and believes that such recommendations are beyond the scope of the study requested by Congress. HUD also warns that increased flexibility could increase the potential for civil rights violations. See Appendix D.
114. HUD stated that it will consider this recommendation, but notes its complexity and potential for creating administrative burdens. See Appendix D.
115. HUD advises that it already does this. See Appendix D.
116. HUD said that it is working on this. See Appendix D.
117. HUD commented that it is open to consulting with all relevant stakeholders, but has concerns about joint decisionmaking. See Appendix D.
118. HUD advises that it has already begun to implement this recommendation through the PHAS Advisory Committee. However, HUD cautions against expanding the responsibilities of the Housing Quality Board to the point that the time commitment required to serve on it would prohibit many potential members from being able to participate. See Appendix D.
119. HUD advises that it already pursues consultations beyond those required by the Administrative Procedures Act. See Appendix D.
120. HUD advises that it is proposing to expand these roles. See Appendix D. The Lawyers’ Committee for Civil Rights Under Law strongly supports meaningful roles for residents and advocates for residents in HUD’s monitoring system. See Appendix D.
121. HUD advises that it already attends such meetings. See Appendix D.

Appendix

Methodology and Interviews Conducted



METHODS USED	A-2
LIST OF INTERVIEWS, CONTACTS, AND FORUM PARTICIPANTS.....	A-4
U.S. Department of Housing and Urban Development.....	A-4
HUD Field Staff.....	A-6
Public Housing Providers, State Agencies, and Tenant Groups	A-7
City Officials	A-12
Private Housing Providers	A-12
Participants in Academy Conducted Forums.....	A-12
NAHRO Accreditation Task Force.....	A-14
U.S. Office of Management and Budget.....	A-14
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METHODOLOGY AND INTERVIEWS CONDUCTED

(Information reprinted from the *Interim Report*)

The following description of the study methods and interviews that were conducted are excerpted from Chapter 1 and Appendix B of the *Interim Report*. Where appropriate, the information has been updated.

METHODS USED

The Academy and HUD developed jointly the study workplan to ensure that the congressional mandates would be addressed in a manner that is fair to all parties. Academy staff discussed the workplan, including the scope of work, with staff of the relevant congressional committees, the General Accounting Office (GAO), the Office of Management and Budget (OMB), and other organizations. This was done to ensure that the methodology and areas of inquiry covered the concerns of all parties interested in this study.

The Academy's workplan posed three sets of research questions:

1. What are the criteria for determining the effectiveness of HUD's current processes for monitoring, auditing, reviewing, and sanctioning housing providers, and how do HUD's processes measure up against them?
2. What outcomes do HUD, housing agencies, and other providers of HUD-assisted housing seek? Who are the housing providers? How do HUD's current processes for monitoring, auditing, reviewing, and sanctioning different kinds of providers impact those outcomes? What changes in current processes would help HUD and providers of HUD-assisted housing accomplish their goals?
3. What systems, models, or approaches are relevant to evaluating and regulating the performance of HUD-assisted housing providers? What are their advantages and disadvantages? What are their relative costs?

To answer these questions, the Academy staff pursued the following tasks:

1. review and evaluate HUD's current oversight activities
2. identify and review performance management, assessment, and accreditation models in other industries and professions
3. consult with all groups specified in the legislation and other individuals and groups that might provide useful insights

To carry out these tasks, the Academy staff used five basic tools:

1. *Teams*. Academy staff were assigned to three teams to answer the three basic

study questions. The teams were dissolved during the evaluation phase, except for such additional data collection as became necessary.

2. *Forums.* An integral part of the research was forums conducted with national organizations and other interested parties. The Academy has considerable experience conducting forums. They have been a source of valuable information and advice in numerous Academy studies.
3. *Panel Meetings.* The Academy established a panel of Fellows knowledgeable in a variety of areas relating to the study to direct and oversee the work of the staff. The panel takes responsibility for the substantive recommendations, the quality of the work, and the study reports.
4. *Review and Analysis of Documents.* Academy staff obtained and reviewed documents and other information on HUD-assisted and other housing programs; HUD's operations with respect to HUD-assisted housing; and non-housing performance management, accreditation, and other relevant systems.
5. *Interviews.* Interviews conducted both inside and outside of HUD were a major element of this study's methodology. They were used to examine a broad range of activities and issues related to HUD-assisted housing programs and to collect descriptions, evaluations, audits, and other documentation related to this study's goals. Academy staff conducted interviews with:
 - selected national organizations and other interested parties who helped identify relevant program issues, facilitate data collection, and assist in selecting invitees to the forums
 - individuals, organizations, and federal agencies familiar with non-housing models of accreditation and other methods of program evaluation
 - program administrators in HUD field offices; PHAs and other housing managers and providers; representatives of state and local governments; representatives of tenant groups; and private real estate owners and managers who are familiar with or actively engaged with HUD-assisted housing programs

Academy staff conducted over 100 interviews in Washington, DC and 18 other cities across the country.¹ In addition, staff conducted 22 interviews in HUD headquarters and 28 interviews with other interested parties, including GAO, OMB, the Urban Institute, housing interest groups, and others. Representatives of other cities and groups participated in forums conducted by Academy staff in Washington, DC and in the field. All major geographic areas of the country were represented in the interviews and consultations. In both interviews and forums, Academy staff included tenants and tenant representatives.

1. Cities and states visited, along with individuals interviewed, are detailed in the second part of this Appendix.

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Conducted*

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Appendix

B

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PANEL

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IREM ACCREDITATION PROCESS

The Institute of Real Estate Management (IREM) is over 60 years old. Its goals and missions are to educate, certify, serve, and enhance organizations and individuals in the real estate management business. IREM's goals are accomplished by recognition of organizations and individuals through the Accredited Management Organization (AMO), Certified Property Manager (CPM), and Accredited Residential Manager (ARM) programs. These programs to recognize excellence in real estate business are described below.

Accredited Management Organization

The AMO sets the industry “standard” for identifying the best companies in the real estate management business and “is the only recognition given to real estate management firms.”¹ To achieve the AMO designation, a company must meet high standards of integrity and commitment to professionalism, combined with education and experience. The requirements for obtaining this designation include demonstrating business stability, having a CPM professional in charge, and carrying adequate insurance. To continue its AMO designation, a company must maintain high operating, financial, and ethical standards. IREM maintains and monitors a formal Code of Ethics. A fee and reference letters must be submitted with the application as part of the approval process.

The AMO “certification” applies to a company and any offices that are under the control of the main office. The company must be approved by the local Chapter and the National AMO committee. Remaining in the AMO program requires reaccreditation every three years and paying annual dues for the firm and each of its offices.

Certified Property Manager

The Certified Property Manager (CPM) designation recognizes highly qualified real estate management professionals. A company seeking AMO status must be led by a CPM.

A CPM candidate must submit an application and fee, provide a copy of a real estate license (or certify the state does not require one), have a high school diploma and 12 months of management experience, currently be in the real estate management business, be approved by the local IREM chapter, and serve a candidacy period of at least 1 year but less than 10 years.

The applicant must take required IREM classes during the candidacy period, earn a specified number of credits, pass the CPM Certification Examination, prepare a management plan, and acquire a specified amount of experience. Credit can also be earned for ARM experience, continuing education from other specified organizations, formal college education, and certain designations from other real estate organizations.

1 From the IREM brochure “AMO: The Mark of Distinction Among Real Estate Management Firms,” May 1994.

In addition to the requirements discussed above, the candidate also must be a member of or affiliated with a local board of Realtors, approved by the local IREM chapter, subscribe to the CPM Code of Professional Ethics, and be current with all national and chapter service fees.

The incentives for individuals to become CPM “certified” include higher earnings, better employment opportunities, recognition, networking opportunities, and legislative advocacy. A CPM professional also may receive discounts on tuition and publications, an industry employment bulletin, reports, and opportunities to attend IREM meetings.

Accredited Residential Manager

The Accredited Residential Manager (ARM) program recognizes successful residential managers who meet criteria set by IREM. This recognition has benefits and requirements similar to the CPM program, but they are fewer in number. The requirements are limited to completing an application, submitting fees and references, being of voting age, having a high school diploma, submitting experience and narrative report forms, receiving local IREM chapter or ARM committee approval, passing the ARM exam, completing required courses, and performing or supervising residential management functions.

Costs

The costs for the various programs within IREM generally include an application fee, annual membership dues for realtor associations, IREM membership dues, real estate license fees, course registration fees, and exam fees. The AMO program also includes insurance requirements and a financial review.

The AMO designation can range in cost from under \$1000 for a company that meets insurance requirements, only has one office, and has a CPM, to over \$5000 for a large company starting with none of these conditions. The CPM program can range from \$3700 to \$4000, and can vary due to local IREM chapter dues and courses taken. The ARM is the least expensive IREM program; it costs approximately \$800.

INTERNATIONAL ORGANIZATION FOR STANDARDIZATION (ISO) ACCREDITATION

ISO² standards are developed voluntarily to help unify national and international guidelines for sound management practices. They also exist to facilitate international trade by providing assurances around the globe that companies doing business are reliable. The standards are developed by consensus on an industry-specific level.

Many ISO standards are technical guidelines that detail specifications for products about which the members are agreed. However, both the ISO 9000 and 14000 series focus on management systems within an organization (quality man-

2 ISO is not an acronym for International Organization for Standardization but rather a derivation of the Greek word *Isis*, meaning “equal.” (ISO web page, [Retrieved June 6, 2000] <http://www.iso.ch/infoe/intro.htm>).

agement systems and environmental management systems, respectively). A “series” is a group of standards that are related to a specific topic. They also are referred to as a “family” of standards.

The structures and concepts of the 9000 and 14000 series are similar. Each is composed of standards that fall under two main categories. The first category is conformance or specification standards that organizations must follow to obtain ISO registration. The second category is guidance that describes how to develop and implement the management systems described in the standards. The basic idea is that ISO-registered organizations will have developed, installed, and committed to relying on sound management systems to ensure quality results and compliance with applicable regulations. Demonstrating these competencies to ISO-accredited auditors is required to become ISO-registered. However, ISO registration neither ensures nor constitutes actual regulatory compliance.

ISO standards help organization improve fundamental processes, quality management systems, service quality, consistency of quality, and conformance with requirements. In the HUD-assisted housing context, the organizations using the ISO standards (and seeking ISO registration) would be state, local, and private housing providers.

To become ISO-certified, organizations must follow an extensive self-evaluation that carefully documents their systems and brings them into conformance with recognized standards of good practice. Meeting ISO’s minimum standards can upgrade an organization’s efficiency and quality, and can help it to satisfy applicable government regulations. Many companies (governments) use ISO-trained consultants to guide them through this certification process.

Internal management audits are required as part of the ISO 9000 certification. Management audits conducted by an outside company or registrar who provides the certification also are required. ISO 9000 audits focus on developing and implementing quality assurance systems. If they are performed, external audits conducted between suppliers and purchasers are included in the above management audits.

The relevance of ISO 14000 to HUD-assisted housing providers is not primarily the environmental content of the standards. Rather, it is the illustrative value of showing how management systems can be developed to meet regulatory requirements. Housing regulations, comparable to environmental regulations in number and complexity, require special management systems to ensure compliance.

ISO Certification Processes

The American National Standards Institute (ANSI) and the American Society for Quality Control’s Registrar Accreditation Board (RAB), jointly, are the ISO accreditation body in the United States. ANSI/RAB operates the National Accreditation Program (NAP) that (1) accredits organizations to register conformance with ISO standards (both 9000 and 14000) (2) accredits auditor training course providers, and (3) processes registrar applications.

An outside ISO audit is conducted when a company seeks certification. The audit will look at documentation to support specific clauses of the standard and application of the quality system within the company. Certification lasts approximately three years, with scheduled reevaluation and surveillance visits for ISO 9000 standards. Companies also may self-declare that they are conforming to ISO 14001, but that does not constitute certification.

Certification of Management Auditors

To ensure the integrity of ISO standards, the registration system is applied uniformly and consistently “worldwide in its certifying and auditing activities.”³ Companies are certified by ANSI-RAB accredited registrars, who are certified by the International Register of Certification Auditors.⁴

Applicability to the HUD-Assisted Housing Industry

PHAs and private housing management firms are free to use and adapt ISO standards and guidelines as the basis for improving their management systems for quality assurance and regulatory compliance. When doing so, they would have three immediate options:

They could simply benefit from the management improvements that result from a commitment to ISO standards and processes, which is likely to result in higher scores on HUD assessments.

They could self-certify as to having met ISO standards; that they are using good practices in order to provide greater assurance to their policy boards, tenants, the public, and HUD.

They could seek official ISO registration through established registrars in order to add weight to their quality and compliance assurances.

A fourth option that would take an industrywide effort would be to develop an industry-specific ISO series for the assisted-housing industry, and to establish specialized assisted-housing registrars. This might have much in common with the Standard & Poor’s or Moody’s public housing evaluation services and something in common with the IREM housing management accreditation service. The difference might be to add an internationally accepted regimen of self-evaluation and systems improvement, plus a formal registration mechanism. ISO offers a certain level of existing standards and processes upon which to build a housing accreditation approach.

Costs

The ISO process adds costs to the costs of regulation. The costs for companies associated with regulations can include actions taken to develop, install, or improve the management systems that are needed to comply with ISO standards,

3 Goetsch, David L. and Stanley B. Davis. (1998). *Understanding and Implementing ISO 9000 and ISO Standards*. Prentice Hall: Upper Saddle River, New Jersey. p. 187.

4 *Ibid*, p. 126.

including staff time associated with these activities and with the ISO audit process. The costs associated with ISO audits can include costs for data collection and documentation that are needed for review, time necessary to conduct the audit, and implementation of the audit recommendations.

The self-audit will also require training and education of personnel. An ISO audit also can incur additional costs such as selection and hiring of a registrar, new procedures or changes in organizational structure to correct problem areas identified by the audit, surveillance visits, and re-audits.

It may be difficult to estimate the costs for each option discussed above. Variations that can affect the cost include size and type of the organization, whether a management system is already in place, and whether the organization is registering for ISO 9000 and 14000 simultaneously. Estimates of certification audits can vary between \$25,000 and \$500,000, but commonly range from \$80,000 to \$100,000.⁵ Cost estimates for other parts of the process (which may be considerably more expensive than the certification audits) are not readily available.

HOUSEMARK BENCHMARKING TOOL

HouseMark is a privately developed computer system in Great Britain that provides management and benchmarking services to housing organizations to help them achieve continuous improvement. This system is a joint effort between the Chartered Institute of Housing of Great Britain (CIH)⁶ and the Arthur Andersen Company, a global management consulting firm. It is in the early stages of implementation in Great Britain, and is now being marketed for adaptation and use in other countries.

HouseMark services are Internet based and include benchmarking with rental housing provider organizations that voluntarily subscribe to the service and contribute their own data to the system. Subscribers also provide examples of good practices, process-maps for important housing activities, discussion groups, references to housing related websites, and advice. Participation in this service is used for self-improvement.

The HouseMark services are a form of self-assessment where a housing organization makes improvements based on benchmarking information with others in the industry.

The process for using HouseMark services includes signing up, paying an annual fee, specifying the number of benchmarking fields it will participate in, and choosing a level of confidentiality. Then, a kick-off meeting with HouseMark consultants identifies benchmarking methodology and starts the data collection.

5 Parry, Pam. (2000). *The Bottom Line: How to Build a Business Case for ISO 14001*. St. Lucie Press: Washington, D.C. p. 58.

6 CIH is the trade association representing local housing councils throughout Great Britain. These councils manage about 95 percent of all the rental housing in the nation.

The subscriber's data is uploaded to the HouseMark website for validation and input to the database. The subscribing organization then can choose which group it wishes to benchmark itself against.

After the subscribing organization runs this benchmarking analysis against what it believes to be its most similar peer group, it may consider taking the necessary actions to improve or develop service areas where deficiencies have been identified. Each action can be examined using modeling features provided in the system, and by reviewing the system's good practice database and process maps.

Subscribers can compare the performance measures with government and other standards. The number of information categories in the system is expanding as more organizations use HouseMark's services and as needs are identified.⁷ The usefulness of benchmarking housing providers against each other will increase as the popularity of this service grows with more subscribers.

The information gathered for HouseMark services can be used by a variety of personnel within a housing organization including strategic managers, operational managers, front line staff, board or committee members, representatives of tenants, and other housing service users.

One of the many advantages of using HouseMark's services is the convenience of quick modeling of proposed changes, which is displayed in a clear and simple format. The modeling capability allows a subscribing organization to compare costs, resources, and performance to help it avoid costly mistakes during implementation of a new or modified practice. The benchmarking and good practice examples in the system can be used as a basis for proposing such changes.

The online aspect of HouseMark's services also allows a subscriber to search for something specific on the website and to participate in continuous dialogues among housing officials through the "bulletin board" feature. The website also has links to other relevant websites, as well as current information and news concerning housing officials.

The cost of HouseMark services is the annual subscription fee, which depends on the amount of housing the organization manages. This fee ranges from £1,750 to £17,250 (British pounds).⁸ Although, the current number of subscribers (approximately 140) is small and the benchmarking topics are limited, both of these limitations are expected to be overcome in the near future, as the system becomes more fully implemented. Currently, most subscribers are in Great Britain because HouseMark began there. However, there is potential for it to migrate to other countries and to gain worldwide use and recognition.

7 For example, they are planning to include housing repairs, benefits benchmarking, and resident feedback.

8 At current exchange rates, this range translates to \$2,500 to \$25,000.

STANDARD & POOR'S PHA EVALUATIONS

Standard & Poor's (S&P) Ratings Services is a large provider of credit analysis and information that rates conventional-term debt and general-obligation corporate and municipal bonds. Their letter-grade ratings symbols of credit quality are well recognized. Determined through a rigorous, defined ratings process, they provide important benefits to borrowers and investors alike.

Standard & Poor's Public Housing Authority Evaluation Program evaluates the ability of PHAs to accomplish their individual mandates to provide affordable housing. Standard & Poor's rating service applies analytical capabilities and expertise to evaluate the overall performance of public housing authorities.⁹ Areas reviewed for the PHA evaluations include management, operations, portfolio assessment, and financial management.

Standard & Poor's provides PHA evaluation services through local and national models. Services under the local model include an in-depth assessment of individual PHAs. The national model that is being considered for development would provide accumulated data for a comparative analysis of PHA performance. The analysis could be viewed over the Internet.

Standard & Poor's evaluation of housing authorities falls under the private services approach, and it is not required. However, its benefits include using the evaluation results as a management tool to identify organizational strengths and challenges and make improvements to carry out housing mandates. Another benefit is the establishment of industry benchmarks based on comparisons with other PHAs. The services can also be used for strategic planning, development of alternative funding sources, and preparation for the capital markets.

The costs associated with S&P evaluation services include document and information gathering prior to the first meeting, the contract with S&P for private services, reviewing the final evaluation, and making evaluation-based improvements.

MOODY'S PHA EVALUATIONS

Moody's is a global credit rating company that publishes credit opinions, research, and ratings on fixed-income securities, and issues securities and other credit obligations. They also provide a broad range of business and financial information and publish investor-oriented credit research.

Moody's has developed a tailored approach to providing ratings for quality management in PHAs as a response to current legislation. The factors examined for determining a rating for housing providers are based on organizational management, portfolio composition; condition and performance; financial management; and operational management. Moody's also analyzes the PHA's history in

⁹ This information is from Standard & Poor's website, [Retrieved September 14, 2000] <http://www.standardpoor.com/ratings>.

administering HUD and other governmental funds for managing public housing, the revenue sources outside of HUD, entrepreneurial activities, and the use of project-based budgeting and private sector real estate management practices.

Moody's services fall under the private services approach for PHAs. The benefits from these private services include the use of results as an internal management or external relationship tool by housing authorities. The costs for these services are similar to those for S&P. They include preparation and document gathering, the private contract with Moody's for services, reviewing the final evaluation and rating, and making evaluation-based improvements.

NATIONAL CENTER FOR HOUSING MANAGEMENT (NCHM) SERVICES

The National Center for Housing Management (NCHM) offers a wide selection of courses and consulting services targeted for housing management companies and public housing agencies. NCHM's services cover conventional, affordable and public housing management topics through courses in occupancy, housing and maintenance management, budgeting, housing quality standards, fair housing, tax credits, drug and alcohol reduction, and rural rental housing. NCHM offers a variety of certification programs that cover these topics. Each program consists of a one to three day course. The programs offered include:

- Registered Housing Manager (RHM) (2 days, and management review)
- Certified Occupancy Specialist (COS) (1 day)
- Site Based Budgeting Specialist (SBBS) (3 days)
- Certified Manager of Maintenance (CMM) (3 days)
- Certified Manager of Housing (CHM) (3 days)
- Certified Financial Manager (CFM)
- Senior Housing Specialist (SHS) (3 days)
- Fair Housing Essentials (FHE) (1 day)
- Housing Quality Standards (HQS) (2 days)
- Tax Credit Specialist (TCS) (3 days)
- Certified Manager of Occupancy (CMO) (3 days)

NCHM's training and certification offering are part of the private services approach. NCHM programs provide an opportunity for organizations to customize training and professional development services.

In general, the length of the course determines its cost. The price is less for those already certified in one or more of the programs. The overall range for each program is \$225 to \$575, with the exception of RHM, which costs \$520 in addition to four other required courses. Annual dues for membership to NCHM are also required.

NATIONAL ASSOCIATION OF HOUSING REDEVELOPMENT OFFICIALS SERVICES

The National Association of Housing and Redevelopment Officials (NAHRO) is a professional membership organization that advocates adequate and affordable housing, particularly for families and individuals with low and moderate-incomes. Members include individuals and public housing and redevelopment agencies. NAHRO's current membership includes over 9,500 housing and community development agencies and public officials throughout the United States who administer a variety of affordable housing and community development programs at the local level.¹⁰

To promote the goal of adequate and affordable housing, NAHRO provides seminars, certification, and technical services programs. The training and certification are recognized industrywide by employers, colleagues and staff, tenants and owners, housing service providers and vendors, and the general public.

Certifications offered by NAHRO include Public Housing Manager, Section 8 Housing Manager, and Senior Professional Housing Manager designations. Seminars on major topics can be taken individually or as part of a certification process.

The training provided by NAHRO falls under the private services approach. It is designed to increase the qualifications of professionals industrywide. NAHRO also provides peer review of housing agencies that have fallen below HUD's performance standards. These peer review services are part of the self-assessment approach. NAHRO's services are designed to be used throughout the public-sector housing industry, and may be useful to high and low performing housing authorities alike.

The benefits of NAHRO services include establishing professional standards, helping its members to understand and influence HUD legislation, and promoting the sharing of experience among housing and community development agencies.

The costs of NAHRO seminars and certifications vary depending on early or regular registration and member status. Costs for exams and hotel accommodations are additional. Seminars for each certification may be registered for individually or all together, including the exam. Individual seminars range from \$210 to \$725. The certification seminars range from \$715 to \$1,160.

¹⁰ From NAHRO's website at www.nahro.org.

NON-HOUSING ACCREDITATION PROCESSES

Descriptions of
Certain Other
Approaches to
Housing Quality
Assurance

Hospitals

Under Medicare, hospitals are *deemed* eligible by statute to receive Medicare reimbursements, provided that they are accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). Hospitals also have the option of becoming eligible for participation in Medicare by meeting the Department of Health and Human Services (HHS) standards—known as “conditions of participation”—in lieu of JCAHO accreditation. Approximately 2,000 of the 7,000 participating hospitals have taken the direct route through the department; most are smaller, rural hospitals.

Other non-hospital Medicare providers such as home health care agencies, medical labs, and hospices, do not enjoy statutory eligibility in law. In those cases, the secretary of HHS may accord this eligibility status to organizations that achieve authorized accreditation. The secretary does so when there is equivalence between the accrediting body’s process and the department’s own “conditions of participation.” This gives the secretary considerable leverage and influence over the evaluative standards these groups adopt.¹¹

With respect to the Medicare program, accreditation can be summarized as follows:

- For the federal government, because of the statutory deeming clause, accreditation is very important with respect to hospitals. For the hospitals themselves, it is important for several reasons besides Medicare eligibility. Accreditation was around long before Medicare first came onto the scene in 1965, and there is little doubt that hospitals would seek accreditation in the absence of Medicare or any other public program.
- The importance of accreditation with respect to non-hospital providers (in particular, medical labs and home health care agencies) varies. It is important to some to some providers and much less to others.
- Accreditation plays no role in non-deeming areas (specifically, in nursing homes where the secretary does not have deeming authority), or in areas where the deeming authority exists, but has yet to be extended.

Colleges and Universities

Title IV of the *Higher Education Act of 1965*, as amended, establishes a three-part system, or “triad,” of quality controls for institutions participating in the Title IV program: state licensure of institutions, third-party accreditation, and secretarial/departmental approval.¹² All three elements must be in place for an institution’s students to be eligible to receive student financial aid under Title IV. The triad weakens the traditional power of the private accrediting bodies. It came

¹¹ In some cases, there is adamant opposition to the secretary’s discretionary authority to approve these accreditation bodies. Nursing homes are a case in point. Opposition stems, primarily, from states that argue that their quality standards are higher than federal standards.

about in the 1990s because of federal policymakers' dissatisfaction with the perceived stubbornness of the accrediting bodies. There remains an ongoing tension in this regard between the Department of Education (ED) and the regional higher education accrediting bodies.

ED employs a Federal Advisory Committee (FAC) to advise the secretary on whether an accrediting body meets the department's/secretary's promulgated standards and should, therefore, be accepted by the secretary. Many bodies have difficulty meeting the standards because of a "separate and independent" requirement – the accrediting bodies must be separate and apart from the institutions they evaluate for accreditation.

The cost of accreditation to the department is small; ten individuals run the entire program. Yet, the cost to the higher education community is huge, with an estimated 50,000 to 60,000 individuals involved in the accreditation process. Activities range from making site visits to serving on accreditation boards.¹³ Without question, the private accreditation process and the FAC do the "heavy lifting" for the department. It is unknown how much is actually financed by federal funds.

Similarities Between Health and Education Accreditations

Two similarities between private accreditation in higher education and Medicare are both striking and important. First, like the accreditation of hospitals, the accreditation in higher education preceded Title IV by decades. And institutions of higher education would most likely make extensive use of accreditation in the absence of any federal requirement. Second, both operate on a "triad-like" basis, with complementary (even redundant) components.¹⁴ Even in the case of Medicare, where the statute explicitly deems compliance with HHS regulations if a hospital receives JCAHO accreditation, the secretary has other direct and indirect ways to exercise quality control over hospitals. In the case of higher education, by controlling which accrediting bodies are "recognized" (approved), the secretary of ED has substantial control over the Title IV program. And his/her authority does not stop there. Separate and apart from the accreditation component of the triad, the secretary also must find colleges and universities eligible and certified to participate. Thus, the existence of and reliance on private, independent accreditation bodies does not eliminate a prominent role for the agencies statutorily responsible to Congress and the American people. To the contrary, HHS and ED are, ultimately, very much in control.

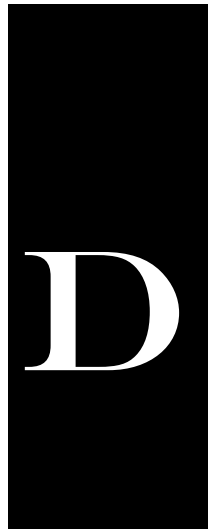
12 Accreditation does not play a role in K-12 education because it remains predominantly a state responsibility.

13 Source: Council for Higher Education Accreditation.

14 The formality of the triad in higher education is less evident in Medicare, but it is there in practice nevertheless.

Appendix

Comments



INTRODUCTION.....	D-2
HUD Letter and Comments (November 20, 2000)	D-
Office of the Inspector General, U.S. Department of Housing and Urban Development (November 13, 2000)*	D-
Council of Large Public Housing Authorities (CLPHA)	D-
Lawyer’s Committee for Civil Rights Under Law	D-
National Association of Housing and Redevelopment Officials (NAHRO)	D-
Public Housing Authorities Directors Association (PHADA)	D-
Reno & Cavanaugh, PLLC	D-

NOTE: All Page numbers referred to in the comments reproduced in this Appendix D refer to pages in the *Draft Final Report: Evaluating Methods for Monitoring and Improving the Performance of HUD-Assisted Housing Programs* dated October 2000, not to page numbers in this December 2000 final version of the report.

*This letter was not available at the time the Advanced Copy of the Final Report was printed. It has been added here, but is not reflected elsewhere in the report.

INTRODUCTION

During the formal comment period for the draft of this final report, HUD and five other parties provided written comments to the Academy. The five other parties are:

- Council of Large Public Housing Authorities
- Lawyers' Committee for Civil Rights Under Law
- National Association of Housing and Redevelopment Officials
- Public Housing Authorities Directors Association
- Reno & Cavanaugh, PLLC, Attorneys at Law

The comments from all parties are reproduced in this Appendix. In addition, they have been reflected at appropriate points throughout the panel's report.

Two types of comments were made. Some are technical corrections, including updated information. Others are substantive views of the organization providing the comments. The technical corrections have been made where appropriate in the report. The substantive views of the organizations have been noted at appropriate points in the Executive Summary and the body of the report.

Following are summaries of the substantive views received and brief responses.

Comments from HUD

HUD's comments are very extensive. They are reproduced in full, except for the report, *New Standards for a New Century*, which HUD attached to its comments. The Executive Summary of that report is included in this appendix, and the full report may be found on the Internet at <http://www.hud.gov/pressrel/proo-307.html>.

HUD's comments include seven main points, and a number of other technical corrections and points which were keyed to specific pages. This summary responds to HUD's seven main points.

1. Points of Agreement

HUD agrees that its current housing monitoring system demonstrates that the department is moving in the right direction, is committed to improving the quality of the housing that it assists, is responsible for this function as one of its essential missions, and must exercise its inherently governmental responsibilities in this regard even if other models are used to supplement its efforts.

2. Although both procedural and substantive issues are important, the draft report focuses too heavily on issues of process.

Consultation with industry groups is the key focus of this disagreement. HUD believes that procedural issues such as consultation “should not overshadow the more important question of whether HUD’s monitoring systems are substantively sound.” HUD is concerned about the potential for long-lasting impasses with the industry that could delay or prevent needed reforms, and stresses the need for HUD to ultimately be able to break such impasses.

The panel sees the substantive and procedural issues to be intertwined, and equally important. Effective consultations are important to reaching agreement about workable substantive standards and processes, and important to their smooth implementation. Obviously, statutory requirements must be met by all parties involved in the programs, and final decisions must be made by HUD. However, all that can be accomplished more effectively with consultations than without.

3. *The report should clarify the limitations of the Academy’s review.*

In HUD’s view, the Academy’s study is not “a detailed substantive analysis of the protocols used to inspect the physical condition of HUD-assisted housing and the financial viability of housing providers or of the systems HUD uses to assess the management of and resident satisfaction with public housing.” Although neither QHWRA nor the Academy’s contract with HUD call for that type of study, HUD believes it is important for the panel’s report to recognize this limitation. HUD also criticizes the Academy’s study team for inadequate contact with REAC and inadequate investigation of its protocols.

The panel disagrees with HUD on these matters. Members of the study team met with REAC officials on several occasions. A lengthy meeting with several REAC officials involved in developing the assessment protocols was held in Washington near the end of the study to clarify many points and to be updated on the implementation of the system. Although HUD’s system was still evolving when the Academy study was concluding, making it difficult for the study team to stay current, Academy staff maintained contact with REAC staff throughout the study to exchange information by phone, fax, and e-mail about the specifics of the protocols. The study team placed heavy emphasis on the physical condition and financial scoring systems. A detailed explanation of REAC’s physical condition assessment protocol was published in Appendix E of the panel’s *Interim Report*. The study team is confident that it understands the essentials of REAC’s protocols.

The study team, however, did not assess the appropriateness, significance, and reliability of each measure included in the PHAS protocols. The panel believes that those technical details should be a matter for the technical experts in HUD and the industry to determine through consultations. That is generally how standards are set in accreditation systems, and the panel believes that is how they should be set in the housing industry.

4. *HUD does not agree with the criteria the report employs to assess the adequacy of HUD's monitoring systems.*

More specifically, HUD does not believe that the first four of the Academy's 14 characteristics of a good quality-assurance system are necessary. The panel has noted these disagreements in the report as HUD requested.

- HUD equates "mutually agreed upon outcomes and procedures" with giving veto power to outside parties.
- HUD equates "self-assessment" with "self-certification," which is a very different concept. The panel agrees that self-certification has had a bad track record in the housing field, but believes that self-assessment (which is described in the report as a full and fair multiparty, participatory learning experience) has a good track record. In fact, it is one of the most valuable parts of the accreditation process.
- HUD questions the value of onsite peer reviews as part of assessing the quality of a housing complex. These reviews are an essential component of accreditation processes. They bring qualified "peers" (who would generally be top officials of other PHAs) onto the premises of the PHA being evaluated to discuss current circumstances and explore potential improvements that could be made. An outside perspective such as this can be invaluable. This practice provides a much different order of help than an "inspector" can provide. As part of the troubled agency recovery program HUD uses this practice to help some troubled PHAs work their way out of trouble, but this practice plays no role in the HUD assessment systems.
- HUD did not elaborate on its objection to the use of internal quality-assurance procedures. The panel suggests that HUD examine the Coast Guard procedure for round-the-clock quality control of shipboard safety, which has replaced annual inspections to everyone's benefit in terms of lower costs and higher levels of safety.

The difference in the number of characteristics discussed in the panel's interim and final reports reflects the consultative and research-informed methods by which the characteristics were developed. Industry representatives in the consultation process and the Academy's research on other models of monitoring systems provided strong resources for refining the list of characteristics.

5. *The draft final report lacks the essential historical and contextual information necessary to enable the reader to understand the dramatic improvements that HUD has made to its monitoring system in recent years.*

The panel recognizes the historical and contextual points that HUD makes, and has described them briefly in this report. The panel appreciates HUD's additional elaboration in its comments, which are reproduced in this Appendix.

6. *The discussion of HUD's relationships with industry is not balanced.*

HUD criticizes the report for giving more attention to its relationship with the public housing industry rather than to the private multifamily industry. This is a natural result of the need to devote more attention to problems, for which remedies are needed, than to relationships that are relatively problem-free.

The panel agrees that relationships are two-way streets, and says so in the report. That point may deserve additional emphasis. Both sides in a relationship must want to improve the relationship if it is to have a chance to flourish. The panel appreciates HUD's elaboration on the importance of these relationships (including relationships with residents), and examples of where they are being improved.

7. *The draft report seeks to reopen a debate on the devolution of federal housing programs that Congress just recently resolved.*

The issue of devolution was introduced into the Academy's study by the mandate in Section 563 of QHWA, which calls for an examination of "local review models" as one of the four types of alternatives to the HUD assessment systems. In order to operationalize the concept of "local review models," the panel defined it as having two parts: devolution and self-assessment. To the extent that devolution occurs, it changes the nature of the monitoring and assessment, and transfers some of the monitoring and assessment responsibility to the PHAs and/or local governments. Although devolution of monitoring responsibilities is the focus in this study, it is difficult to separate this from the devolution of programs themselves.

Comments from CLPHA and Reno & Cavanaugh

Comments from both of these organizations make a strong case for using an independent accreditation process as a substitute for HUD's current system, at least for those PHAs that choose to take that path. As they point out, federal government programs for financing health care and college loans make use of industry-sponsored accreditation processes using industry-approved standards. Final determination of eligibility for federal financial aid rests with the federal government in problematic cases.

The panel points out, however, that the accreditation processes relied upon by the federal agencies in these two cases were pre-existing and well respected long before the federal programs were enacted. Creating an accreditation process is no small feat. It takes both time and money. Despite many years of discussion about accreditation for PHAs, there is presently no such process comparable to those in the health care and higher education fields, and sources for financing a housing accreditation process have not been identified. The comments suggest using the federal funding now devoted to HUD's housing monitoring system and reducing the current costs now imposed on PHAs for complying with and conforming to HUD's current system so that PHAs would be able to afford to pay the costs of a private accreditation system.

The comments fault the panel's study for inadequate financial analysis of the private accreditation model. The study of accreditation costs referred to in the comments was available to the study team and is referred to in the reports. However, they deal only with the costs of running the accreditation board, which represent only a small portion of the costs of the whole system. The study team was unable to find reliable cost data for estimating the full costs of a complete accreditation system. Such figures are highly disaggregated, and would have required more time and effort to collect and analyze than was available. It may well be, as the comments suggest, that a private accreditation system could be financed for the same amount, or less, than is now being spent on the current system by HUD and the PHAs combined. However, it was not possible for the study team to determine whether that is correct within the time available.

In the panel's view, a new accreditation system for publicly assisted housing providers would require legislation to establish a viable accreditation board and provide financial support. The existence of the current HUD system, the fact that it contains the essential components of a sound system, and the potentials identified for improving the current system using features of accreditation systems, led the panel to believe it is more feasible to build on what already exists than to start over.

The study team devoted more time and effort to evaluating accreditation than any of the other options which QHWRA required to be studied. Admittedly, HUD's current system received more attention than the alternatives, but that was essential to understand HUD's system and evaluate it as QHWRA also required.

Comments from the Lawyers' Committee for Civil Rights Under Law

The Lawyers' Committee makes two primary points:

- The panel's report does not sufficiently emphasize the need for a civil rights and fair housing component in the housing assessment systems.
- The report's recommendation for involving residents in the assessment process should be expanded to include advocates for residents as well.

The panel appreciates the Committee's views. The report includes recommendations for a civil rights and fair housing component in PHAS, and for greater resident involvement in assessing the performance of HUD-assisted housing providers.

Comments from the National Association of Housing and Redevelopment Officials

NAHRO supports the panel's findings, recommendations, and the 14 characteristics of a good quality-assurance system. The panel appreciates NAHRO's comments.

PHADA supports the panel's recommendations for:

- Continued refinement of HUD's assessment systems
- Flexible and tailored approaches to assessment
- Devolution of responsibility to the local level
- Increased HUD capacity to administer PHAS
- Creation of a Housing Quality Board
- Increased and more effective consultations between HUD and the housing industry

PHADA also restates its belief that HUD's new physical inspection protocols, although linked to the former Housing Quality Standards, are sufficiently expanded and strengthened to constitute a new and more stringent standard: not just a quantified version of the old standard. It questions the need for this new level of federal intrusiveness, its cost, its validity, and its accuracy. PHADA also questions HUD's willingness to consult effectively with the industry. Finally, PHADA requests the panel to reinstitute the proposed recommendation it had included in earlier discussion documents which called for HUD to delay implementation of PHAS scores until the system has been further refined.

The panel appreciates PHADA's views. PHADA obviously is much closer to the technical details of HUD's assessment system than the Academy's study team could become within the bounds of this study. Therefore, the panel urges HUD and the industry to get together to resolve their differences on the PHAS protocols. This situation highlights why the panel believes that its recommendations on effective consultation are so important. The panel believes that HUD and the industry both need to enter into a new round of increasingly effective consultations so that agreements can be reached that will allow refinement and implementation of PHAS to proceed smoothly.

The lengthy set of attachments to PHADA's comment letter, which relate to HUD's physical inspection scoring system, are not reproduced in this appendix. They have been widely distributed by PHADA.

Letter from Ramirez

The U.S. Department of Housing and Urban Development (HUD) offers the following comments on the draft final report by the National Academy of Public Administration: *Evaluating Methods for Monitoring and Improving the Performance of HUD-Assisted Housing Programs*:

INTRODUCTION

As the Academy observes in its draft final report, “**Credible and effective monitoring and oversight is an essential mission for HUD.** HUD must have a reliable and effective means of determining whether it is discharging its inherently governmental responsibilities for spending Federal funds in a responsible and effective way in accordance with law and current standards of good practice” (p. xiv) (emphasis in original).

To satisfy its fiduciary and governmental responsibilities, HUD has developed a system of independent inspections of the physical condition and financial viability of HUD-assisted housing. HUD has also developed systems for tracking management performance and surveying the satisfaction of residents in public housing. These systems are essential to HUD’s efforts to fulfill the statutory mandate that HUD-assisted housing be “decent, safe and sanitary.” As the Academy recognizes in the draft final report, “None of the other approaches the Academy panel considered can substitute for this essential core mission of HUD.” (p. xiv).

While HUD agrees with a number of the findings of the draft final report, HUD is concerned that, overall, the draft report does not focus closely on the issues for which the report was commissioned. Instead, the draft report emphasizes tangential issues which, while important, do not go to the Academy’s Congressional mandate “to determine the effectiveness of various alternative methods of evaluating the performance of public housing agencies and other providers of federally assisted housing.” See s. 563, Quality Housing and Work Responsibility Act of 1998. HUD also believes that the draft report does not present a balanced and accurate assessment of HUD’s monitoring systems.

Specifically, HUD has the following concerns with the presentation of the draft final report:

- The draft report focuses too heavily on the procedural question of whether HUD adequately consulted with industry groups in developing its new monitoring systems. While procedural issues are important, they should not overshadow the more important question of whether HUD’s monitoring systems are substantively sound.
- The report should be clearer regarding the scope and limitations of the Academy’s analysis. Specifically, the report should acknowledge that it does not reflect a detailed substantive analysis of the assessment protocols used to inspect the physical condition of HUD-assisted housing and the financial viability of housing providers or of the systems HUD uses to assess the management of and resident satisfaction with public housing.

- The report should acknowledge that the criteria the Academy uses to assess the adequacy of HUD’s monitoring systems were not developed through the type of consultative process the report urges HUD to adopt and that HUD disagrees with the inclusion of several of the criteria. Specifically, HUD does not agree that “self-assessment” should play a greater role in HUD’s monitoring systems; prior monitoring systems based on this approach failed to adequately protect residents of HUD-assisted housing. HUD also does not agree that it should limit its monitoring activities to those to which industry groups have assented; while consultation with industry is useful and valuable, HUD cannot give the public and assisted housing industries veto power over HUD’s monitoring efforts.
- The draft report omits the essential historical and contextual information necessary to enable the reader to understand the dramatic improvements that HUD has made to its monitoring systems in recent years. The final report should add a discussion of the fact that HUD’s prior monitoring system for public housing, based on self-assessment and self-certification by housing authorities, was widely criticized by the General Accounting Office and HUD’s Inspector General for failing to protect residents and for opening the door to the misuse of federal funds by housing providers.
- The draft report does not provide a balanced discussion of HUD’s relationship with industry. The draft focuses nearly exclusively on one segment of the industry (the public housing industry), mentioning only in passing the positive relationship that HUD has with the multifamily assisted housing industry.
- The draft report seeks to reopen a debate on the devolution of Federal housing programs that Congress just recently resolved. In urging greater devolution and deregulation of Federal housing programs, the report not only extends well beyond its mandated scope but neglects to mention that Congress has just completed a three-year debate on this subject. That debate culminated in a widely supported compromise – the Quality Housing and Work Responsibility Act of 1998 – that substantially increases the flexibility of local housing agencies, while retaining Federal oversight. HUD strongly recommends that all parties wait for this new law to be fully implemented, and its effects fully felt, before revisiting this issue.

Our comments are organized into three sections: a discussion of our principal comments, specific page-by-page comments (Appendix 1), and a report titled *New Standards for a New Century: the Transformation of HUD’s Systems for Monitoring and Enforcing the Quality of HUD-Assisted Housing* (Appendix 2).

1. *Points of agreement*

We begin by noting a number of areas of agreement. Specifically, HUD agrees with the following three findings of the Academy's draft final report:

- **“The department is moving in a positive direction by demonstrating a commitment to improving the quality of HUD-assisted housing and the performance and accountability of the organizations that implement HUD’s low- and moderate-income housing programs.** By implementing its new quality-assurance system, the department has demonstrated a commitment to improving the performance and accountability of organizations providing HUD-assisted housing and strengthening the public’s trust in the department. This is an important step for addressing historical concerns about HUD’s management of its assisted housing programs. HUD’s new system . . . contains essential assessment tools – physical conditions, financial condition, management performance, and resident satisfaction – needed to determine how HUD-assisted housing providers are performing. . . .” (p. xiii)
- **“Credible and effective monitoring and oversight is an essential mission for HUD.** HUD must have a reliable and effective means of determining whether it is discharging its inherently governmental responsibilities for spending Federal funds in a responsible and effective way in accordance with law and current standards of good practice. None of the other approaches the Academy panel considered can substitute for this essential core mission of HUD.” (p. xiv)
- **“None of the other approaches examined included all of the key characteristics of a good quality-assurance system or the HUD regulatory functions.** Not only did none of the other approaches include all the characteristics, but none of them can accommodate the regulatory functions that HUD must exercise in order to discharge its inherent responsibility of Government for spending Federal funds in a responsible and effective way in accordance with law and current standards of good practice. Therefore, none of the other approaches considered could be a substitute for this essential core mission of HUD.” (pp. xvi - xvii)

In addition, HUD agrees with aspects of other findings and recommendations. For example, HUD agrees that it is important to consult and build strong partnerships with public and multifamily assisted housing providers and to meet regularly with residents of HUD-assisted housing. HUD also agrees that it is important to continue to refine and improve its current assessment tools.

Finally, several of the steps recommended by the Academy are already underway. For example, HUD has already convened an advisory panel comprised of PHA industry representatives, residents and HUD officials. (See Recommendation 4.) HUD is presently seeking clearance to qualify this panel under the Federal Advisory Committee Act. Similarly, HUD has already implemented an appeals

process for PHAs. Additional details on these actions are provided in our page-by-page comments, attached as Appendix 1.

2. *Although both procedural and substantive issues are important, the draft report focuses too heavily on issues of process.*

While HUD agrees with a number of the Academy's findings, we have serious concerns with several aspects of the draft final report. One of our chief concerns is that the draft report focuses too heavily on the procedural question of whether HUD adequately consulted with industry groups in developing its new monitoring systems. While procedural issues are important, they should not overshadow the more important question of whether HUD's monitoring systems are substantively sound.

Emblematic of the draft report's disproportionate focus on the procedural issue of consultation is the extent to which this issue dominates the draft report's findings and recommendations. Five of the 12 findings of the draft report – Findings 1, 2, 7, 8, 9 – relate directly to the process of consultation between HUD and the industry, and three additional findings – Findings 5, 11 and 12 – relate indirectly to this process by highlighting the importance of goals that both HUD and the industry have agreed-upon. All four of the recommendations focus (at least in part) on improving the process of consultation or on achieving agreed-upon goals.

We acknowledge that there is value in consultation with stakeholders and do not dispute the importance of procedural issues, but these issues should not overshadow the critical question of the substantive merit and soundness of HUD's monitoring systems. Ultimately, what matters most is that HUD have a workable and effective system for assuring the quality of public and assisted housing. HUD's system aims to reward good performers, give technical assistance to help providers avoid sanctions, sanction those who do not improve, and above-all improve the quality of residents' housing. By preparing a report dominated heavily by procedural issues, the Academy undervalues these critical substantive questions.

The draft report argues that industry buy-in is essential to a well-running monitoring system. HUD agrees that industry buy-in is desirable, but does not agree with the draft report's implicit finding that the absence of such buy-in among the public housing industry groups – as the report observes, the multifamily industry appears to be comfortable with the system – represents a *substantive* flaw in the system. The issue of industry buy-in is more complicated than the draft report acknowledges. Should HUD agree to weakened standards of physical quality just to have industry buy-in? Should HUD agree to allow obvious safety violations to go uncorrected for unreasonably long periods of time if that is the price of buy-in?

These questions illustrate HUD's concern with the Academy's recommendations concerning consultation and agreed-upon goals. HUD agrees that consultation with industry is important, and indeed essential, to HUD's administration of

Federal housing programs. The fact that consultation has value does not mean, however, that HUD and the industry should move to a collaborative model in which decisions are made jointly. While agreement is often desirable, it cannot be required in all cases. Ultimately, one party needs to be empowered to make a decision should the parties reach an impasse. In light of HUD's inherently governmental and fiduciary responsibilities, that party must be HUD.

3. The report should clarify the limitations of the Academy's review.

It is important to clarify at the outset of the report the scope and limitations of the Academy's analysis. Specifically, the report should acknowledge that it does not reflect a detailed substantive analysis of the protocols used to inspect the physical condition of HUD-assisted housing and the financial viability of housing providers or of the systems HUD uses to assess the management of and resident satisfaction with public housing.

To illustrate, as we understand the scope of the Academy's review, the Academy has considered whether an independent physical inspection system is a desirable component of a monitoring system (concluding that it is), and canvassed the opinion of certain industry representatives about that system, but the Academy has not analyzed the actual protocol used to conduct the system to determine the extent to which it is a valid measure of whether housing is decent, safe and sanitary.

We are not arguing that the Academy necessarily should have conducted this analysis, or criticizing the Academy for not conducting it. It is important, however, for the report to state clearly the scope of the analysis it reflects. The Academy met only once (briefly) with officials from the office at HUD that conducts the assessments of public and assisted housing – the Real Estate Assessment Center (REAC) – and did not visit REAC to review, analyze or ask questions about the assessment systems, to determine if the appropriate items are being assessed, or to inquire about HUD's methodology for conducting the assessments. To similar effect, the Academy requested little to no data from HUD on the specific assessment protocols. This confirms our impression that the Academy's review did not involve an analysis of the specific procedures HUD employs in assessing the physical condition and financial viability of HUD-assisted housing and management of and resident satisfaction with public housing.

The General Accounting Office (GAO) recently completed a substantive review of the quality assurance procedures that REAC employs to ensure the accuracy of physical inspection scores. As noted in our discussion of that report in Appendix I, HUD has adopted all of the recommendations made by GAO to improve these procedures.

4. HUD does not agree with the criteria the report employs to assess the adequacy of HUD's monitoring systems.

On pages xi-xii and 7-8, the draft report lists what it calls "the 14 characteristics of a good quality-assurance system." The draft report states that these character-

istics were developed “in consultation with the HUD-assisted housing industry.” This presentation gives the reader the impression that there is widespread agreement on these characteristics among the actors with a stake in the assisted housing industry. However, this is plainly not the case.

HUD does not agree that the 14 characteristics listed in the draft report are all essential elements of a good quality-assurance system. Specifically, HUD does not agree that the following characteristics are necessary components of a good quality-assurance system: System Goals Consistent with Mutually Agreed-Upon Outcomes, Assessment Standards, and Procedures (#1), Self-Assessment and Continuous Improvement (#2), Peer Review / Site Visit (#3), and Internal Quality-Assurance Procedures (#4). The fact that HUD disagrees with the first four characteristics of the draft report’s list should be noted clearly in the report.

- *Mutually-Agreed Upon Outcomes and Procedures.* As explained above (point two), we do not agree that HUD should limit its monitoring activities to those to which industry groups have assented. While consultation with industry is useful and valuable, HUD cannot give the public and assisted housing industries veto power over HUD’s monitoring efforts.

Self-Assessment has a very poor track record as a monitoring tool in the public housing program. The previous assessment system – the Public Housing Management Assessment Program (PHMAP) – relied predominantly upon self-assessment. As discussed in point five, below, and in the report attached as Appendix 2, both the GAO and the HUD Inspector General found self-assessments to be an unreliable means of assessing PHAs that failed to protect residents and opened the door to financial improprieties by housing providers.

This is not to say that self-assessment and continuous improvement are not worthwhile objectives for PHAs to pursue. HUD hopes and expects that the clarification of standards brought about by HUD’s new assessment systems will lead to a process of self-assessment and improvement by housing providers to ensure compliance with these standards. In addition, there is an element of self-certification involved in HUD’s assessment of PHAs’ management performance. What HUD objects to is the idea that HUD should place greater reliance on self-assessment in the monitoring process, which we believe would undermine the efficacy of the independent inspections of the physical quality and financial viability of HUD-assisted housing.

- *Peer review and internal quality-assurance processes.* The draft report does not explain how these systems would usefully supplement the physical inspections and financial and management assessments already in place.

It is important to note that expanding HUD’s monitoring systems to include self-assessment, peer review, and internal quality-assurance would require the imposition of substantial additional administrative burdens on housing providers. For this reason, we strongly doubt that all housing providers – especially those in the multifamily housing industry – would agree with the Academy that these

elements should be required. (We assume that the draft report does not mean to suggest that HUD replace its independent physical and financial assessments with self-assessments by housing providers; this would be a huge step backwards that we would oppose in the most vigorous terms.)

It is ironic that the draft report evaluates HUD's monitoring systems using criteria that were not developed through the type of consultative process the report strongly urges HUD to adopt. This example highlights the difficulties of the joint decision-making approach advocated in the draft report. It simply will not always be possible, or even desirable, to obtain agreement between HUD and all of the various constituencies with a stake in public and assisted housing. HUD should be willing to listen and fairly consider all of the competing viewpoints, and should attempt to find common ground where possible. Ultimately, however, HUD must retain the right to make a decision regarding how to ensure the proper expenditure of federal housing funds.

Beyond the lack of agreement regarding the criteria the draft report uses to assess HUD's monitoring systems, it is important to acknowledge in the report that the selection of these criteria reflects the opinion of the Academy, rather than any widely-accepted or research-based protocol. In other words, there is no widely-accepted research that indicates that these 14 criteria are the proper criteria for evaluating HUD's quality-assurance system. In this regard, we note that the interim report actually identified 8, rather than 14 criteria of a good quality-assurance system.

5. *The draft final report lacks the essential historical and contextual information necessary to enable the reader to understand the dramatic improvements that HUD has made to its monitoring system in recent years.*

We acknowledge that our new system for monitoring the quality of HUD-assisted housing is not perfect. As with any monitoring system, a continual process of refinement and improvement is necessary to ensure fair and consistent results and to address the challenges that inevitably arise upon implementation.

The need for further refinement and improvement, however, does not negate the fundamental point that HUD's new monitoring system represents a vast improvement over HUD's earlier system that is likely to improve residents' lives significantly. For the first time, there are now independent uniform assessments of the physical quality of public and multifamily assisted housing, as well as the financial viability of the housing providers. HUD also surveys residents to determine their satisfaction with public housing and collects information on the management operations of public housing agencies. These systems are vital for ensuring the quality of HUD-assisted housing.

HUD appreciates the Academy's efforts to develop recommendations for strengthening and streamlining our quality assurance systems. By focusing nearly exclusively on perceived problems, however, the draft report presents an unbalanced perspective that fails to acknowledge the extent to which the new

system represents an improvement over HUD's prior monitoring systems. For years, HUD has been criticized by GAO, the HUD Inspector General, and others for failing to implement independent assessments of the physical quality and financial viability of HUD-assisted housing. Any fair evaluation of the "big picture" would acknowledge as its central conclusion that, by implementing independent inspections of physical quality and financial viability, HUD has vastly improved its monitoring system, and therefore improved residents' lives.

The following statement by the Office of the HUD Inspector General is illustrative of the widespread criticism of the system HUD previously used to monitor public housing, the Public Housing Management Assessment Program (PHMAP), which relied on self-assessment and self-certification by public housing agencies:

In our prior audits, we reported that PHMAP is not always a reliable indicator of a Housing Authority's [HA] performance because HUD's controls did not assure integrity of the scores and PHMAP performance data did not effectively assess the quality of the subsidized housing stock.... *[We] agree with HUD's efforts to establish and implement a standard inspection protocol to assess the physical condition and quality of public housing.* The current process for evaluating HA performance does not consider the quality and livability of its housing stock. *We also agree with HUD's decision to develop the Public Housing Assessment System (PHAS) to replace the existing PHMAP to provide for a more complete assessment of HA operations.* The current PHMAP process relies entirely too much on the HA's self assessment of their performance.¹ [Emphasis added.]

In a recent report analyzing HUD's system of physical inspections, the GAO recognized the substantial improvement represented by HUD's new monitoring systems:

HUD's establishment of a new physical inspection system is a positive step in HUD's effort to address weaknesses in its oversight of multifamily and public housing properties. In particular, *HUD's establishment of uniform standards and inspection procedures helps to address inconsistencies* that have existed in both the way standards were applied to HUD properties and the way physical inspections were performed. Equally important, *HUD's establishment of centralized databases for collecting information on properties' physical condition* provides HUD not only with detailed, readily available information on the condition of properties, but also with *a mechanism that it can use to (1) ensure*

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- 1 Audit of HUD's FY 1998 Financial Statements by the Office of the HUD Inspector General.
 - 2 *HUD Housing Portfolios: HUD Has Strengthened Physical Inspections but Needs To Resolve Concerns About Their Reliability.* General Accounting Office, GAO/RCED-00-168, July 2000, p. 28. The GAO report identified some concerns regarding the procedures the Assessment Center employs to ensure the quality and consistency of physical inspections. As explained in Appendix 1, HUD has taken steps to address these concerns and implement GAO's recommendations.

*that deficiencies identified during inspections are corrected; and (2) help HUD take appropriate action against property owners and housing agencies that fail to provide housing that is decent, safe, sanitary, and in good repair.*² [Emphasis added.]

The Academy's draft report does contain references in passing to the improvement of HUD's monitoring systems. But the report omits the essential historical and contextual information necessary to enable the reader to understand the significance of these improvements. For example, the report does not provide historical information on the scandals that severely undermined public confidence in the public and assisted housing industries in earlier decades. The report also neglects to include quotes or citations to the multiple reports from GAO and HUD's IG that criticized the department for relying too heavily on self-assessment by assisted housing providers and for failing to independently verify physical quality and financial viability. Information on some of the problems with HUD's prior monitoring systems, as well as the steps HUD has taken to address those problems and the achievements of the present monitoring system, may be found in *New Standards for a New Century: The Transformation of HUD's Systems for Monitoring and Enforcing the Quality of HUD-Assisted Housing*, attached as Appendix 2.³

Implementation of our suggestions in this area would not require the Academy to conduct research that is beyond the scope of the report or to change its principal findings. This is primarily an issue of presentation that could be resolved by expanding Chapter 3 and the Executive Summary to (a) include the historical and analytical context necessary to appreciate the extent to which the current system represents an improvement over HUD's prior system and (b) more clearly acknowledge this improvement.

On a related point, it is important to underscore and clarify the Academy's finding (#3) that the independent physical and financial assessments implemented as part of HUD's current system should be the foundation for any improved system of quality assurance. In other words, the Academy believes we should build on and improve our current system, rather than starting from scratch. This is a fundamental point that tends to get lost in the presentation that focuses on perceived problems, particularly with the nature of HUD's consultation with segments of the industry. We agree with the Academy that there is room for improvement, but let's not let the trees obscure our view of the forest. To ensure that the Academy's report is not used to undermine the necessity of independent physical and financial assessments, the presentation should be adjusted to reflect the importance of building upon, as opposed to tearing down, HUD's new monitoring system.

3 The report may be found on the Internet at: <http://www.hud.gov/pressrel/pr00-307.html>.

6. *The discussion of HUD's relationships with industry is not balanced.*

The draft report focuses on the monitoring system that HUD has implemented through the newly formed Real Estate Assessment Center, Enforcement Center, and Troubled Agency Recovery Center. These agencies use similar tools to monitor two different types of federally-assisted housing:

- The 1.1+ million units of public housing, located in approximately 14,000 developments that are owned and managed by 3,200 local public housing agencies (PHAs) and
- the 1.7 million units of multifamily assisted and insured housing, located in some 30,000 privately owned and operated properties.

The draft report argues at length that HUD has a poor relationship with the housing industry and that inadequate consultation with the industry has led to industry opposition to HUD's new monitoring system. Throughout this argument, the draft report focuses overwhelmingly on HUD's relationship with one part of the assisted housing industry: the public housing authorities (or more precisely, the public housing industry groups). Although the report notes in passing that "the relationship between HUD and its private assisted housing partners appears relatively collegial," it does not give this point the prominence it deserves, choosing instead to focus at length on perceived problems with HUD's relationship with the public housing industry.

This is again a question of balance and presentation. If the report is going to criticize HUD repeatedly for a relationship with the public housing industry that the Academy finds strained, it ought to give credit where credit is due and assign greater prominence to the finding that HUD has maintained a positive relationship with the assisted housing industry, despite implementation of a monitoring system that is remarkably similar to that applied to public housing. There are actually more multifamily assisted units (1.7 million) than public housing units (1.1+ million). HUD's relationship with the multifamily assisted housing industry is every bit as important as its relationship with the public housing industry.

The multifamily industry's acceptance of HUD's new monitoring system is yet another reason to question the assumption implicit in the draft report that the alleged inadequacy of HUD's consultation with industry in the development of HUD's new monitoring system reflects a substantive – rather than a procedural – flaw. HUD uses the same physical inspection protocol to assess the condition of both public housing and multifamily assisted housing. Yet one segment of the industry – the multifamily assisted housing industry – is largely comfortable with the protocol (even as it works constructively with HUD to refine and improve it), while another (the public housing industry) rejects it. It is hard to see how this state of affairs necessarily leads to the conclusion that the physical inspection protocol is flawed.

With respect to public housing, HUD acknowledges that there is room for improvement in its relationship with the public housing industry. It is important to remember, however, that relationships are two-way streets. The draft report places nearly all of the blame for the current state of relations on HUD. A more balanced approach would acknowledge the possibility that the tension between HUD and the public housing industry over PHAS may be due only partly to HUD's actions.

There are good reasons to expect that the public housing industry would be more resistant than the multifamily housing industry to HUD's new assessment system. While the multifamily assisted housing industry was subject to outside inspections prior to HUD's establishment of its new uniform physical inspection protocol, the public housing industry was not. In addition, the outcomes of HUD's assessments may affect the bonuses and other conditions of employment for directors of public housing agencies. Indeed, some local boards review their agency directors principally on the single PHAS score alone. Moreover, the statutory consequences for a PHA that fails to recover from troubled status in a specified time-period – automatic receivership – are greater. These are some of the many factors that may account for the differing reactions of the public housing and multifamily housing industries beyond HUD's own actions.

This is not to say that HUD bears no responsibility for the current state of relations. In retrospect, it may have been wiser to have proceeded somewhat more slowly and conduct more consultations with industry prior to issuing the initial proposed rule. But that was several years ago. In the interim, HUD has taken substantial steps to improve its relations with the public housing industry, engaging in multiple lengthy consultations and making substantive changes to the inspection protocol and other aspects of the system in response to industry concerns. Rather than focusing so heavily on industry concerns with the start-up phase of the new system, the draft report should focus on the present and acknowledge that HUD has made substantial progress in responding to industry concerns.

The following are some additional recommendations with respect to the draft report's discussion of HUD's relationship with the public housing industry.

- The report should acknowledge that HUD and the public housing industry are working together successfully on other issues, such as the implementation of the many rules required by the Quality Housing and Work Responsibility Act of 1998. This suggests the conflict between HUD and the public housing industry may be due more to the substance of the new monitoring system – and in particular, to the introduction of independent assessments of physical condition and financial viability – rather than historical bad blood. The draft report does note that the public housing industry feels more comfortable with the system HUD uses to assess performance in the Housing Choice Voucher program, the Section 8 Management Assessment Program (SEMAP). That system, however, relies primarily on self-certification and does not include an independent assessment of the physical condition of the subsidized units.

- The latest draft does a better job of specifying when assertions in the report represent the opinion of the public housing industry, as opposed to facts that have been independently confirmed. Nevertheless, the draft report still contains some points that should be labeled as public housing industry assertions, rather than conclusions of fact. Some of the specific places where this occurs are noted in Appendix L.
- It is important to recognize that the residents of public housing have a stake in the outcome of the monitoring process that is every bit as great (if not greater) than the public housing agencies. In comparison with the public housing agencies, however, the residents have far fewer resources to form industry groups and to hire lawyers and experts to analyze HUD regulations and procedures. Therefore, in addition to meeting regularly with resident representatives, HUD seeks to protect residents' interests in safe and decent quality housing through the establishment of a monitoring system that evaluates the physical quality, financial viability, management operations and resident satisfaction with public housing. The need to protect residents' rights to decent and safe living conditions is one of several reasons why HUD cannot agree to a system where the litmus test is widespread agreement by the public housing agency industry groups. These groups represent only one of the many sets of important interests HUD must balance in fulfilling its governmental responsibilities.

7. *The draft report seeks to reopen a debate on the devolution of federal housing programs that Congress just recently resolved.*

A theme running throughout the report is that there needs to be greater devolution of authority to local officials. This theme informs, among other things, the conclusions that PHAs should be able to choose how they are evaluated (see recommendation 3) and that the goals and standards of HUD's monitoring system must be agreed upon by the public housing industry (see recommendation 1). On pages 59 through 62, and in Recommendation 3 (page 101), the draft report extends this theme to recommend substantial additional deregulation and devolution of control of federal housing programs to local housing agencies.

As an initial matter, HUD notes that, in Section 563 of the Quality Housing and Work Responsibility Act of 1998, Congress requested that this study be conducted "to determine the effectiveness of various alternative methods of evaluating the performance of public housing agencies and other providers of federally assisted housing." The draft report's broad arguments in favor of deregulation and devolution appear to be outside the scope of the specific study requested by Congress.

With respect to the substance of these arguments, HUD agrees that devolution is an important objective. However, we do not agree with the draft report's attempt to reopen the debate on this subject that Congress has recently completed. Although the report devotes considerable attention to the issue of devolution, it neglects to note that Congress has just completed a three-year debate on the subject of devolution of federal housing programs. In the course of that

debate, Congress considered a wide spectrum of different devolution options, including a block grant approach. That debate culminated in a widely supported compromise – the Quality Housing and Work Responsibility Act of 1998 (QHWRA) – that substantially increases the flexibility of local housing agencies, while retaining federal oversight. (The conference report on the FY 1999 VA-HUD appropriations act, which included QHWRA, passed the Senate 96-1 and the House 409-14.)

An example of the devolution compromise forged by QHWRA is in the area of housing admissions. Under prior Federal law, housing agencies were required to give preference to certain categories of households – e.g., households paying more than half their income for rent and households living in substandard housing, including the homeless. Public housing agencies opposed these “Federal preferences,” arguing that they should have greater freedom to choose who to serve and be able to set admissions preferences that achieve a mix of incomes in public housing. While acknowledging the legitimacy of the public housing agencies’ position, HUD was concerned that this would lead to a reduction in the level of assistance provided to poor households – the group most likely to have severe housing needs. As a compromise, QHWRA permanently eliminated federal preferences and allowed housing agencies to devise their own admissions preferences so long as at least 40 percent of the households assisted each year in public housing have extremely low-incomes. This gives public housing agencies substantially greater discretion to set admissions preferences.

Having just completed a three-year debate on devolution in housing that led to legislation that greatly expanded the discretion of local housing agencies, the prudent course would seem to be to wait and see how the new legislation works out. With many of the QHWRA provisions only going into effect in October 1999, it is obviously too early to tell if additional devolution is warranted.

The same point applies to the draft report’s recommendation that the Department substantially expand the Moving-to-Work demonstration (which is again outside the scope of the study mandated by Congress). The draft report calls this the “Moving to Work program” (p. 61), but it is in fact a demonstration designed to test the effects of providing local agencies with substantially expanded discretion. The results of that demonstration are not yet known. Until the results are in, it would be imprudent to expand this demonstration.



We appreciate the work of the Academy and your consideration of our comments.

Attached to this overview are two appendices. The first appendix provides specific page-by-page comments. The second appendix includes a recent HUD report that describes the rationale for and achievements of our new monitoring system.

APPENDIX 1

In this Appendix, we supplement our general comments with specific comments on the draft final report. We begin by commenting on The Academy's four recommendations. We then proceed to comment on the balance of the report in page order.

The Academy's Recommendations

Recommendation 1. A Modified Approach. The panel recommends that HUD continue to modify its current quality-assurance system for HUD-assisted housing programs, and should move toward a hybrid approach that blends elements of its current system with characteristics of other approaches to incorporate all the characteristics of a good quality-assurance system.

The recommendation further states that elements of a good quality-assurance system missing from HUD's current system are:

- *Widespread agreement on the system's goals and standards,*
- *The use of self-assessment and peer-review process to motivate continuous improvement processes within housing provider organizations,*
- *Use of internal quality-assurance process by housing providers, and*
- *Provisions for community and resident involvement in developing and implementing improvements.*

HUD's Response

The Academy's suggestion that elements are missing from HUD's assessment system is not probative for the following reasons:

1. *Widespread agreement on the system's goals and standards.* Congress provides funds, through HUD, to enable housing providers to provide decent, safe and sanitary housing to low income families. HUD, and only HUD, is accountable to Congress regarding the use of funds appropriated for public and assisted housing; Congress has not divided accountability between HUD and the industry. In addition, Congress specifically requires HUD to assess the performance of public housing agencies (PHAs). This fiduciary responsibility, by its nature, requires HUD to make decisions and establish standards that may not always be popular, but are necessary to ensure the proper use of Federal funds.

HUD developed its assessment processes through the rule-making process in accordance with the Administrative Procedures Act (APA), which provides a specific structure for the consideration of comments by members of industry and other stakeholders. In accordance with the APA, HUD published the

regulations for public comment. The proposed rules clearly outlined the assessment standards to be applied to providers of HUD-assisted housing. Housing providers were afforded the opportunity to have input on these standards. Later, HUD published for comment the notices describing the scoring methodology of each of the four assessment components of the Public Housing Assessment System (PHAS). After receiving public comment, HUD published the rules in final form. In the case of PHAS, HUD went through the process twice. This afforded the industry ample opportunities to provide input on the system and effect the outcome of those standards. In addition, HUD has met continuously with industry representatives throughout the entire process to obtain feedback.

HUD will continue to consult with members of the assisted housing industry and other stakeholders and welcomes their input. In order to fulfill our fiduciary and statutory responsibilities, however, HUD must maintain ultimate responsibility for the programs for which we have statutory oversight authority. Were HUD to agree to act only where there is “widespread agreement” among one set of stakeholders, we would be unable to ensure the fulfillment of our statutory mission to provide housing that is decent, safe, sanitary and in good repair.

- 2,3. *Use of self-assessment and peer review processes to motivate continuous improvement within housing agencies and use of internal quality-assurance process by housing providers.* As discussed in comment #4 of our principal comments, we do not agree that HUD should expand its monitoring systems to require these additional elements. However, HUD would not oppose the voluntary adoption of self-assessment, peer review or internal quality assurance by housing providers. Housing agencies are always free to exceed the minimum requirements set by Federal law. To the extent that these agencies find it helpful to engage in self-assessment, peer review, or internal quality-assurance procedures, they are encouraged to do so.
4. *Provisions for community and resident involvement in developing and implementing improvements.* It is important to note that HUD’s current system for monitoring public housing includes a resident survey developed in consultation with PHAs and resident industry representatives. Each year a survey is sent out to a statistically valid sample of residents in the PHA. The survey asks questions related to various aspects of the PHAs performance, such as maintenance, management services, safety and services. The results of the survey are scored and the survey accounts for 5 points of the 10 points available for the Resident Service and Satisfaction Indicator in HUD’s Public Housing Assessment System. In addition, the PHAS Advisory Committee has two members that are residents, ensuring resident input into the system.

HUD will give careful consideration to the report’s recommendation for further resident and community involvement in the assessment process.

Recommendation 2. Operational Improvements. The panel recommends that HUD, in consultation with affected parties, make the following urgent refinements to its new quality-assurance system. The modifications should be made in an open consultative environment where all parties have access to information about the changes, and should be thoroughly tested.

The Academy recommends five modifications:

- *Finalize and implement the appeals process for PHAs.*
- *Enhance HUD's capacity to administer the system.*
- *Upgrade the capacity of housing providers.*
- *Continue refinement of the assessment tools.*
- *Retain existing distinctions in current assessment practices among the three assisted housing programs, but move PIH's approach to correcting physical deficiencies closer to the Office of Housing's mode.*

HUD Response

- *Finalize and implement the appeals process for PHAs.* This recommendation has already been implemented. In partnership with REAC and with input from the industry, HUD's Office of Public and Indian Housing has developed an appeals process for PHAs. In the summer of 2000, we solicited nominations from the industry for PHA representatives on the Boards of Review. HUD distributed ballots to each PHA so that it could vote for the representative in its area. PIH, REAC and PHA representatives serve on each of the 26 regional Boards to assure a balanced view of each appeal. Each Board member or alternate is required to attend Board training. At the Board training they are presented a draft PHAS Appeals Guidebook and asked for comments on changes at the conclusion of each session. Comments on the PHAS garnered during these sessions are referred to the PHAS Advisory Committee for consideration. One training session has been completed and two others are scheduled for November and December.
- *Enhance HUD's capacity to administer the system.* HUD acknowledges that there were difficulties in accessing its computer system. HUD has taken action to upgrade its computer infrastructure with the addition of more servers in a clustered environment to facilitate easy access, especially in peak usage periods. The cluster environment has been stress tested and has withstood real testing during a peak submission period. HUD will add additional servers should the demand warrant.
- *Upgrade the capacity of housing providers.* HUD has undertaken extensive efforts to upgrade the capacity of housing providers by:

1. Providing almost 100 training sessions to providers over the last two years at industry meetings and trade shows to over 6,000 attendees. These trainings include numerous sessions personally conducted by the Assistant Secretaries for Housing and for Public and Indian Housing, as well as by other senior HUD staff, at locations throughout the country.
 2. Providing monthly training classes in the physical inspection process at no cost to PHAs, other than for travel and related expenses.
 3. Developing a physical inspection training program that is available from training vendors for a fee, much as training is available for other program-related information.
 4. Providing the physical inspection software through the Internet and on compact disc at no cost.
 5. Providing, through HUD Internet web pages, copies of all assessment criteria, guides and other related information about the assessment process.
 6. Designing the assessment systems to enable PHAs and other housing providers to work on-line, eliminating the necessity for them have to buy or upgrade their software.
- *Continue refinement of assessment tools.* HUD agrees that it should continue to refine its assessment tools, particularly when the refinement results in increased accuracy and reliability of the outcomes. HUD's outcome-based assessments ask: Is the housing in decent, safe and sanitary, and in good repair; Is the agency in good financial health; Is the agency managing its operations adequately; Are the residents satisfied? HUD welcomes feedback on ways to refine its protocol to better measure these outcomes.

The Academy is also recommending that HUD add a fair housing component to the assessment system. HUD notes that four questions regarding accessibility by persons with disabilities are included in the physical inspection process. PHAS generally does not measure regulatory compliance; nevertheless, HUD will give careful consideration to the Academy's recommendation that we expand the assessment to evaluate compliance with other fair housing objectives.

The Academy further suggests that HUD revise the inspection process to add a step in which HUD would consult with housing providers before issuance of the official scores. HUD believes that the current process gives providers an ample opportunity to raise issues and address their scores before they are finalized. The current inspection process requires the housing provider to accompany the inspector throughout the inspection. Inspectors are required to advise providers of findings, when requested. HUD has implemented two regulatory processes to resolve any issues that may be raised by the housing provider. The first is a technical review process to addresses alleged inspec-

tor errors. Under this process, the housing provider can request that REAC review a score in light of alleged inspector error, such as a building count error, a unit count error or an allegation that a particular deficiency does not exist. (In order to prevent personal conflicts between the inspector and the provider, such requests are made to REAC rather than directly to the inspector.) The second process provides for database adjustments for matters such as code variances, items (such as streets) not owned by the housing provider, and modernization work in process. Requests for database adjustments may be made before or after the inspection. Both processes document any adjustment to the report on the condition of the property and the scoring.

- *Retain existing distinctions in the current assessment practices among the three assisted housing programs, but move PIH's approach to correcting physical deficiencies closer to the Office of Housing's models.* Although the thrust of this recommendation is unclear, it would appear to recommend that HUD not adhere to the governing statute, which specifies the procedures for dealing with deficiencies. The referral to the Enforcement Center on the PIH side is driven by statutory requirements. Under the statute, if a PHA fails to achieve standard performance within two years of troubled designation, we must seek either administrative or judicial receivership. (The Enforcement Center manages this process.) After the first year of troubled designation, the PHA must achieve 50% of the points necessary to obtain a passing score or be referred for receivership. And finally, in determining "troubled" status, any PHA that has wide-spread physical condition problems must be deemed troubled. The statute thus bars HUD from applying the referral procedures in the Office of Housing to the public housing context.

Recommendation 3. Systematic Improvements. *The Panel recommends that HUD redesign the following aspects of its new quality assurance system for assisted housing to "achieve greater simplicity and flexibility and increase its focus on outcomes." The Academy recommends eight additional actions.*

HUD Response

1. *Conduct an effective process of consultation consistent with the principles cited in Chapter 2, to reassess and reach agreement on the outcomes that the assessment system should measure.* As discussed in our principal comments, we agree that it is important to engage in consultation with all of the relevant stakeholders, including industry, but we cannot agree to a litmus test of "widespread agreement" as a condition for implementing much-needed reforms of our monitoring systems.
2. *Provide flexible, tailored approaches to quality assurance.* The Academy suggests that HUD allow housing providers the flexibility to use other means of obtaining assessments based on "agreed-upon" goals. The Academy does not explain, however, how such other means would result in a more accurate or reliable assessment. HUD strongly believes that there needs to be a single

definition of what constitutes decent safe and sanitary housing that applies to all types of HUD-assisted housing.

Comments

3. *Approve the use of private services.* The draft report does not explain why uncertainty and inconsistency should be introduced into the system by empowering additional entities to conduct the physical inspections. What advantage would such private inspections have over HUD's inspections? In addition, it is important to note that HUD's Inspector General has criticized HUD for allowing PHAs to select their own auditing firms.
4. *Reduce data collection requirements to alleviate administrative burdens.* HUD would welcome specific suggestions for streamlining its data collection requirements, but the report does not include an analysis or reasons why the data collection provisions contained in the current system are excessive.
5. *Enhance flexibility at the local level to achieve outcome goals.* See HUD's principal comments on the Academy's recommendations concerning deregulation.
6. *Manage PHAs through performance contracts.* HUD will give due consideration to the Academy's recommendation for the use of performance-based contracts as a supplement to the current assessment system. Performance-based contracts have both advantages and disadvantages over the standard contracting methods that warrant further consideration. The design and monitoring of such contracts can present a significant administrative burden, particularly where they allow for the waiver of generally-applicable regulatory or statutory requirements. Because many of these requirements were designed to protect residents or safeguard important governmental processes such as procurement, waivers need to be considered on a case-by-case basis, which is extremely time-consuming.
7. *Extend special assistance to near-troubled housing.* HUD already does this. With respect to public housing, the field offices utilize a risk based analysis to identify need and target technical assistance to PHAs that have deficiencies but are not designated troubled. The field offices provide technical assistance to multifamily assisted housing providers as part of problem analysis on projects scoring from 31 to 59. The field offices also analyze management practices in management reviews and financial performance in the annual financial statements. The Office of Housing designates near-troubled providers as those scoring 45-59 on our physical inspections. In addition to providing them with technical assistance, HUD requires such near-troubled providers to have a written repair plan and conducts intensified field office monitoring, including annual inspections.
8. *Enhance HUD staff capacity.* The Department has initiated a Resource Estimation and Allocation Process to identify workload and staffing issues and ensure it has adequate capacity to administer and oversee its programs. In addition, as the draft report notes, HUD has moved to a system of contract administrators to ease workload issues with respect to multifamily assisted

housing. Within PIH, the creation of various processing centers is removing work from the field staff's scope of responsibility, thereby giving them more time for performance monitoring, technical assistance and interfacing with PHAs. Finally, we note that there is an annual training plan for both Housing and PIH to address training needs.

Recommendation 4. Governance Improvements. The Panel recommends that HUD actively seek to improve its relationship with the assisted housing industry, and the public housing industry in particular, by transforming its style of governance from a regulatory and enforcement approach to a more balanced approach based on consultation and, where appropriate, collaboration.

The Academy recommends that HUD initiate the following:

- *Housing Quality Board.*
- *Consultative Rulemaking*
- *Resident and Landlord Role in the Assessment Process*
- *Regular Meetings between HUD and Residents of HUD-Assisted Housing.*

HUD Response

We have previously discussed our concerns with a joint decision-making model. We are open, however, to consulting with all of the relevant stake-holders.

1. *Housing Quality Board.* HUD has already begun to implement this recommendation, establishing a Committee that will be responsible for many of the functions envisioned under this paragraph. This Committee is composed of PHA representatives, PIH and REAC representatives, a physical inspection contractor, an IPA and PHA. The PHA representatives were selected in consultation with the industry groups and the resident representative was selected in consultation with a resident organization. At the initial meeting, the first agenda item was the classification of the Board. There was a discussion of whether the Board should be convened under the Federal Advisory Committee Act (FACA) or simply be an unofficial advisory board that provided individual advice to the Assistant Secretary. It was that Board's recommendation that PIH attempt to seek approval to convene a FACA board. The Department is in the process obtaining all clearances necessary in establishing an advisory board under FACA.
2. *Consultative Rulemaking.* As required by law, HUD follows the Administrative Procedures Act and HUD implementing regulations at 24 CFR part 10 in the rule-making process. This is an inherently consultative process, providing an opportunity for input from a wide range of stakeholders. With respect to a number of issues in the Quality Housing and Work Responsibility Act of 1998, Congress specified a process of negotiated rulemaking, which we con-

ducted. In light of the substantial administrative burdens posed by negotiated rulemaking, HUD does not recommend extending this form of rulemaking beyond the situations specified by Congress.

Of course, our consultation has not been limited to the formal rulemaking process. As explained in documents earlier provided to NAPA, HUD has met numerous times with both the Public Housing and Multifamily industry before, during and after the rule making process for both the UPCS and PHAS rules. In addition, HUD published the PHAS rule, not once but twice for public comment. We would welcome further comments from any and all stakeholders.

3. *Resident and Landlord Role in the Assessment Process.* HUD's assessment process includes a resident survey designed to measure their satisfaction with their housing. This is the first procedure that HUD has ever adopted for allowing direct resident input into the assessment process. In addition, the Office of Housing's regulations on physical inspections, which are at OMB for review, establish expanded resident access to inspections and opportunity to comment in the field. (This portion of the regulation would be proposed for comment, since it is an expansion not contemplated in the proposed rule.) Finally, the Department's Community Builders provide an established mechanism for residents and communities to express concerns and for HUD to have structured interaction with communities about issues.
4. *Regular Meetings between HUD and Residents of HUD-Assisted Housing.* The Office of Housing has regular meetings with the National Association of HUD Tenants, and periodic "eyes and ears" meetings between high level Headquarters Housing officials and resident groups. At a national level, PIH's Assistant Secretary and senior staff meet regularly with public housing residents and their representatives. In addition to other activities, the groups representing public housing residents have conferences several times yearly in which the Assistant Secretary and senior staff participate in depth.

Additional Comments, organized by page number:

Page ix. We object to the report's decision to single out the Office of Public and Indian Housing (PIH) for special criticism. Such criticism assumes, without justification, that HUD (and specifically PIH) is primarily to blame for the perceived tension between HUD and the public housing industry over PHAS and neglects to account for the logical explanations for the different reaction of the public housing and multifamily industry. See principal comment 6, above.

Page x. Second full paragraph, the office title of "Office of Troubled Housing Recovery" should be the "Office of Troubled Agency Recovery." This office was not established as a result of a reorganization. PIH was reorganized to add the Troubled Agency Recovery Centers (TARCs) under its Office of Troubled Agency Recovery.

Page xii. One way to give the report more balance would be to change the order in which the findings are discussed to: (1) findings on HUD's current system; (2) findings on other approaches; and (3) findings on consultation and relationships.

Page xii (and p. 40). Under Finding 1, first sentence, the statement that public housing authorities (PHAs) are created under state laws is not always accurate. Sometimes the enabling legislation is found with the locality. In addition, the relationship between PHAs and local governments is more complicated than that stated in the report. While some PHAs are departments of local governments, others are quasi-governmental entities that are not directly part of local governments. Moreover, while some PHAs have good working relationships with their local governments, other such relationships are strained. The need for HUD to balance the sometimes contrary views of PHAs and local government officials represents another reason why HUD cannot agree to always set standards jointly with PHAs.

Page xv. First bullet. Ensuring the accuracy and replicability of HUD's physical inspections is a high priority for HUD. As a result of changes made to our inspection protocol earlier this year and the adoption of quality assurance recommendations made by GAO, we believe the system produces highly accurate and replicable results.

While the July 2000 GAO report identified some concerns regarding the procedures REAC employs to ensure the quality and consistency of physical inspections, it noted that REAC has recently taken a number of actions to strengthen its quality assurance procedures. The Center is incorporating refinements of these procedures identified both through its own experience and by the GAO. In particular, REAC has developed an inspector tracking system that will enable it to identify and take corrective action in the event that inspectors do not perform to standards. In addition, new contracts for inspection services will upgrade the contractors' quality control activities by integrating them with the overall REAC quality assurance plan. Finally, REAC is continuing its practice of testing the reliability of its inspection protocol to maximize consistency and objectivity. As requested by Congress, the REAC is presently conducting a statistically valid test of the physical inspection protocol and conducting a thorough analysis of the results; both the methodology and the results will be reviewed by an independent expert to determine whether additional improvements are needed to ensure high quality and consistent inspection results.

With respect to HUD's adoption of its quality assurance recommendations, the GAO report states:

In our view, this is a very positive step toward providing HUD management, the Congress, and others with information for assessing REAC's progress in achieving key objectives, such as ensuring that the inspection contractors are complying with the terms of their contracts, inspectors are performing inspections consistently with REAC's

Page xv. Third bulleted paragraph. PHAS has provided flexibility to deal with local situations without using the appeals process. For example, in cases where the streets do not belong to the public housing agency, PHAS provides for data base adjustments. Upon notification from the PHA and verification, REAC will make a data based adjustment and zero out any points deducted as a result of the noted deficiency. The PHA can request this adjustment before the inspection or up to 15 days following the inspection. Misunderstandings and obvious errors can be corrected either by data based adjustments or technical reviews. Both of these processes can be instigated before a final score is rendered.

Page xvii (and 93). The meaning and significance of Finding 10 would be clearer if the underlined text were inserted in the last sentence of this finding: “. . . Therefore, none of the other approaches considered could be a substitute for HUD’s current approach in order to fulfill this essential core mission of HUD.” We assume this is the intent of this finding.

Page xx. The draft report states that, in response to industry consultations, HUD has only been willing to change the “definitions of deficiencies” and that we haven’t made changes to the “formula factors used to convert inspection findings into official scores.” This paints a misleading picture of the actual consultation process. During the intensive consultation sessions referenced in the draft report, the industry representatives requested that HUD make changes in both the definitions and the formulas. At the time, HUD articulated its position that we should only change one thing at a time. In other words, if we changed definitions we should not change weights so that we could evaluate what change achieved the desired results. HUD informed the group that it would be willing to change weights and criticalities at a later date if the initial changes did not achieve a satisfactory result.

Page 2 (and 61). The assertion in footnote 4 that “HUD’s Office of Public and Indian Housing (PIH) is contracting for a consultant study to identify which of its requirements are statutory and which are administratively determined” is plainly wrong. The referenced study is actually for work contributing to a compliance monitoring guidebook. The contractor will be assembling, as one part of the information the guidebook will provide, a compendium of the origin of the various compliance requirements. They will be ascertaining that information *from HUD* and will simply incorporate it into the guidebook. To say that HUD is not certain which of its requirements are statutory and which are administratively required is both inaccurate and professionally insulting. (This error is repeated on p. 61.)

Page 4. The second bulleted paragraph is “Office of Troubled Housing Recovery.” The office to which it refers is the “Office of Troubled Agency Recovery.”

Page 9. There actually is a self-assessment component to PHAS. Under the Management Assessment Sub-System indicator, PHAs must measure their performance in light of preset criteria (sub-indicators).

Page 13. The legislative proposals cited have not received any action or discussion in Congress. While they are potentially important because they were introduced by the chair of the housing subcommittee, it is premature for them to be published in the report.

Page 33. *Scoring the Public Housing and Section 8 Project-Based Properties.*

Troubled in One Area. A PHA is designated as “troubled” if its overall performance does not meet the assessment requirements. Additionally, a PHA is designed as a troubled performer if it has failed to achieve 60% of the points in one of the three areas, management operations, financial condition or physical condition, but possesses an overall score of 60% or better. To differentiate a PHA that fails only one assessment component from those that fail the overall assessment, HUD refers to the PHA as having *substandard* management operations, or *substandard* financial condition, etc. HUD generally does not use the term “troubled in one area.”

Overall Troubled. A PHA is designated as “troubled” when it fails to achieve an overall passing score or it fails to achieve a passing score in one of the three major areas. There is no separate designation of “Overall Troubled”. The PHAS Amendments Final Rule uses this as a descriptive term under the “Troubled performer” section.

Page 34. The draft report does not provide sufficient detail on the incentives that HUD has instituted for high performers. PHAs that received 90% or more on the physical condition indicator will be inspected only every other year. Additionally, high performers receive a 3% bonus in capital funds (eventually going up to 5%) and can file streamlined PHA Plan templates. For Multifamily Housing providers the change to the uniform physical inspection standards has created benefits for all providers, and increased benefits for high-performing housing providers. Prior to the uniform standard inspections, owners of FHA insured properties could be inspected by both HUD and the lender in a given year, two inspections covering the same property but using somewhat different standards. Now mortgagees and HUD will use the same standards. Providers will have only one inspection from either entity, and high performers, those scoring 90 or above, will be inspected every three years. Those scoring 80-89 will be inspected every two years. Only those properties scoring below 80 will be inspected every year.

Page 37. The third sentence in the last paragraph is inaccurate. The report states that a score of 60 “is one point above failing.” This is inaccurate. Any score less than 60 (i.e., 59.89) is failing.

Page 38. The report states that “[t]he TARC’s are already beginning to see “repeat offenders” because support may have been discontinued too soon.” This is incorrect; we have no repeat offenders in the TARC’s. The program has not been in existence long enough for this trend to be revealed.

Page 39 - 40. The report asserts that an “adversarial relationship” exists between HUD and PHAs, and is a reflection of a “skepticism within the department that PHAs can act responsibly.” The report also uses the term, here and elsewhere, “HUD culture.” Contrary to the assertions in the report, PIH does not believe it has an “adversarial relationship” with PHAs. PIH considers its relationship with PHAs to be that of a steward of the public trust, but also a partner. PIH does not view PHAs as “subordinate components of HUD,” but rather as PIH’s local partners. Key decisionmakers in PIH are former PHA executives and are sensitive to the concerns and challenges faced by PHAs. PIH routinely collaborates with the industry in training and technical assistance activities, as well as on implementation of regulations implementing Quality Housing and Work Responsibility Act (including three negotiated rulemakings). Using the phrase “HUD culture” is unnecessarily pejorative and implies that all relationships and every interaction is governed by an outdated bureaucratic view of PHAs. One of the major thrusts and accomplishments of Management 2020 is the reform of HUD’s top-down bureaucracy with a new customer-friendly structure that is closer and more responsive to its customers, one that frees more staff time in field offices for working with PHAs and their communities.

Page 41. In the discussion of administrative and regulatory requirements placed on providers, the report properly credits HUD for reducing administrative burdens, mentioning the conversion of the PHDEP and CIAP programs from competitive to formula grants. It is very important to recognize that the PHA Plan was developed, in part, to streamline the number of grant and programmatic submissions to HUD. The PHA Plan itself has reduced submission requirements for small and high performing PHAs, and HUD recently issued a streamlined format under which small, non-troubled PHAs will provide a simple update as their second and fourth year annual submissions. PIH is also committed to providing the PHA Plan template as an Internet-based tool that can be more easily filled out and submitted.

Page 41. The comprehensive grant program and the modernization program are the same program.

Pages 41 and 101. Here and elsewhere, the draft report discusses the need for greater flexibility and autonomy for public housing agencies. One potential consequence of increased autonomy, however, is increased potential for violations of civil rights. It is important to ensure enforcement of civil rights laws.

Page 42. In the last sentence there is a typo. The phrase “oversight or multifamily properties” should be “oversight of multifamily properties.”

Page 43. The panel discusses the perceptions of the industry that HUD has not consulted effectively on the standards by which the PHAs are to be assessed.

Further, the panel concludes that these perceptions appear to have merit based on a definition of effective consultation derived mostly from prior research conducted by the Academy.

However, as the draft report acknowledges, HUD “conducted extensive meetings with PHA representatives over a three-month period in late 1999 that led to changes in the descriptions of 65 percent of the physical assessment protocols” (page 43), the department “held a number of meetings with industry representatives to listen to their concerns, and is continuing its efforts to resolve [] issues” (page 52), “HUD is developing final guidelines for the PHA appeals process in consultation with PHA representatives” (page 56) and HUD has taken additional steps “to involve the public housing industry in the quality-assurance system by establishing a 12-member PHAS Advisory Panel (page 40). In HUD’s view, these actions do provide evidence of effective consultation.

Page 43. The draft report states that the system creates pressure to correct any and all physical deficiencies immediately to raise scores. HUD is grateful to hear that PHAs are making improvements as a result of the deficiencies identified through the physical inspection system; this will lead to improvements in the lives of residents. HUD strongly doubts, however, that PHAs will make irrational repair decisions as a result of the PHAS system. Many PHA administrators are seasoned professionals who are used to balancing competing priorities and managing them in the best interest of the PHA. The Uniform Physical Condition Standard (UPCS) and the physical inspection protocol are designed to be used as a tool for the PHA to identify areas of weakness in their physical condition. Properly utilized, this tool will assist the PHA in determining its priorities.

Page 44. The panel contends that HUD’s instruction to the contract inspectors not to discuss the inspectors’ findings during the inspection prevents the resolution of misunderstandings and the correction of errors. However, the physical inspection scores are posted by development as they become available thus giving the HA the opportunity to correct misunderstanding and obvious errors through either a request for a data base adjustment or technical review without overburdening the appeals system.

Page 46. It is incorrect to state that there have been “frequent system changes” to MTCS. All the changes necessitated by QHWRA were made in one iteration. HUD has also provided for ample time and training for PHAs to implement the new system.

Page 47. This section discusses the fact that PHAS is not the only change that the PHAs have to assimilate. The panel attributes this to “HUD’s desire to produce rapid results.” However, the timing of most of the rules implementing QHWRA is statutorily driven. The required date for implementation of QHWRA’s many provisions are specified in detail in the statute and are beyond HUD’s control.

Page 47. The Academy reports an industry claim involving the “secrecy surrounding scoring system” for PASS. In fact, there is no “secrecy” surrounding the

PHAS scoring system. HUD has published detailed scoring notices for all PHAS indicators in the Federal Register and on its web page.

Page 49. In footnote 48, it should be noted that the most recent version of the Allard bill excludes public housing from its state housing block grant proposal.

Pages 50, 63-64. The report first discusses the Office of Housing contracting out administration of their Section 8 HAP contracts including monitoring and oversight. It then states “For the Section 8 tenant-based program HUD has decided to rely on audited PHA self-assessments, which greatly reduces demands on HUD staff,” thus giving the impression that this is not a significant workload item. This is not correct. SEMAP is only a risk management tool and the assessment, monitoring and oversight is still done by HUD staff. While the Financial Management Center receives Financial Statements, the analysis of the statements is still done by PIH field staff. It should be noted that the HAP contracts are entirely different for both programs and the study is comparing total oversight and monitoring in Housing with what is only an assessment tool in PIH.

PIH recognizes that, in order for Management 2020 to succeed, it indeed has to have the right people with the right skills in the right place. It is correct that with the downsizing PIH lost many skilled and knowledgeable staff, but the organization has been taking measures to ensure that it continues to fulfill its role of monitoring and assisting PHAs in achieving success in the implementation of HUD programs. PIH has made a substantial effort to fine-tune the new organization, recruiting staff for the centers and offices, developing and implementing protocols and coordination mechanisms between the new organizational components, developing systems, and developing and implementing training for HUD staff and PHAs. Among other improvements, the establishment of the Section 8 Financial Management Center has substantially reduced the workload of the field. These efforts are ongoing.

The statement “the majority of PIH’s current field staff have never worked for a PHA” gives the unsubstantiated impression that it was different in the past. When added to the second part of the sentence “and a considerable number are former single-family housing specialists who transferred from the Office of Housing with little or no formal training in the public housing arena,” it tends to create a false impression that most of the PIH field staff are former single-family staff with no knowledge of public housing. PIH acknowledges that in some field offices a portion of the current staff came to public housing from other program areas as a result of the reorganization and subsequent staff recruitment. As mentioned before, the organization has made a substantial effort in providing training to the staff and these efforts will continue in the future. In coordination with REAC, PIH has provided and continues to provide PHAS training to HUD staff and PHAs. This training should help enhance the staff capability to use PHAS as a management tool in the provision of technical assistance to those PHAs who need it most.

PIH is aware that a substantial amount of work has remained in its field offices and that is one of the reasons why it began the implementation of a workload assessment study. The results of this study will be incorporated in the Resource

Estimation and Allocation Process study already under implementation Department-wide.

Page 54. With regard to the issue of inaccessibility to HUD's financial assessment computer system, we have resolved this issue by implementing a cluster server environment.

Page 54 - 55. In comparing HUD's current system of quality assurance with its 14 characteristics, the Academy provides caveats with respect to its determination that HUD's current system meets characteristics 5, 6, 8, and 10. Often the caveats deal with the views of "a number of PHAs" or "many PHAs" or "the public housing industry." Relying on what can only be a sample representation of more than 3,200 PHAs to determine that HUD's system falls short in meeting these characteristics is not fair. HUD's system meets the standard of these characteristics, and the editorial statements should be deleted.

Page 55. The discussion under #8 states that PHAs don't believe the current tenant survey is an adequate measure of tenant satisfaction, but no examples or specifics are provided. The discussion also states that there is some question about whether the current survey provides enough opportunity for tenant feedback. But what do the residents themselves think? The PHA opinion of the tenant survey should not be accepted without additional investigation, including tenant input.

Page 57. In the "Overall Comparison," the list of missing critical elements in HUD's system does not match what The Academy says on p. 67 (first bullet).

Page 58. "Building Better Relationships...Industry" speaks about building a partnership between HUD and the industry. Here and throughout, there is little discussion of the role of residents. The report should acknowledge that residents are also important stakeholders in the process.

Page 61. Regarding the PHA Plan, HUD has not tried to insist that PHAs adopt its annual performance plan goals or otherwise insisted on particular outcomes of their planning processes. HUD's PHA Plan template does not do this. The template reports the PHA's decisions to HUD in a concise form; those decisions should have resulted from appropriate planning and analysis. This, perhaps, is a checklist approach to *reporting*, but not to *planning*.

The description of issues related to the Plan does not reflect the full range of PHA reactions or concerns, nor does it acknowledge when the concerns of different types of PHAs may be at odds. For example, comments regarding duplicate planning processes and substitution of the template for real planning imply that PHAs generally wanted HUD to mandate a comprehensive planning document to be developed rather than the template. This is certainly not what HUD has been hearing from, in particular, small PHAs. Recently, to further streamline the PHA Plan for small, non-troubled PHAs, HUD issued a "Small PHA Plan Update" template for those agencies to submit as their second and fourth annu-

al plans. The update significantly reduces the burden on those PHAs while providing HUD with information necessary to determine compliance with statutory programs.

The implementation of the PHA Plan as a streamlined template submitted to HUD, but locally accompanied by comprehensive supporting documents is in the spirit of deregulation that QHWRA intended. The template does not prohibit any PHA from conducting a comprehensive planning process or developing other documents to more fully explain its operations. It does relieve PHAs of the burden of developing long, narrative documents for submission to HUD.

Page 61. In the Moving to Work discussion, it must be understood that an implementation agreement had to be negotiated with each of the Moving to Work PHAs, a significantly labor-intensive activity. Expanding the demonstration as currently configured to 3,200 PHAs would impose an overwhelming workload on HUD in terms of implementation and administration. The intent of the Moving to Work demonstration was to study the potential consequences of federal deregulation. It is highly premature at this time to offer the vehicle of the Moving to Work demonstration as an “option” for broad regulatory relief; results of the demonstration need to be analyzed and evaluated, and it is from that evaluation process that broad-based streamlining and regulatory relief may occur.

Pages 65 - 66. It is worth emphasizing here and elsewhere that HUD’s quality assurance system has more of the characteristics (8) the Academy has identified as necessary components of a complete system of monitoring and oversight than any of the other approaches examined.

Pages 71-96. In assessing other approaches for quality assurance for programs in the Office of Housing, the draft report does not consider the constraints of existing contracts and regulations when they propose that HUD require such items as the addition of a peer review and an independent management audit of housing providers. Private owners differ somewhat from their public housing counterparts because they are primarily profit motivated and in a competitive industry. They are more reluctant to show “peers” their books and records, their maintenance and operating plans and budgets. To impose this over their reluctance not only seems counter to the Academy’s general thrust of consultation, but could yield unintended negative results. Since Housing is not creating any new units of Section 8, and since opt-outs are an important issue, attempting to increase and/or transfer the burden of evaluation to housing providers will increase the exodus from this program.

Page 89. HUD has formulated a committee that will be responsible for many of the functions envisioned under this paragraph – the PHAS Advisory Committee. However, the panel suggests that there be expanded duties assigned to this committee. We would caution that the time commitment required by such an expansion of duties may effectively prohibit many members from being able to serve. One of the first discussions of the PHAS Advisory Committee concerned the time commitment.













Appendix



List of Acronyms and Definitions

LIST OF ACRONYMS AND DEFINITIONS

ABS	American Board of Shipping
ACIR	Advisory Commission on Intergovernmental Relations
ACP	Alternative Compliance Program
AMO	Accredited Management Organization
ANSI	American National Standards Institute
ARM	Accredited Residential Manager
CDBG	Community Development Block Grant (Program)
CLPHA	Council of Large Public Housing Authorities
DEC	Departmental Enforcement Center
ED	U.S. Department of Education
FACA	Federal Advisory Committee Act
FASS	Financial Assessment Scoring Subsystem
FHEO	Office of Fair Housing and Equal Opportunity
FSIS	Food Safety and Inspection Service
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GPRA	Government Performance and Results Act
HACCP	Pathogen Reduction and Hazard Analysis Critical Control Point
HAP	Housing Assistance Payments (Contract)
HOPE	Homeownership and Opportunity for People Everywhere (Program)
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
IG	Inspector General
IPA	Independent Public Accountant
IREM	Institute for Real Estate Management
ISO	International Organization for Standardization
JCAHO	Joint Commission on Accreditation of Healthcare Organizations
MASS	Management Assessment Scoring Subsystem
MRP	Management Reform Plan
MTCS	Multifamily Tenant Characteristics System

*List of Acronyms and
Definitions*

MTW	Moving-to-Work
NAHRO	National Association of Housing and Redevelopment Officials
NAP	National Accreditation Program
NAPA	National Academy of Public Administration (the Academy)
NASA	National Aeronautics and Space Administration
NCHM	National Center for Housing Management
PASS	Physical Assessment Scoring Subsystem
PHA	Public Housing Agency (Authority)
PHADA	Public Housing Authority Directors Association
PHAS	Public Housing Assessment System
PHDEP	Public Housing Drug Elimination Program
PHMAP	Public Housing Management Assessment Program
PIH	Office of Public and Indian Housing
QHWRA	Quality Housing and Work Responsibility Act of 1998
RAB	Registrar Accreditation Board
RASS	Resident Assessment Scoring Subsystem
REAC	Real Estate Assessment Center
RFP	Request for Proposals
S&P	Standard and Poor's
SEMAP	Section 8 Management Assessment Program
SHA	State Housing Agency
SIP	Streamlined Inspection Program (USCG)
TARC	Troubled Agency Recovery Center
TQM	Total Quality Management
TRB	Transportation Research Board
UMRA	Unfunded Mandates Reform Act of 1995
UPCS	Uniform Physical Condition Standards
USCG	United States Coast Guard
USDA	U.S. Department of Agriculture