

GAO

Report to the Chairman, Subcommittee
on Housing and Community Opportunity,
Committee on Financial Services, House
of Representatives

February 2005

HUD RENTAL ASSISTANCE

Progress and Challenges in Measuring and Reducing Improper Rent Subsidies



Accountability * Integrity * Reliability



Highlights of [GAO-05-224](#), a report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

In fiscal year 2003, the Department of Housing and Urban Development (HUD) paid about \$28 billion to help some 5 million low-income tenants afford decent rental housing. HUD has three major programs: the Housing Choice Voucher (voucher) and public housing programs, administered by public housing agencies; and project-based Section 8, administered by private property owners. As they are in every year, some payments were too high or too low, for several reasons. To assess the magnitude and reasons for these errors, HUD established the Rental Housing Integrity Improvement Project (RHIP). In response to a congressional request, GAO examined the sources and magnitude of improper rent subsidy payments HUD has identified and the steps HUD is taking to address them, including efforts to simplify the process of determining rent subsidies.

What GAO Recommends

GAO makes recommendations designed to improve HUD's oversight of the process for determining rental subsidies in its housing assistance programs. GAO also recommends that HUD study the potential impacts of alternatives for simplifying the rent determination process. HUD agreed with GAO's recommendations to improve its program oversight but said that the report did not fully present the significance and impact of HUD's efforts under RHIP.

www.gao.gov/cgi-bin/getrpt?GAO-05-224.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-8678 or woodd@gao.gov.

HUD RENTAL ASSISTANCE

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What GAO Found

HUD has identified three sources of errors contributing to improper rent subsidy payments: (1) incorrect subsidy determinations by program administrators, (2) unreported tenant income, and (3) incorrect billing. HUD has attempted to estimate the amounts of improper subsidies attributable to each source but has developed reliable estimates for only the first—and likely largest—source. HUD paid an estimated \$1.4 billion in gross improper subsidies (consisting of \$896 million in overpayments and \$519 million in underpayments) in fiscal year 2003 as a result of program administrator errors—a 39 percent decline from HUD's fiscal year 2000 (baseline) estimate. GAO estimates that the amount of net overpayments could have subsidized another 56,000 households with vouchers in 2003.

HUD has made several efforts under RHIP to address improper rent subsidies for its public housing and voucher programs. Rental Integrity Monitoring (RIM) reviews by HUD's field offices—on-site assessments of public housing agencies' compliance with policies for determining rent subsidies—are a key part of the initiative. However, GAO found that resource constraints and a lack of clear guidance from HUD headquarters hampered the reviews and that the field offices did not collect complete and consistent data, limiting HUD's ability to analyze and make use of the results. HUD has not incorporated RIM reviews into its routine oversight activities. HUD expects that a second effort, a Web-based tenant income verification system, will avoid an estimated \$6 billion in improper subsidies over 10 years, but the system is not yet fully implemented.

HUD has undertaken RHIP efforts for its project-based Section 8 programs but faces several challenges. HUD has improved its policies and guidance for property owners. The agency also plans to give owners access to the Web-based income verification system by the end of 2006. HUD plans to rely more extensively on contractors to monitor property owners' compliance with its policies for determining subsidies.

According to HUD, the complexity of the existing policies contributes to the difficulties program administrators have in determining rent subsidies correctly. For example, program administrators must assess tenants' eligibility for 44 different income exclusions and deductions. However, simplification will likely require statutory changes by Congress and affect the rental payments of many tenants. HUD is considering various approaches to simplifying policies for determining rent subsidies but has not conducted a formal study to inform policymakers on this issue.

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Abbreviations

AMI	area median income
EID	earned income disallowance
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
PBCA	performance-based contract administrator
PHA	public housing agency
PHAS	Public Housing Assessment System
PHMAP	Public Housing Management Assessment Program
RHIIP	Rental Housing Integrity Improvement Project
RIM	Rental Integrity Monitoring
SEMAP	Section 8 Management Assessment Program
TRACS	Tenant Rental Assistance Certification System

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United States Government Accountability Office
Washington, D.C. 20548

February 18, 2005

The Honorable Robert W. Ney
Chairman, Subcommittee on Housing
and Community Opportunity
Committee on Financial Services
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we evaluate issues related to improper rent subsidy payments in the Department of Housing and Urban Development's (HUD) housing assistance programs. Specifically, this report examines (1) the sources and magnitude of improper payments that HUD has identified, (2) the actions HUD is taking under its Rental Housing Integrity Improvement Project (RHIIP) to reduce improper payments in the Housing Choice Voucher (voucher) and public housing programs and the status of these initiatives, (3) the actions HUD is taking under RHIIP to reduce improper payments in its project-based Section 8 programs and the status of these initiatives, and (4) the status and potential impact of HUD's efforts to reduce the risk of improper payments by simplifying the subsidy determination process. This report includes recommendations to the HUD Secretary.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to interested Members of Congress and Congressional Committees. We will also send copies to the HUD Secretary and make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

This report was prepared under the direction of Steven Westley, Assistant Director. If you or your staff have any questions about this report, please

contact me at (202) 512-8678 or woodd@gao.gov or Mr. Westley at (202) 512-6221 or westleys@gao.gov. Major contributors to this report are listed in appendix IV.

Sincerely yours,

David D. Wood

David G. Wood
Director, Financial Markets
and Community Investment

Executive Summary

Purpose

The Department of Housing and Urban Development (HUD) expended about \$28 billion in fiscal year 2003 for rent subsidies to public housing agencies (PHA) and property owners to make rents affordable to about 5 million low-income tenants. These subsidies accounted for almost 75 percent of the department's total expenditures. Yet every year HUD makes improper payments under these programs because it cannot ensure that tenant rental payments and subsidies are calculated correctly. Because of their vulnerability to waste, fraud, and abuse, GAO has designated HUD's rental assistance programs as high risk since early 2001.¹ In addition, the *President's Management Agenda for Fiscal Year 2002* identified HUD's rental assistance programs as one of nine program areas that had severe management challenges and that needed immediate reform.² In response to these assessments, HUD established the Rental Housing Integrity Improvement Project (RHIIP) to increase accountability and reduce improper subsidy payments.

The Chairman of the House Subcommittee on Housing and Community Opportunity, Committee on Financial Services, asked GAO to examine HUD's efforts to reduce improper rental assistance payments in its voucher, public housing, and project-based Section 8 programs. Specifically, this report discusses (1) the sources and magnitude of improper payments that HUD has identified, (2) the actions HUD is taking under RHIIP to reduce improper payments in the voucher and public housing programs and the status of these initiatives, (3) the actions HUD is taking under RHIIP to reduce improper payments in its project-based Section 8 programs and the status of these initiatives, and (4) the status and potential impact of HUD's efforts to reduce the risk of improper payments by simplifying the subsidy determination process. To address these objectives, GAO obtained and analyzed data on improper payments that HUD collected for fiscal years 2000 and 2003. We also interviewed officials from HUD's headquarters and field offices, PHAs, and contract administrators; examined laws, regulations, policies, and guidance related to subsidy determinations; and reviewed relevant HUD reports and studies. Chapter 1 provides the details of our scope and methodology. We

¹GAO, *Major Management Challenges and Program Risks: Department of Housing and Urban Development*, [GAO-01-248](#) (Washington, D.C.: January 2001).

²Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002* (Washington, D.C.: August 2001).

conducted our work between February and December 2004 in accordance with generally accepted government auditing standards.

Background

HUD offers assistance to low-income renters through three major programs: voucher, public housing, and project-based Section 8. Under each program, HUD makes up the difference between a unit's monthly rental cost (or, for public housing, the operating cost) and the tenant's payment, which is generally equal to 30 percent of the tenant's adjusted monthly income. PHAs administer the voucher and public housing programs, and private property owners administer the project-based Section 8 programs. These program administrators are responsible for ensuring that tenants meet HUD's eligibility criteria and for accurately determining rent subsidies.

HUD established RHIIP in 2001 with a goal of reducing the estimated dollar amount of improper rent subsidies by 50 percent from fiscal years 2000 (baseline year) to 2005. To accomplish this goal, HUD initiated three program-level efforts designed to (1) increase monitoring of program administrators, (2) establish an income verification system that allows PHAs and property owners to compare income information reported by tenants with income information from government agencies, and (3) providing additional training and guidance for program administrators. HUD also initiated two overarching efforts under RHIIP that are aimed at measuring the amount of improper subsidies and simplifying rent subsidy policies.

Results in Brief

HUD has identified three sources of errors that result in improper rent subsidy payments: (1) incorrect subsidy determinations made by program administrators (program administrator errors), (2) unreported tenant income, and (3) incorrect billing or distribution of subsidy payments (billing errors). HUD conducted separate studies to identify the amount of improper rent subsidies attributable to each source of error but has developed reliable estimates for only one of the three sources—program administrator errors—for fiscal years 2000 and 2003. HUD paid an estimated \$1.4 billion in gross improper subsidies (the sum of both overpayments and underpayments) in fiscal year 2003 as a result of such errors. While this amount represents a 39 percent decrease in such errors since fiscal year 2000, HUD officials stated that the decline cannot be attributed entirely to RHIIP because many of the key efforts were in the

early stages of implementation in 2003. HUD does not have reliable estimates for unreported tenant income or billing errors.

HUD has made several program-level efforts under the RHIP initiative to address improper rent subsidies for its public housing and voucher programs. An important part of these efforts was the Rental Integrity Monitoring (RIM) review, HUD's on-site assessment of PHAs' compliance with the department's policies for determining rent subsidies that were conducted from 2002 to 2004. However, these reviews, while important, were hampered by implementation problems, including a lack of clear policies and procedures. Further, HUD has not incorporated the reviews into its routine oversight activities. While HUD has established a database to track the results of RIM reviews, the data are incomplete and inconsistent, limiting their usefulness in analyzing the results of the assessments and measuring improvements in PHAs' determinations of rent subsidies. HUD has begun implementing a new Web-based tenant income verification system, which is expected to reduce improper rent subsidies due to tenant underreporting of income. HUD lacks a reliable estimate of improper payments attributable to billing errors in these programs and, as of December 2004, did not have an effort in place specifically to address billing errors.

HUD has undertaken RHIP efforts for its project-based Section 8 programs but faces several challenges. First, HUD has improved its policies and guidance for property owners. However, a key part of the guidance calling for contract administrators to collect information on improper rent subsidies at each property was not widely followed partly because the data collection effort was not mandatory and duplicated some contract administrators' existing procedures. Second, it plans to implement a new Web-based income verification system but not until fiscal year 2006 after it has taken necessary security precautions against improper disclosure of income information. Finally, HUD plans to rely on performance-based contract administrators (PBCA) to monitor property owners' compliance with department policies for calculating subsidies. Although HUD's requirements for PBCAs call for extensive monitoring of the subsidy determination process, HUD may face challenges in ensuring that PBCAs follow these requirements.

According to HUD, the complexity of the existing policies is one of the reasons program administrators have difficulty calculating rent subsidies correctly. HUD is considering ways to simplify its policies for determining rent subsidies and is meeting with program administrators and other

interested groups to discuss possible approaches. Currently, three potential approaches to simplifying policies for determining subsidies are being examined: (1) basing rents on tenants' income but using few or no exclusions or deductions, (2) setting flat rents for different income tiers, and (3) a mixed approach. Changes to current policies for determining rent subsidies could result in higher rents for some tenants and lower rents for others. For example, some tenants might be required to pay more if certain income exclusions and deductions for which they currently qualify are eliminated. In addition, implementing simplified policies could be difficult, creating confusion among program administrators and tenants in the short term.

Principal Findings

HUD Has Identified Sources of Error but Lacks Complete and Reliable Estimates of Improper Subsidies for Every Source

To determine the amounts of improper rent subsidies resulting from program administrator errors, HUD collected data on more than 2,400 randomly selected households participating in the voucher, public housing, and project-based Section 8 programs for fiscal years 2000 and 2003. GAO's analysis of the documentation and data collected indicated that these studies provide a reasonably accurate estimate of the subsidy determination errors that the program administrators made. Data from the fiscal year 2003 study showed that the department paid an estimated \$1.4 billion in gross improper rent subsidies (representing \$896 million in overpayments and \$519 million in underpayments) as a result of program administrator errors in fiscal year 2003—a 39 percent decrease from fiscal year 2000.³ GAO estimates that, if these errors had not occurred, HUD could have provided vouchers to 56,000 additional households in fiscal year 2003—approximately the same number of households that receive vouchers in the Los Angeles, California, area.

For the other two sources of errors, HUD did not produce complete or reliable estimates for all three programs for fiscal years 2000 and 2003. More specifically, HUD's fiscal year 2003 estimate of improper rent

³The margin of error at the 95 percent level of confidence for the estimated \$1.4 billion in gross improper subsidies is ±\$185 million. The margins of error for the estimated \$896 million in overpayments and \$519 million in underpayments are ±\$132 million and ±\$96 million, respectively.

subsidies attributable to unreported tenant income was unreliable because it was based on a sample that was too small to produce a more precise dollar estimate. Also, significant differences in the methodologies HUD used to make the fiscal year 2000 and 2003 estimates suggest that any comparison between the estimates would be invalid. Furthermore, HUD has had difficulty making an accurate estimate of billing errors for the project-based Section 8 programs for fiscal year 2003 and does not plan to make estimates for the voucher and public housing programs until September 2005. However, according to HUD, the low incidence of unreported income and billing errors identified in its studies indicate that these two sources of errors are likely small relative to program administrator error.

Although HUD Has Taken Action to Reduce Improper Rent Subsidies in the Public Housing and Voucher Programs, Implementation Problems Have Hampered Its Efforts

HUD has undertaken several efforts under RHIIP to address improper rent subsidies for its public housing and voucher programs. These efforts addressed two of the three sources of errors—program administrator errors and unreported tenant income. As of December 2004, HUD did not have an effort in place specifically to address billing errors.

To increase monitoring of PHAs' subsidy determinations, HUD field office staff completed RIM reviews at 722 PHAs between June 2002 and September 2003. From April 2003 through October 2004, the field offices conducted additional reviews at 363 PHAs to determine whether the PHAs had corrected problems identified during the original reviews. However, GAO found that the RIM reviews were hampered by implementation difficulties. For example, officials at several HUD field offices reported that they did not have enough staff to perform RIM reviews in a timely manner. Additionally, field offices did not always follow policies and procedures for conducting reviews—for instance, by not adequately supporting findings in their RIM review reports. Further, problems with a database containing information on RIM reviews prevented HUD from analyzing the results of the reviews to assess improvements in PHAs' calculations of tenant subsidies and provide technical assistance to PHAs. Specifically, HUD staff did not always enter information in the database because, according to HUD officials, field offices had not submitted the data in a timely manner and headquarters lacked staff to manage data collection and entry tasks. Although RIM reviews are not a regular part of HUD's oversight activities, HUD is considering permanent on-site monitoring of PHAs' subsidy determinations but has not yet decided whether to implement it.

HUD has implemented a Web-based income verification system and has provided training and guidance for PHAs. HUD expects that the income verification system will help PHAs detect underreported and unreported tenant income and yield an estimated \$6 billion in savings for all of its programs over a 10-year period. HUD has provided more training and guidance to PHAs on topics such as how to calculate subsidies and improve quality control procedures. However, these efforts have not always been adequate or timely. For example, although HUD sponsored training on its subsidy determination policies in early 2004 to prepare PHAs for RIM reviews, the training was held after most RIM reviews had been completed. Had the training been held prior to the RIM reviews, PHAs might have been better able to understand the basis for the RIM review findings and the corrective actions needed to address them.

HUD Has Made Efforts to Strengthen Oversight of Rent Subsidy Determinations in Project-Based Section 8, but Challenges Remain

HUD has begun to implement efforts under RHIIP that address all three sources of errors in its project-based Section 8 programs, but the department faces several challenges in carrying out these initiatives. First, HUD has improved its policies and guidance for its project-based Section 8 programs. However, contract administrators have not always followed a key part of the guidance that called for them to collect information on improper rent subsidies at each property because the data collection effort was not mandatory and duplicated some contract administrators' existing procedures. Second, HUD plans to use the same Web-based income verification system it is implementing for its voucher and public housing programs for its project-based Section 8 programs. Because HUD must resolve security concerns about improper disclosure of tenant income information to private property owners, the system will not be used for the project-based Section 8 programs until fiscal year 2006.

Finally, HUD plans to rely on PBCAs to monitor property owners' compliance with HUD's policies for determining rent subsidies. For the past several years, HUD has been transferring responsibility for overseeing property owners to PBCAs from other types of contract administrators. HUD has transferred contract administration responsibilities to PBCAs because its field offices lack the resources to adequately monitor properties. HUD requires PBCAs to perform extensive annual reviews of properties' operations, including reviewing owners' rent subsidy calculations. To ensure that the PBCAs meet HUD's performance standards, HUD has developed a comprehensive oversight program. Implementing these oversight measures, however, could pose challenges for HUD.

HUD Is Considering Simplifying Policies for Determining Rent Subsidies, but the Effects of These Changes Require Further Study

As part of RHIIP, HUD is considering ways to simplify its policies for determining rent subsidies but has not formulated a specific proposal. According to HUD, the complexity of the existing policies contributes to errors in determining subsidies. For example, program administrators currently must determine tenants' eligibility for 44 different income exclusions and deductions in order to calculate rent payments and subsidies. HUD is considering several approaches for simplifying rent subsidy policies, including

- an income-based approach that would set tenants' rents at a percentage of income, possibly with a limited number of exclusions and deductions or none at all;
- a tiered flat-rent system that would establish tenants' rents for several income bands and eliminate the need to readjust rents because of income changes, provided the changes were within the same band; and
- a mixed approach that would give program administrators various rent structures to choose from, including income-based and tiered flat rents.

Adopting any simplification approach would represent a change from current policies. Because most of HUD's policies have a basis in statute, major changes are likely to require congressional action. Under any simplification approach, many tenants' rental payments could be affected, with some tenants paying higher rents and others paying lower rents—for example, if the current system of income deductions and exclusions is altered or eliminated, some tenants could end up paying more in rent. HUD staff have conducted a preliminary analysis of the impact of some simplification approaches on tenants' rental payments and program costs. However, the department has not conducted a formal study on the impact of policy changes to inform policymakers on this issue.

Recommendations for Executive Action

To ensure that HUD continues to reduce improper subsidies in its public housing and voucher programs, we recommend that the HUD Secretary make regular monitoring of PHAs' compliance with HUD's policies for determining rent subsidies as a permanent part of HUD's oversight activities. Also, we recommend that the Secretary study the potential impacts on tenant rental payments and program costs of alternative strategies for simplifying program policies.

Agency Comments and Our Evaluation

We provided HUD with a draft of this report for review and comment. HUD provided general comments in a letter from the Deputy Secretary, which are discussed in detail at the end of chapters 2, 3, 4, and 5. The letter is printed in appendix III. The department also provided technical comments that we incorporated where appropriate.

HUD stated that our draft report did not fully present the impact of HUD's efforts under RHIP. For example, HUD said that the draft report did not recognize the department's outreach, guidance, and training efforts as contributing factors to the reduction in estimated improper payments. Although the draft report discussed these efforts, we added language to the final report to incorporate HUD's view that these efforts contributed to the reduction. HUD also disagreed with the draft report's finding that the department has complete and reliable estimates only for one source of error. Because HUD's estimates for two of the three sources of errors had margins of error greater than the estimates themselves and, for billing errors, only covered project-based Section 8, we made no changes to this finding in the final report. HUD concurred with our finding that guidance for collecting data on the types and frequency of errors property owners made in determining subsidies was not widely followed and stated that it would revise its contracts with PBCAs to address this issue.

HUD agreed with and has taken steps to implement our recommendation that the department regularly monitor PHAs' compliance with its policies for determining rent subsidies for the public housing and voucher programs and collect information from these monitoring efforts. HUD disagreed with our recommendation to conduct additional analysis of data on program administrator errors for the project-based Section 8 program because existing data were insufficient to make a statistically valid estimate of error by type of contract administrator. Given that HUD's existing data would not readily allow HUD to perform this analysis, we did not include this recommendation in our final report. HUD did not respond directly to our recommendation that the department formally study the impact of proposed changes for simplifying its rent subsidy policies but said that its prior simplification proposals had undergone extensive analysis. Our draft report discussed HUD's efforts to analyze simplification approaches. During the course of our review, and in its technical comments on our draft report, the department provided us only an internal analysis of a single simplification approach, which, according to HUD, it is no longer considering. Because simplifying HUD's policies for determining rent

subsidies will likely require legislative changes, we continue to believe that a formal study will be essential to informing congressional decision making.

Introduction

In fiscal year 2003, the Department of Housing and Urban Development (HUD) expended about \$28 billion in rental assistance—about 75 percent of the department’s total expenditures—to help almost 5 million low-income tenants afford decent housing. HUD provides rental assistance through three major programs: Housing Choice Vouchers (vouchers), public housing, and several project-based Section 8 programs. These programs reduce tenants’ rental payments by providing subsidies to owners of private properties, the public housing agencies (PHA) responsible for government-owned developments, or both. Because these subsidies involve complicated calculations and program rules, the process of determining them is prone to errors. In response to growing concerns about improper rental assistance payments, in fiscal year 2001 HUD established the Rental Housing Integrity Improvement Project (RHIP), which is designed to address the causes of these errors and ensure that only eligible people receive subsidies.

This report discusses (1) the sources and magnitude of improper payments that HUD has identified, (2) the actions HUD is taking under RHIP to reduce improper payments in the voucher and public housing programs and the status of these initiatives, (3) the actions HUD is taking under RHIP to reduce improper payments in its project-based programs and the status of these initiatives, and (4) the status and potential impact of HUD’s efforts to reduce the risk of improper payments by simplifying the subsidy determination process.

HUD’s Rental Assistance Programs Vary in Size and Are Administered Differently

HUD’s voucher, public housing, and project-based assistance programs share the common mission of making housing affordable to low-income households. The subsidies these programs provide are not an entitlement. Typically, the number of low-income households eligible for assistance exceeds the number of subsidized units and vouchers that is available. Specifically, HUD estimated that in 1999 about a quarter of all households eligible for housing assistance received it. HUD’s programs are administered differently and vary in the number of households they assist and the amount of funding they receive.

The voucher program, which local PHAs administer on HUD’s behalf, is HUD’s largest rental assistance program. The program, authorized under Section 8 of the United States Housing Act of 1937, as amended, provides housing vouchers that eligible individuals and families can use to rent houses or apartments in the private housing market from property owners participating in the program. Voucher holders are responsible for finding

suitable housing, which must meet HUD's housing quality standards. In fiscal year 2003, the program assisted about 2 million households (42 percent of all households receiving HUD housing assistance) and had outlays of \$13.4 billion (47 percent of HUD's total rental assistance outlays). In general, only households with very low incomes—those with incomes that are less than or equal to 50 percent of area median income (AMI)—are eligible for vouchers. In addition, the legislation requires that at least 75 percent of new participants in the voucher program have extremely low incomes—that is, their incomes must be at or below 30 percent of AMI.¹ Voucher holders generally pay 30 percent of their adjusted monthly income toward rent, and the PHA receives HUD subsidies to pay the remainder of the rent to the property owners. The subsidies in the voucher program are tenant based—that is, they are tied to the household rather than to the rental unit. The approximately 2,500 PHAs that administer the voucher program are responsible for ensuring that tenants meet program eligibility requirements and that tenant subsidies are calculated properly.² PHAs are also required to develop written policies and procedures to administer the program according to HUD regulations.

Under the public housing program authorized by United States Housing Act of 1937, as amended, HUD subsidized the development, operation, and modernization of government-owned properties, which are currently managed by some 3,300 PHAs. In fiscal year 2003, HUD's public housing program assisted 1.2 million households (25 percent of households receiving housing assistance) and had outlays of \$7.1 billion (25 percent of HUD's total rental assistance outlays).³ To be eligible for public housing, a household must be low income—that is, have an income that is less than or equal to 80 percent of AMI—and the legislation stipulates that at least 40 percent of new residents have extremely low incomes—less than or equal to 30 percent of AMI.⁴ As in the voucher program, public housing tenants generally pay 30 percent of their adjusted monthly income on rent. HUD pays subsidies to the PHAs for the remainder to cover the difference between the PHAs' operating costs and rental receipts. In contrast to the

¹See 42 U.S.C. 1437n(b)(1).

²These 2,500 PHAs are among the approximately 3,300 that administer federal housing programs on behalf of HUD.

³This figure includes both operating and capital subsidies.

⁴See 43 U.S.C. 1437n(a)(2).

voucher program, the subsidies in the public housing program are project based—that is, they are tied to the unit, and tenants receive assistance only when they live in units eligible for subsidies. PHAs are responsible for ensuring that tenants are eligible for public housing, that tenant subsidies are calculated properly, and that the PHAs' policies and procedures conform to HUD's regulations.

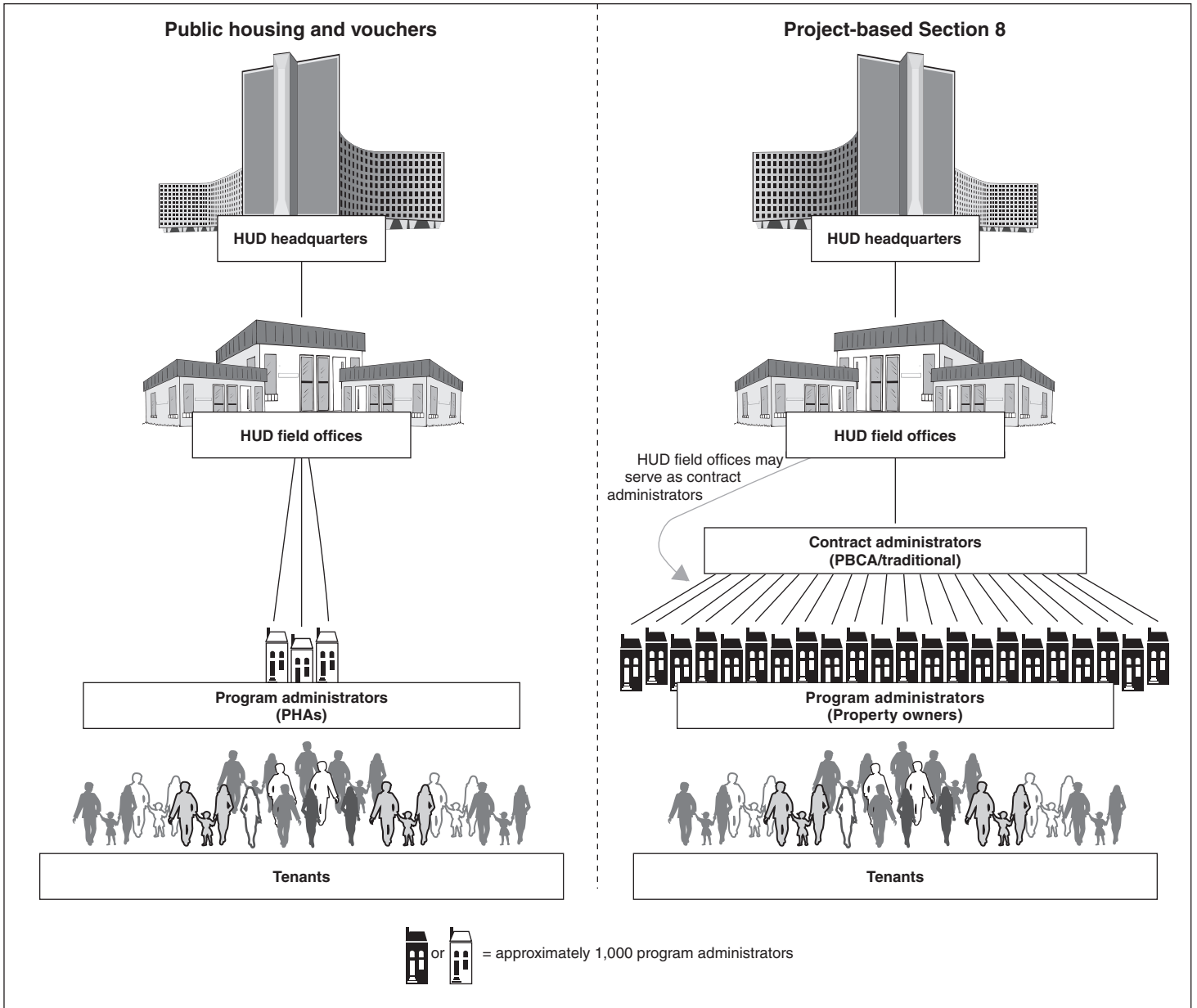
Under a variety of project-based Section 8 programs authorized by the Housing and Community Development Act of 1974, as amended, HUD has subsidized rents with multiyear rental assistance payments, which have often been combined with construction subsidies from other HUD programs. These programs included the New Construction, Substantial Rehabilitation, Loan Management Set-Aside, Property Disposition, and Moderate Rehabilitation programs. Before project-based Section 8 programs, HUD had provided rental assistance through Rent Supplement and Section 236 Rental Assistance Payment programs. For ease of presentation, this report refers to all of these rental assistance programs as project-based Section 8. Property owners and managers for about 22,000 subsidized properties currently participate in these programs. In fiscal year 2003, HUD's project-based programs assisted 1.6 million households (33 percent of all households receiving assistance from HUD) and had outlays of \$7.7 billion (27 percent of HUD's total rental assistance outlays). As in HUD's other rental assistance programs, households receiving project-based Section 8 assistance generally pay 30 percent of their adjusted income toward rent and HUD pays a subsidy—in this case to property owners and managers—for the remainder of the rent. In general, only households with low incomes are eligible for HUD project-based Section 8 assistance, and at least 40 percent of new residents must have extremely low incomes. Private property owners and managers have similar requirements to PHAs for administering the project-based Section 8 program—they must ensure that tenants meet program eligibility requirements and that tenant subsidies are calculated correctly.⁵ They also must develop administrative policies and procedures that are consistent with HUD's regulations.

⁵The only exception to this is the Section 8 Moderate Rehabilitation program, which is administered by PHAs rather than property owners or managers.

HUD's Oversight of Program Administrators Varies among Programs

HUD's oversight of program administrators varies depending on the program (see fig. 1). For vouchers and public housing, HUD field offices provide oversight of the PHAs that administer the programs. Field office staff conduct on-site reviews and analysis of PHAs' operations. Field offices are also responsible for confirming the accuracy of information PHAs submit to HUD's performance rating systems for vouchers and public housing: the Section 8 Management Assessment Program (SEMAP) and Public Housing Assessment System (PHAS), respectively. Both SEMAP and PHAS provide HUD managers with performance measures in key program areas, such as program management and the physical condition of properties.

Figure 1: HUD's Oversight Structure of Rental Assistance Programs



Sources: GAO (analysis); Art Explosion (images).

For HUD's Section 8 project-based programs, contract administrators are responsible for overseeing individual Section 8 properties and ensuring

that properties are in compliance with HUD's policies. The administrators conduct on-site reviews of property owners' tenant information files, process monthly payment vouchers, respond to health and safety issues, and renew rental assistance contracts. Currently, there are three different types of contract administrators: performance-based contract administrators, "traditional" contract administrators, and HUD field office staff (see chap. 4).⁶

Tenant Rents under Rental Assistance Programs Are Generally Based on Income

Subsidies under HUD's rental assistance programs are generally based on tenant households' adjusted annual income, or gross income less any exclusions and deductions. Laws and HUD regulations provide for 44 different types of income exclusions and deductions. Of these, HUD's regulations cite 20 income sources, such as income from minors, student financial aid, and qualifying employment training programs, which are excluded when determining households' eligibility to receive assistance and calculating tenants' rent.⁷ Nineteen other income sources qualify as exclusions under various statutes. For example, Earned Income Tax Credit refund payments received on or after January 1, 1991, are excluded, as is income from participating in AmeriCorps.⁸ A complete list and descriptions of these exclusions appear in appendix II.

In addition to these 39 income exclusions, program administrators must also apply five income deductions, which reduce the amount of income that can be considered in calculating tenants' rent.⁹ Legislation specifies the following five deductions from annual income:

- a standard amount (\$480) for each dependent;
- a standard amount (\$400) for elderly or disabled family members;

⁶Performance-based contract administrators receive an incentive fee if they perform above a minimum quality level as determined by HUD, and their fees are reduced if they perform below it.

⁷See 24 C.F.R. 5.609.

⁸HUD periodically identifies these federally mandated exclusions from income in the *Federal Register*. See 66 *Fed. Reg.* 20318 (Apr. 20, 2001) for the most recent listing.

⁹See 24 C.F.R. 5.611.

- unreimbursed child care expenses that are necessary for a family member to remain employed;
- the sum of the following to the extent that it exceeds 3 percent of annual income:
 - certain unreimbursed medical expenses for elderly or disabled family members and
 - certain unreimbursed attendant care and auxiliary apparatus expenses necessary for a disabled family member to be employed; and
- other deductions from annual income as determined by program administrator.

Once program administrators have collected information from tenants on income and applicable exclusions and deductions, HUD policy requires that program administrators independently verify this information (third-party verification). To obtain third-party verification, program administrators must directly contact employers, welfare offices, health care providers, and others to ensure that the information tenants have reported is accurate and complete. However, third-party verification on its own may not identify all income not reported (intentionally or otherwise) by tenants. The program administrator must maintain all verified information in the tenant's file.

After verifying tenants' income information, program administrators must compute the amounts tenants pay in rent. HUD regulations define these payments as the highest of the following amounts: (1) 30 percent of a family's monthly *adjusted* income—that is monthly income after exclusions or deductions; (2) 10 percent of the family's *gross* monthly income—that is, monthly income before exclusions or deductions; or (3) the applicable minimum monthly rent, which is typically between \$0 and \$50.¹⁰ Generally, the amount paid by low- and very-low- income tenants is not enough to cover the entire rent for a unit or, for public housing, to cover operating costs. As a result, for vouchers and project-based Section 8, HUD generally covers the difference between the unit's rent and the

¹⁰See 24 C.F.R. 5.628. For project-based Section 8 properties, the minimum rent is \$25 per month.

tenant's rental payment in the form of a housing assistance payment. For public housing, HUD pays the PHA an operating subsidy to cover the difference between the PHA's operating costs and rental receipts. In this report, we refer to both types of payments as rent subsidies.

HUD Established RHIP to Respond to Ongoing Problems with Improper Rent Subsidy Payments

RHIP was created as a Secretarial Initiative in the spring of 2001 to ensure that the right benefits go to the right people. RHIP was set up as a direct result of HUD's analysis of data it collected on improper subsidy payments in fiscal year 2000. For the first time, HUD managers had access to statistically valid estimates of the extent, severity, costs, and sources of subsidy errors for vouchers, public housing, and project-based Section 8 nationwide. The results of the analysis were issued in a June 2001 report, *Quality Control for Rental Assistance Subsidies Determinations*. The report focused on subsidy errors made by program administrators but did not attempt to determine if the tenants supplied accurate and complete income information. In February 2002, HUD completed a separate evaluation to determine rental assistance errors caused by unreported tenant income. The study matched incomes tenants reported with income information from Internal Revenue Service and Social Security Administration databases. The results of these studies are examined further in chapter 2.

Evaluations by GAO and HUD's Office of Inspector General (OIG) have identified long-standing problems with HUD's monitoring of program administrators responsible for making rent subsidy determinations. In 2001, GAO designated HUD's rental housing programs as high risk for waste, fraud, and abuse because the department could not ensure that only eligible households received housing subsidies or that the households received the correct amounts.¹¹ Also, HUD's OIG reported on material weaknesses in HUD's monitoring of program administrators in its financial audits of the department since 1996. The OIG found that these weaknesses

¹¹GAO, *Major Management Challenges and Program Risks: Department of Housing and Urban Development*, [GAO-03-103](#) (Washington, D.C.: January 2003) and [GAO-01-248](#).

had adversely affected HUD's ability to ensure that program administrators were correctly calculating housing subsidies.¹²

RHIIP's goal is to reduce the incidence and dollar amount of improper rent subsidies by 50 percent in fiscal year 2005 compared with fiscal year 2000, with interim goals of a 15 percent reduction by fiscal year 2003 and a 30 percent reduction by fiscal year 2004. RHIIP's performance goals are largely drawn from *The President's Management Agenda, Fiscal Year 2002*, which established nine agency-specific goals to improve federal management and performance.¹³

To accomplish RHIIP's goals, HUD has initiated the following three program-level efforts to reduce improper subsidy payments (see chapters 3 and 4):

- *Increased monitoring of program administrators* to evaluate whether subsidy calculations are correct, third-party verification of information provided by tenants is sufficient, quality control procedures are adequate, and tenant files are complete;
- *Income verification* to allow PHAs or property owners to compare tenant income information, as reported by federal and state agencies, with the information reported by the tenant; and
- *Additional training and guidance* to provide HUD staff and program administrators with the tools necessary to understand the complex requirements for determining subsidies determination.

HUD also initiated the following two overarching efforts under RHIIP:

¹²Office of Inspector General, Department of Housing and Urban Development, *Additional Details to Supplement Our Report on the U.S. Department of Housing and Urban Development's (HUD) Fiscal Year 2004 Financial Statements* (Washington, D.C.: November 2004).

¹³Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002* (Washington, D.C.: July 2001).

- *Error measurement* to develop estimates of the magnitude of improper rent subsidy payments for all three programs and to assess progress in meeting RHIIP's goals (see chapter 2);¹⁴ and
- *Simplification of rent subsidy policies* to develop approaches to reduce complexity of program rules that have resulted in an error-prone process (see chapter 5).¹⁵

To further assist its efforts under RHIIP, HUD has set up a RHIIP advisory group responsible for advising HUD's principal staff on improper rental assistance payments and to provide support for planning and implementing corrective actions that will reduce the risk of improper payments to an acceptable level. The advisory group is composed of representatives from, among others, HUD's program management and research offices. Members of the advisory group meet on a weekly basis to discuss progress and coordinate efforts.

Objectives, Scope, and Methodology

Our objectives were to determine (1) the sources and magnitude of improper rental assistance payments that HUD has identified, (2) the actions HUD is taking under RHIIP to reduce improper rental assistance payments in the voucher and public housing programs and the status of these initiatives, (3) the actions HUD is taking under RHIIP to reduce improper payments in the project-based Section 8 program and the status of these initiatives, and (4) the status and potential impact of HUD's efforts to reduce the risk of improper payments by simplifying the subsidy determination process. The scope of this work was limited to HUD's rental assistance programs under Housing Choice Vouchers, public housing, and project-based Section 8.

To determine the sources and magnitude of improper rental assistance payments identified by HUD, we obtained fiscal year 2000 data on program administrator errors that HUD collected for its 2001 *Quality Control for Rental Assistance Subsidies Determination* report and similar data for fiscal year 2003. We tested the reliability of both data files and found them

¹⁴The Improper Payments Information Act of 2002 (Pub. L. No. 107-300) also required HUD to report its estimate of improper rent subsidies annually.

¹⁵*The President's Management Agenda* also urged HUD to work with stakeholders to simplify program rules where necessary.

reliable for the purposes of this report. We estimated the total amount of improper rent subsidies for all three housing programs. Our estimated totals generally agreed with those in HUD's fiscal year 2003 and 2004 *Performance and Accountability Report*. We also estimated improper rent subsidies per household. To illustrate the impact of improper rent subsidies, we estimated the number of households that could have received assistance under the voucher programs by dividing the estimated total net improper rent subsidy overpayments (i.e., total estimated subsidy overpayments minus total estimate subsidy underpayments) by the average cost of a voucher (including administrative costs) in fiscal year 2003. Appendix I contains detailed results of our analyses. We reviewed HUD notices, guidebooks, and reports, including HUD's 2001 *Quality Control for Rental Assistance Subsidies Determinations* and HUD's 2003 and 2004 *Performance and Accountability Report*. We interviewed HUD headquarters officials from the Office of Public and Indian Housing (for the vouchers and public housing programs), the Office of Housing (for project-based Section 8 programs), and the Office of Policy Development and Research. We also reviewed reports by and interviewed officials from HUD's OIG.

To describe the actions HUD is taking under RHIIP to reduce improper payments in the public housing and voucher programs and the status of these initiatives, we analyzed RHIIP status reports and schedules, obtained and reviewed relevant HUD policies and procedures, and interviewed officials at HUD headquarters and seven field offices responsible for the two rental assistance programs—Baltimore, Maryland; Boston, Massachusetts; Chicago, Illinois; Los Angeles, California; Miami, Florida; New York City, New York; and San Francisco, California. We selected these field offices based on the volume of rent subsidies they oversee and to achieve some geographic distribution. Together, these field offices oversaw about \$7.8 billion in rent subsidies payments in fiscal year 2003, or 55 percent of the total. We also met with 14 of the largest PHAs responsible for administering the public housing and voucher programs in the HUD field office jurisdictions we visited and interviewed groups that represent state and local housing agencies and tenants. To assess HUD's implementation of Rental Integrity Monitoring reviews and public housing authorities' progress in reducing improper rental assistance payments, we obtained and reviewed HUD policies, procedures, and training materials on conducting these reviews, analyzed all 31 rental integrity monitoring reviews from 13 of the largest public housing authorities in the country, and reviewed HUD's quality assurance reviews of HUD field office performance.

To describe the actions HUD is taking under RHIP to reduce improper payments in its project-based Section 8 programs and the status of these initiatives, we interviewed officials from HUD headquarters and at six HUD field offices responsible for these programs—Boston, Massachusetts; Chicago, Illinois; Los Angeles, California; New York City, New York; Philadelphia, Pennsylvania; and San Francisco, California. We also selected these field offices based on the volume of rent subsidies they oversee and to achieve some geographic distribution. Together, these field offices oversaw about \$8.5 billion in rent subsidies payments in fiscal year 2003, or 47 percent of the total. We met with the four performance-based contract administrators responsible for administering project-based Section 8 contracts in these HUD field office locations.¹⁶ We also obtained and reviewed HUD policies and procedures related to the implementation of RHIP initiatives and RHIP status reports.

To determine the status and impact of HUD's effort to simplify the subsidy determination process, we reviewed relevant laws and HUD regulations. We also estimated the potential impact on tenant rents under possible approaches using data HUD had collected for the update to its 2001 report, *Quality Control for Rental Assistance Subsidies Determinations*. Specifically, we compared the difference between the amount of rent paid by tenants (as identified in HUD's data) and the amount tenants would pay under the two simplification approaches. We interviewed officials at HUD headquarters and field offices and at state and local agencies that administer HUD's rental assistance programs.

We also met with industry groups representing state and local housing agencies and tenants. These groups include the National Association of Housing and Redevelopment Organization, National Leased Housing Association, Public Housing Authorities Directors Association, and Massachusetts Union of Public Housing Tenants.

We conducted our work from February to December 2004 in accordance with generally accepted government auditing standards.

¹⁶At the time of our field work, HUD had not assigned project-based Section 8 contracts to a performance-based contract administrator in either Illinois or Northern California.

HUD Has Identified Sources of Errors but Lacks Complete and Reliable Estimates of Improper Subsidies for Every Source

As part of the Rental Housing Integrity Improvement Project's (RHIIIP) error measurement effort, the Department of Housing and Urban Development (HUD) identified three sources of errors that resulted in improper rent subsidy payments: (1) incorrect rent subsidy determinations made by program administrators (program administrator errors), (2) unreported tenant income, and (3) incorrect billing or distribution of subsidy payments (billing errors). HUD conducted separate studies to look at the amount of improper rent subsidies attributable to each source of error for vouchers, public housing, and project-based Section 8 but was able to develop reliable estimates of dollar errors for only one of the three sources—errors made by program administrators in determining rent subsidies—for fiscal years 2000 and 2003. HUD paid an estimated \$1.4 billion in gross improper subsidies in fiscal year 2003 as a result of such errors.¹ This amount represents a decrease of 39 percent since fiscal year 2000. HUD officials stated that this decline cannot be attributed entirely to RHIIIP because many of the activities under the RHIIIP initiative were in their early stages of implementation in 2003. However, HUD officials indicated that their communications with program administrators about the importance of addressing improper payments probably led to voluntary compliance with HUD's policies for determining rent subsidies and likely contributed to the reduction in improper payments. HUD reported that the department paid an estimated \$191 million in fiscal year 2003 in gross improper rent subsidies due to unreported tenant income—an 80 percent reduction compared with fiscal year 2000. However, our analysis indicates that this figure is not reliable because of the small sample size it was based on and because meaningful comparisons between the 2000 and 2003 estimates cannot be made owing to differences in the methodologies used to calculate them. Finally, HUD does not have a complete and reliable estimate of billing errors for either fiscal year 2000 or 2003.

HUD Has Attempted to Estimate the Improper Subsidies Caused by Each Identified Source of Error

HUD has identified three basic sources of errors that have resulted in improper rent subsidy payments: (1) program administrator errors, (2) unreported tenant income, and (3) billing errors. HUD conducted separate studies of each type of error to assess the magnitude of the problem and the progress that has been made in reducing them.

¹Appendix I provides the margins of error for all estimates of improper rent subsidies attributable to program administrator errors.

HUD Identified Three Basic Sources of Errors That Cause Improper Subsidies

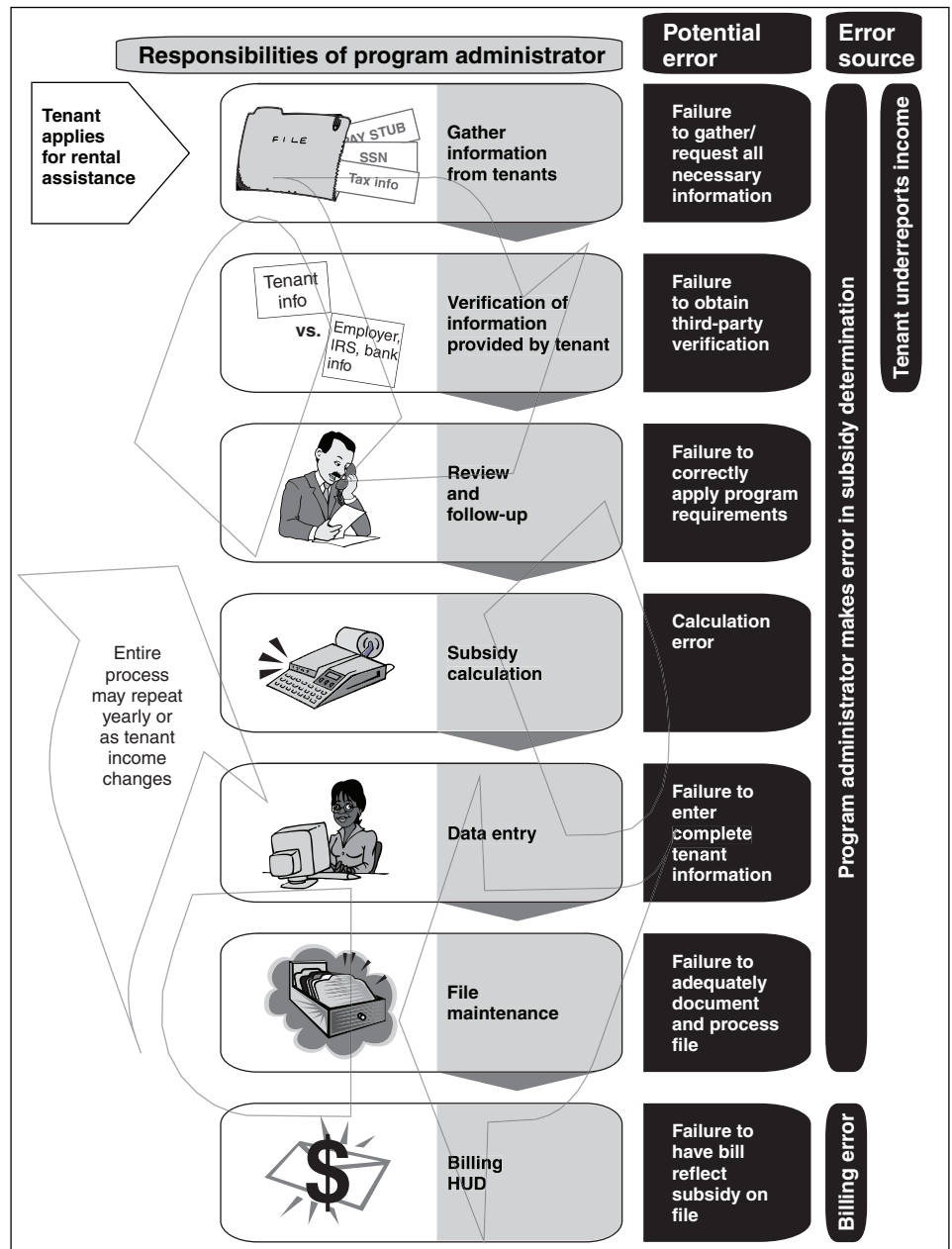
HUD identified three basic sources of errors that resulted in improper rent subsidy payments. Program administrator errors are the broadest because, as figure 2 shows, this type of error can affect nearly all the critical dimensions of the process for determining rent subsidies. Program administrators are responsible for collecting information on household income, expenses, and composition to determine tenants' eligibility to receive housing assistance and the size of the subsidies. In performing their work, program administrators may incorrectly determine rent subsidies by, for example, making calculation and transcription errors or misapplying allowed income exclusions and deductions required by HUD policies.

Errors that result from unreported tenant income occur when tenants do not report an income source (either for themselves or another household member) to program administrators. According to HUD, these errors do not include cases in which the tenants reported all sources of income but not the correct amounts. HUD classifies these discrepancies as program administrator errors because program administrators are required to verify tenants' income amounts through third parties, such as employers and public assistance agencies. Unreported income errors generally occur early in the process for determining rent subsidies, when the tenant first submits income information to program administrators (fig. 2). Although some tenants may not disclose all income sources in order to qualify for assistance and to increase the rent subsidies they receive, tenants may also fail to report income sources unintentionally if program administrators provide unclear instructions.

Finally, billing errors occur at the very end of the process for determining rent subsidies (fig. 2). The procedures used by program administrators to bill HUD for subsidy payments vary for each of the three rental assistance programs, and as a result the specific types of mistakes that lead to billing errors can also vary. However, in general, billing errors arise when discrepancies exist between the amount of a rent subsidy determined by the program administrator and the amount that is actually billed to and paid by HUD. Billing errors can also include accounting discrepancies between amounts paid by HUD and a property's bank statements and accounting records.

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Figure 2: Process for Determining Rent Subsidies



Sources: GAO (analysis); Art Explosion (images).

Estimating Improper Rent Subsidies Resulting from Each Source of Error Is an Important Effort under RHIP

As part of its error measurement effort under RHIP, HUD planned to estimate improper rent subsidies attributable to each source of error. According to HUD, this effort was to allow the department to assess the magnitude of improper rent subsidies and the progress made in meeting RHIP's goal of reducing improper subsidies. To develop these estimates, HUD conducted separate studies on improper rent subsidies attributable to each source of error for fiscal years 2000 and 2003. (Information on the methodology and reliability of these studies is discussed later in this chapter.) About two years after HUD began estimating improper rent subsidies, Congress passed the Improper Payments Information Act of 2002, which mandated that federal agencies submit annual estimates of improper payments for at-risk programs.² According to HUD, the department plans to continue updating its estimates in subsequent years in order to comply with the requirements of the act. HUD has reported its estimates in its annual audited financial statements and performance and accountability reports.

There are a number of ways to describe the size and magnitude of improper rent subsidies. One way is simply the dollar difference between the actual rent subsidy HUD paid and the "correct" rent subsidy—that is, the amount of subsidy that would have been paid on behalf of the tenant if no errors had occurred. The dollar amount erroneously paid can be either positive or negative because errors can reflect subsidy overpayments or underpayments.³ The *gross dollar error* or *gross improper payment* reflects the sum of the absolute value of the subsidy overpayments and underpayments—that is, the total of all erroneously paid funds.⁴ Office of Management and Budget guidance recommends using the gross improper payment measure to indicate the overall accuracy of the income and rent determination process. A second indicator, *net dollar error* or *net improper payment*, takes into account whether the difference between the actual and correct rent subsidy amounts is positive or negative. This measure is a useful way of expressing the impact of errors on actual program expenditures because it accounts for the offsetting effect of subsidy over- and underpayments.

²Pub. L. No. 107-300, Nov. 26, 2002.

³See Office of Management and Budget's guidance "Improper Payments Information Act of 2002 (Pub. L. No. 107-300)."

⁴Absolute value is the magnitude of a number irrespective of whether it is positive or negative. For example, the sum of the absolute values of -2 and 2 is 4.

Estimates of Improper Subsidies Due to Errors by Program Administrators Appear Reasonably Accurate and Show a Decline

To assess the accuracy of subsidy determinations made by program administrators, HUD collected data for fiscal years 2000 and 2003. HUD paid an estimated \$1.4 billion in gross improper rent subsidies (consisting of an estimated \$896 million in overpayments and \$519 million in underpayments) as a result of such errors in fiscal year 2003. This amount represents a 39 percent reduction compared with fiscal year 2000. The voucher program accounted for about half of the fiscal year 2003 errors, and the public housing and project-based Section 8 programs each accounted for about a quarter. Between fiscal years 2000 and 2003, each of the rental assistance programs experienced substantial decreases in program administrator errors—50 percent for public housing and more than 30 percent for both vouchers and project-based Section 8. Despite these reductions, the data show an estimated \$377 million net subsidy overpayment in fiscal year 2003 that reduced the amount of funds available to assist other families with housing needs. We estimate that HUD could have provided vouchers to 56,000 additional households in fiscal year 2003 with this amount.

HUD Conducted a Study to Estimate Program Administrator Errors

As part of its *Quality Control for Rental Assistance Subsidies Determinations* study for fiscal year 2000, HUD collected data on the subsidy determinations made by program administrators. HUD subsequently repeated the study, using data for fiscal year 2003. Each study collected data on over 2,400 randomly selected households participating in the voucher, public housing, and project-based Section 8 programs. The methodology involved reviewing tenant files, interviewing a sample of tenants to gather income information, verifying all sources of reported income, and recalculating rents and subsidies. HUD estimated the subsidy errors by identifying the sum of the discrepancies between the actual rent subsidies calculated by program administrators and the amounts calculated by the quality control study staff. The results were projected to the entire population of assisted households to develop a national estimate of total improper rent subsidies. Our analysis of the documentation and the data collected indicates that these studies provide a reasonably accurate estimate of subsidy determination errors made by program administrators.

Estimated Errors by
Program Administrators
Declined by 39 Percent
between Fiscal Years 2000
and 2003

Our analysis of data that HUD gathered for its quality control study indicates that HUD made an estimated \$1.4 billion in gross improper rent subsidies in fiscal year 2003 as a result of errors made by program administrators—about 39 percent less than the estimated \$2.3 billion in fiscal year 2000.⁵ The voucher program accounted for the largest share of this amount—about 52 percent, or \$731 million. Public housing and project-based Section 8 accounted for 22 percent (\$316 million) and 26 percent (\$369 million), respectively. Appendix I contains more detailed information on the amount of improper rent subsidies presented in this chapter.

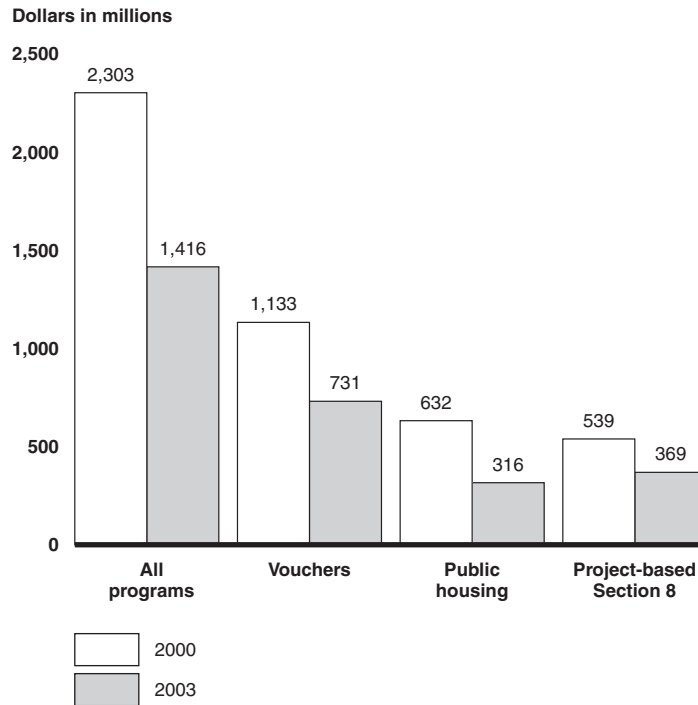
Each of the rental assistance programs experienced substantial reductions in gross program administrator error—50 percent for public housing, 35 percent for vouchers, and 32 percent for project-based Section 8 (fig. 3). These reductions exceeded HUD’s interim RHIIP goal of reducing improper rent subsidies resulting from these errors by 15 percent by fiscal year 2003.⁶ According to HUD, the reductions in gross improper subsidies cannot be attributed entirely to RHIIP. Many of the initiatives under RHIIP, such as the RIM reviews and the income verification system, were too early in their implementation to have had any direct impact on the reductions. However, HUD officials stated that its communications with program administrators about the importance of addressing improper rent subsidies and program administrators’ anticipation of increased monitoring by HUD probably led to voluntary improvements in internal control activities (such as increased supervisory reviews, testing of files, and staff training) and likely contributed to these reductions. In addition, some PHAs we interviewed had already begun improving their controls before RHIIP was established. Estimates of improper subsidies in future years may show whether further reductions can be made and sustained as the RHIIP initiative matures.

⁵We followed HUD’s approach by not counting a discrepancy of \$5 or less between the rent in the tenant’s file and the “correct rent” as an error in order to eliminate minor discrepancies that have little impact on programwide subsidy errors. Including all errors (anything greater than \$0) would increase the fiscal year 2003 estimate of program administrator errors by less than \$18 million, or about 1 percent. In addition, our estimates of such errors for fiscal year 2003 agree with those published in HUD’s *Performance and Accountability Report for Fiscal Year 2004*.

⁶RHIIP’s quantitative goal for reducing improper rent subsidies also applies to the other sources of error.

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Figure 3: Estimated Gross Improper Rent Subsidies Due to Program Administrator Error, Fiscal Years 2000 and 2003

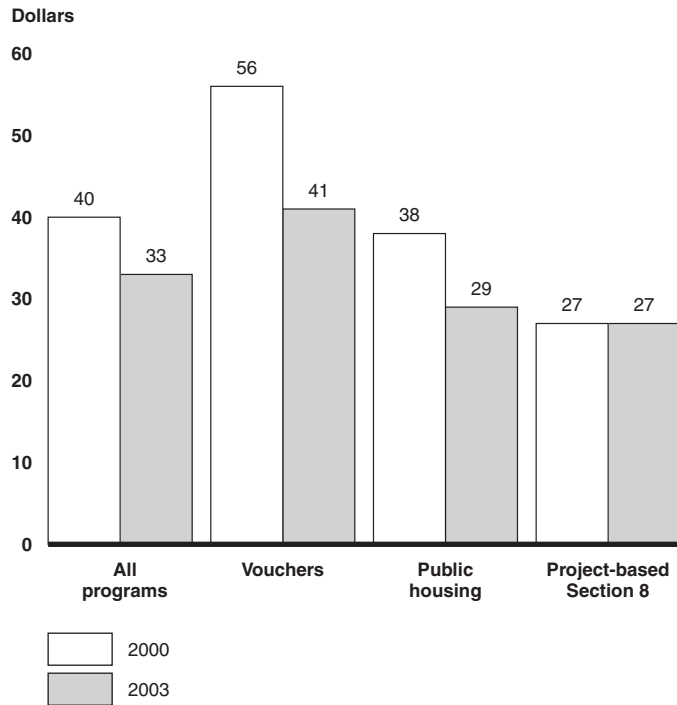


Source: GAO.

Overall, we estimate that the median gross subsidy error per household was about \$33 per month (\$396 annually) for all the rental assistance programs (fig. 4).⁷ In addition to having the highest total gross rent subsidy error in fiscal year 2003, the voucher program had the highest median gross subsidy error per household, about \$41 per month. The comparable figures for project-based Section 8 and public housing were \$27 and \$29 per month, respectively.

⁷Gross improper subsidies per household are limited to those households with erroneous subsidies. Those households with no errors are not included in the calculation.

Figure 4: Median Monthly Gross Improper Rent Subsidy per Household Due to Program Administrator Errors, Fiscal Years 2000 and 2003



Source: GAO.

The median dollar error per household for all the rental assistance programs decreased by about 18 percent, or \$7, between fiscal years 2000 and 2003. The median dollar error per household for vouchers and public housing decreased by 27 percent and 24 percent, respectively, over that time period. Although the median for project-based Section 8 did not change, suggesting no improvement, the program experienced significant decreases in gross subsidy error for households that had the largest error in fiscal year 2000.

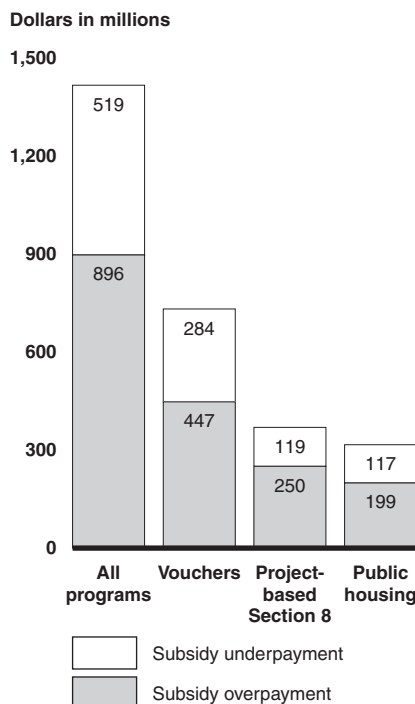
Estimated Improper Subsidies Due to Program Administrator Errors Remain Significant

Because of program administrator errors, HUD paid an estimated \$377 million in net subsidy overpayments in fiscal year 2003, reducing the amount of funds that were available to assist additional households with housing needs. This amount reflects the difference between \$896 million in estimated subsidy overpayments and \$519 million in estimated subsidy

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underpayments (fig. 5). Total estimated subsidy overpayments have decreased by 64 percent since fiscal year 2000.

Figure 5: Estimated Rent Subsidy Overpayments and Underpayments Due to Errors Made by Program Administrators, Fiscal Year 2003



Source: GAO.

As discussed earlier, calculating net improper rent subsidies permits estimates of the errors' impact on actual program expenditures because the calculation accounts for the offsetting effects of estimated subsidy over- and underpayments. Because the overpayments exceeded the underpayments in fiscal year 2003, HUD was not able to use an estimated \$377 million of its funding to assist needy low-income households. We evaluated the impact of the estimate on the number of households that could have been served if this amount had been available to subsidize eligible households with new vouchers. Based on the average national subsidy cost of subsidizing a voucher—about \$6,720 annually, including administrative costs—we determined that HUD could have provided an additional 56,000 households nationwide with vouchers in fiscal year

2003—nearly the same number of households that are currently assisted with vouchers in the Los Angeles, California, area.

Fiscal Year 2003 Estimate of Improper Subsidies Due to Unreported Tenant Income Is Not Reliable

HUD has developed a methodology to estimate the amount of rent subsidies the department has paid improperly due to tenants who did not report all sources of earned income to program administrators. Based on this methodology, HUD estimated that the department paid \$191 million in fiscal year 2003 in gross improper rent subsidies due to unreported tenant income, but our analysis found that this figure was not reliable because of the small number of tenant files with unreported income that were used to make the estimate. In addition, significant differences in the methodology used to calculate the fiscal year 2000 and 2003 estimates means that any comparison between the estimates would be invalid. Finally, HUD's methodology does not capture other potential types of unreported income, a limitation that would be difficult to overcome.

Estimates of Fiscal Year 2000 and 2003 Subsidy Errors from Unreported Tenant Income Are Not Comparable

HUD developed a methodology to estimate the amounts of rent subsidies the department paid improperly in fiscal years 2000 and 2003 because tenants did not report all sources of earned income to program administrators. HUD's methodology identified unreported income sources by comparing the information reported by tenants in the quality control study database with the information reported by employers in federal wage and income databases. HUD first identified households that appeared not to have reported an income source and then took various steps to screen out "false positives" resulting from definitional and timing differences. For example, HUD program staff eliminated those cases involving unreported income sources, such as income from minors or training programs, that should be excluded from family income under HUD's policies. HUD also eliminated cases if third-party verification showed that the income fell outside the period covered by the program administrator's most recent income examination.

However, the methodologies used for fiscal years 2000 and 2003 have two significant differences, and as a result any comparison between the two estimates would not be valid. First, according to HUD, individuals who conducted the study for fiscal year 2003 did substantially more follow-up work to reconcile discrepancies in income sources than those conducting the study for fiscal year 2000. As a result, the fiscal year 2000 estimate probably included more "false positives" and overstated the amount of

improper rent subsidies HUD paid. Second, HUD officials stated that the staff used to conduct the study for fiscal year 2000 had less experience with housing programs than the staff used for the later study. The officials said that, as a result, the staff from the earlier study may not have known enough about HUD's program policies to reliably determine whether tenants had or had not reported all of their income sources.

Fiscal Year 2003 Dollar Estimate Is Not Reliable

While HUD's *Performance and Accountability Report for Fiscal Year 2004* states that the department paid an estimated \$191 million in fiscal year 2003 in gross improper rent subsidies due to unreported tenant income, this figure is not reliable because the number of tenant files with unreported income that were used to make the estimate was small. Specifically, HUD identified 30 tenant files, or 1.2 percent of the 2,401 tenant files in the sample, with at least one unreported income source. HUD officials agreed that because of the small number of files used for the estimate and the large variances in the amounts of income that tenants did not report, the margin of error was so large that the estimate was not meaningful—that is, the actual amount of improper rent subsidies for this source of error could have been as low as zero or many times higher than HUD's estimate. HUD officials stated that, even though the estimate may not be meaningful, the low incidence of tenants who did not report all sources of income could indicate that unreported income sources may not be a major problem. However, they also recognized that the low incidence is somewhat counterintuitive, given that tenants have an incentive to conceal income from program administrators, and it is possible that the methodology may not be adequately capturing the full extent of this problem. HUD indicated that to obtain a more precise estimate of dollar error would require a considerably larger sample, but that doing so would be difficult and costly.

HUD also stated in its *Performance and Accountability Report for Fiscal Year 2004* that gross improper rent subsidies from unreported income decreased by 80 percent from fiscal year 2000 to 2003. HUD recognized in the report that the apparently significant reduction was partly due to improvements in its methodology. However, as discussed previously, any comparison between the two estimates is not valid because of the limitations of the fiscal year 2003 estimate and the significant differences in the methodologies used for the two years.

HUD's Methodology Does Not Account for Possible Fraud but Addressing This Limitation Would Be Difficult

Neither of HUD's fiscal year 2000 and 2003 estimates of improper rent subsidies from unreported tenant income accounts for the different types of problems that may exist with unreported tenant income, but overcoming this limitation would be difficult. According to HUD, because the study's scope was limited to identifying sources of income that tenants did not report, the study did not evaluate differences in the amount of income reported by a tenant's employer (and entered in the quality control study database) and the amount reported in the new hires database. As a result, HUD could not account for those tenants who may have colluded with their employers to underreport their income to program administrators. Some program administrators we interviewed stated that they believe such collusion may be a problem, but no systematic data are available to confirm how widespread it might be. In addition, HUD's methodology does not account for cash income that tenants received but failed to report to program administrators. Some program administrators we met with said unreported cash income could be widespread but that data are not available to confirm the extent of the problem. Although collusion and unreported cash income are potentially significant problems, it is not likely that there is any satisfactory way of quantifying their extent. Furthermore, HUD officials do not believe that there is an effective way of accounting for these problems in its methodology.

HUD's Estimate of Improper Subsidies Due to Billing Errors Is Incomplete

HUD did not produce complete and reliable estimates of the amount of billing errors in fiscal years 2000 and 2003 for the voucher, public housing, or project-based Section 8 programs. HUD attempted to estimate fiscal year 2000 billing errors for the voucher program and initially found about \$1.5 billion in improper rent subsidies. However, after reviewing the results, HUD managers questioned both the study's validity and whether staff involved in the study had sufficient knowledge of program policies and accounting practices that pertain to the billing process. As a result, HUD sent program experts to conduct additional fieldwork to confirm the estimate. The experts reexamined approximately \$1.2 billion of the total \$1.5 billion in estimated billing errors, found that the estimate was unsupported, and reduced it by over 80 percent. Given the questionable and incomplete nature of the original billing error study for vouchers, HUD determined that the results were inconclusive and unacceptable as a baseline error estimate. For the public housing program, HUD did not attempt to estimate billing errors. HUD has begun to develop and implement a methodology to establish a statistically valid baseline of billing

errors for fiscal year 2003 for vouchers and public housing. According to HUD, this effort will be completed by September 2005.

For project-based Section 8, HUD estimated that approximately \$100 million in gross improper rent subsidies were paid as a result of erroneous amounts billed to HUD and disbursed to private property owners in fiscal year 2003. This estimate was based on a small sample of 150 properties, and the concentration of errors in a small number of properties resulted in a large margin of error. However, according to HUD, the estimated amount of improper payments due to billing errors is relatively modest even at the high end of the error range. In its *Performance and Accountability Report for Fiscal Year 2004*, HUD acknowledged that it would need a sample six times larger to obtain normally accepted levels of estimation accuracy.

Agency Comments and Our Evaluation

In addition to providing technical comments that we incorporated where appropriate, HUD stated that our draft report did not fully present the impact of HUD's efforts under RHIIP. For example, HUD stated that the draft report did not recognize the department's outreach, guidance, and training efforts as contributing factors to the reduction in estimated improper payments. The draft report discussed HUD's efforts under RHIIP, including guidance, training, and various outreach activities. The draft report also reflected the comments of HUD officials that program administrators' anticipation of increased oversight and monitoring by HUD probably led to voluntary improvements in their performance. We added language to the final report to incorporate HUD's view that these efforts contributed to the reduction. While we believe that HUD's view is reasonable, the specific extent to which these efforts contributed to the reduction in estimated improper payments is not known.

HUD disagreed with the draft report's finding that the department has complete and reliable estimates only for one source of error. In particular, HUD described as "misleading" our statement that its fiscal year 2003 estimates of improper rent subsidies attributable to unreported tenant income and billing errors were unreliable because they were based on samples too small to produce accurate results, and questioned the need to measure these errors more precisely. HUD also said that the estimated "incidence of cases" where a tenant household did not report at least one source of income was 1.2 percent and that there was a 95 percent likelihood that the true incidence of such cases was between 0.1 and 2 percent. We do not believe that our draft report—which focused on the estimated dollar amount of improper payments due to unreported income

Chapter 2
HUD Has Identified Sources of Errors but
Lacks Complete and Reliable Estimates of
Improper Subsidies for Every Source

rather than the estimated number of households with unreported income—was misleading. As the report stated, the margins of error for HUD’s estimates of the dollar amount of improper payments were many times larger than the estimates themselves. Furthermore, HUD itself acknowledged in its comment letter that a much larger sample would be necessary to make a more precise dollar estimate. Accordingly, we made no changes to this finding. The draft report did not intend to criticize HUD’s sampling methodology or suggest that HUD attempt to make more precise estimates, which, as HUD indicated, could be difficult and costly. In addition, the report recognized that the problems with the reliability of the estimates were due partly to the small number of households with unreported income in HUD’s samples. We revised the report language where appropriate to further clarify this point.

HUD Is Addressing Improper Payments for Public Housing and Vouchers, but Implementation Problems Hampered Efforts

The Department of Housing and Urban Development (HUD) has made several program-level efforts under the Rental Housing Integrity Improvement Project (RHIIP) initiative to address improper rent subsidies for its public housing and voucher programs. However, several factors hampered HUD’s implementation of these efforts. First, HUD instituted on-site Rental Integrity Monitoring (RIM) reviews to assess public housing agencies’ (PHA) compliance with HUD’s policies for determining rent subsidies, but these reviews, which are not a regular part of HUD’s PHA oversight activities, were poorly implemented due to, among other things, a lack of clear policies and procedures. Second, HUD began implementing a new Web-based tenant income verification system, which is expected to significantly reduce tenant underreporting of income despite having some limitations. Finally, the training and guidance HUD provided to PHAs on its policies for determining rent subsidies were not consistently adequate or timely.

As shown in table 1, each of these efforts attempts to address sources of errors discussed in chapter 2 (i.e., program administrator, unreported tenant income, and billing error) that contribute to improper rent subsidies in the voucher and public housing programs. However, none of these efforts directly addresses billing errors. As noted previously, HUD does not have complete and reliable information on the extent to which billing errors are a problem for these two programs.

Table 1: Summary of HUD’s Efforts to Address Sources of Errors for the Voucher and Public Housing Programs

HUD effort	Sources of errors		
	Program administrator	Unreported tenant income	Billing
Rent Integrity Monitoring	X	X	
Income verification	X	X	
Training	X	X	
Revised and updated program guidance	X	X	

Source: GAO.

HUD Supplemented Monitoring of PHAs with On-site Reviews but Had Problems Implementing Them

According to HUD officials, RIM reviews are the first comprehensive reviews of PHAs' tenant information files in more than 20 years. However, inadequate staff resources and competing work demands kept some HUD field offices from issuing reports in a timely manner or completing all of their other PHA oversight responsibilities. These and other factors have prevented HUD from determining the impact of its RIM review effort. Recognizing the importance of regular monitoring of PHAs, HUD is considering implementing some type of on-site monitoring of PHAs' subsidy determinations on a permanent basis.

HUD Implemented RIM Reviews Under RHIIP to Address Monitoring Weaknesses

To address weaknesses in monitoring and help reduce PHA errors in rent subsidy calculations, in June 2002 HUD field office staff began conducting RIM reviews as part of the RHIIP initiative. RIM reviews are on-site evaluations of PHA procedures for collecting and verifying income information from tenants and for calculating subsidies. HUD's *Rental Integrity Monitoring Guide* (RIM Guide)—the department's manual for conducting RIM reviews—instructs field office staff to (1) review a sample of tenant files and recalculate the tenant's rent subsidy, based on information in the tenant file, to identify any subsidy miscalculations made by the PHA and (2) assess the PHA's written policies and procedures to determine the underlying causes of these miscalculations. According to the RIM Guide, the field offices are required to report their overall findings—for example, violations of HUD policies, such as misapplied deductions and lack of third-party verification of tenant income—in writing to PHAs, along with a list of specific subsidy calculation errors they identified. The field offices must also track PHAs' progress in addressing findings and correcting errors and provide technical assistance to PHAs, as needed. If a PHA fails to implement corrective actions or rectify errors found during a RIM review, HUD can sanction the PHA by withholding the voucher administrative fee or the public housing operating subsidy.¹ HUD requires that the written report be sent to the PHA within 30 to 45 days of

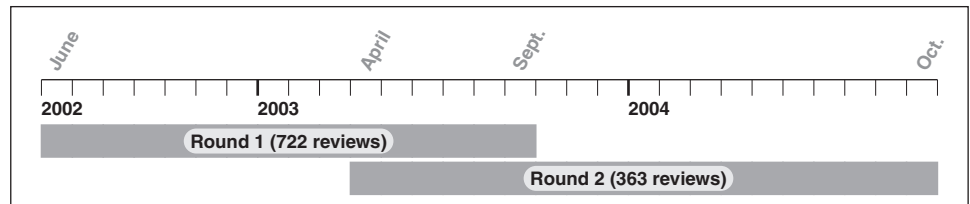
¹Notice PIH 2003-34, *Rental Integrity Monitoring Disallowed Costs and Sanctions Under the Rental Housing Integrity Improvement Project Initiative*, Dec. 19, 2003.

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the end of the review. HUD field office staff completed 722 RIM reviews—the first of two rounds of reviews—between June 2002 and September 2003 (fig. 6).²

In April 2003, HUD began conducting a second round of RIM reviews at selected PHAs to confirm whether (1) the calculation errors identified during the first round of RIM reviews had been corrected, (2) those PHAs that were required to implement corrective action plans to address findings from previous RIM reviews had done so, and (3) the implementation of corrective action plans led to a reduction in subsidy calculation errors. From April 2003 through October 2004, HUD field offices conducted second-round RIM reviews at 363 PHAs (fig. 6).³

Figure 6: Timing of First- and Second-Round RIM Reviews



Source: GAO.

According to HUD and officials at several PHAs we met with, HUD did not routinely oversee subsidy determinations for public housing and voucher programs at PHAs before the RIM reviews began in 2002. According to HUD, prior to 1980 the department reviewed, among other things, PHAs' management of their properties and their compliance with HUD policies and procedures. These reviews included an assessment of PHAs' subsidy

²HUD conducted the first round of RIM reviews in two phases. Between June 2002 and March 2003, HUD staff completed 376 RIM reviews (phase 1 of the first round). Between March and September 2003, HUD staff selected another 490 PHAs for review (144 from phase 1 and 346 additional PHAs—together, phase 2 of the first round).

³Only those PHAs that were part of phase 2 of the first round of RIM reviews received second-round RIM reviews. According to HUD, some of these PHAs received two second-round RIM reviews—one for the voucher program and one for the public housing program. Other PHAs—either those with only one program or those with two programs, but only one that required a second-round RIM review—received one second-round RIM review. As a result, the number of PHAs that received second-round RIM reviews is smaller than the total number of second-round reviews.

determinations but not at the same level of detail as RIM reviews. Starting in the early 1980s and continuing through the 1990s, HUD did little to oversee the subsidy determination process at PHAs and instead focused its resources primarily on assessing the PHAs' physical and financial condition.

Starting in 1998, HUD increased its oversight of the voucher and public housing programs by creating two management and performance assessment systems. The Public Housing Assessment System (PHAS)⁴ evaluates four aspects of PHAs' operations—physical condition, financial condition, management operations, and resident satisfaction—but does not include an indicator for subsidy determinations.⁵ In contrast, the Section 8 Management Assessment Program (SEMAP) includes an indicator that requires PHAs that administer voucher programs to self-certify to HUD annually that they have correctly determined each household's adjusted annual income—the basis for calculating rent subsidies. However, according to HUD, the limited scope of the reviews (SEMAP confirmatory reviews) field offices perform does not adequately ensure that PHAs' self-certifications are accurate. In most cases, the sample used to confirm a PHA's self-certification with SEMAP requirements is smaller than the sample reviewed as part of a RIM review. In addition, while PHAs selected

⁴PHAS replaced the Public Housing Management Assessment Program (PHMAP) in 1998. Implemented in 1992, PHMAP was designed to evaluate PHAs' management performance. Under PHMAP, PHAs were given scores of high, standard, or troubled based on self-certified information submitted by PHAs to HUD.

⁵Under PHAS, HUD may sanction PHAs for poor performance and noncooperation with the department in addressing problems. For example, HUD may place restrictions and conditions on PHA expenditures or suspend or remove PHA officials. See GAO, *Public Housing: New Assessment System Holds Potential for Evaluating Performance*, [GAO-02-282](#) (Washington, D.C. Mar. 15, 2002).

for SEMAP confirmatory reviews are generally limited to those that are moving into or out of “troubled” status, RIM reviews cover a broader range of PHAs.⁶

**Resource, Policy, and
Compliance Problems at
Field Offices Hampered RIM
Reviews**

Inadequate resources and noncompliance with review policies and procedures affected field offices’ efforts to implement RIM reviews. We examined 31 RIM review reports for 13 of the largest PHAs and HUD’s quality assurance reviews—evaluations of the field offices’ RIM reviews—of eight field offices. Our examination showed that limited resources and lack of clear and timely guidance from HUD headquarters contributed to inconsistencies in the way field offices interpreted the department’s policies and conducted RIM reviews.

**Some Field Offices Had
Difficulty Conducting RIM
Reviews Because of Staff
Limitations**

Officials from most of the HUD field offices we met with said that they did not have enough staff to conduct all of their first-round RIM reviews within the 5- to 7- month period established by HUD and still fulfill their other oversight responsibilities. Also, several HUD quality assurance reports showed that field offices had limited staff to perform the reviews. As a result of these resource constraints, some field offices had to use staff with little or no experience in monitoring PHAs to perform RIM reviews, issue their RIM review reports late, and postpone other monitoring activities such as inspections of troubled properties.

⁶Each year, HUD assigns each PHA a rating for each of the individual SEMAP indicators and an overall performance rating of high, standard, or troubled. If a PHA is assigned an overall rating of troubled, HUD will conduct an on-site review at that PHA to assess the magnitude and seriousness of the problem. Troubled PHAs are also required to implement corrective action plans and receive additional HUD monitoring to ensure improvement in program management. Under Notice 2003-34, HUD can reduce a PHA’s SEMAP score if a RIM review does not support the PHA’s self-certification that it has correctly determined adjusted annual income for each household. If the reduced score places the PHA in troubled status, HUD may also impose additional sanctions. PHAS uses a similar rating system in which HUD assigns PHAs individual scores for each of the components and an overall composite rating; however, because PHAS does not assess PHAs’ subsidy determinations, HUD cannot reduce PHAS scores under Notice 2003-34.

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The number of staff assigned to RIM reviews and the number of reviews per staff member varied among the seven field offices we contacted.⁷ For example, we found that the number of first-round RIM reviews per staff member ranged from 0.8 in New York City to 3.5 in San Francisco (table 2). The average figure for all seven field offices was two RIM reviews per staff person. Notwithstanding other factors—such as the size of the PHA reviewed—that might have affected the ability of field offices to meet RIM review timing requirements, we found that those field offices with a low ratio of staff to reviews were likely to issue their reports after the 30- to 45-day deadline.

Table 2: Ratio of Staff to RIM Reviews, Selected HUD Field Offices

HUD field office	Number of HUD field office staff conducting RIM reviews	Number of first-round RIM reviews	Number of RIM reviews per staff member
San Francisco	11	39	3.5
Baltimore	9 ^a	27	3
Los Angeles	9	24	2.7
Boston	30	44	1.5
Miami	12	17	1.4
Chicago	16	17	1.1
New York	18	14	0.8
Average	15	26	2.0

Source: HUD.

^aBaltimore field office officials told us that they generally used four staff to conduct RIM reviews but that for some PHAs they used additional staff. As a result, the number of RIM reviews per staff member may be understated for Baltimore.

Recognizing that some field offices were having difficulty completing their RIM reviews within the 5- to 7-month time frame, HUD alleviated the burden at some of the field offices by assigning contractors or staff from other field offices to complete or assist with second-round reviews. For example, according to HUD, contractors completed 60 percent of the second-round RIM reviews assigned to the San Francisco field office. In addition, HUD relieved field offices of certain other oversight responsibilities to give them time to complete the RIM reviews within the required time frame. For example, HUD reduced the number of SEMAP

⁷HUD does not have criteria for the number of staff required to conduct a RIM review.

confirmatory reviews field offices had to complete and allowed them to combine RIM and SEMAP reviews at larger PHAs.

HUD Did Not Always Provide or Clarify Policies in a Timely Manner

HUD did not provide clear, timely policies for RIM reviews. In some cases, the lack of clear and timely policies resulted in inconsistencies in the way field offices interpreted the department's policies and conducted RIM reviews. The following are some examples of these inconsistencies:

- HUD did not clarify whether its policy on the use of outdated tenant income information applied to data obtained through HUD's income verification system.⁸ The RIM Guide states that PHAs should not use documentation that is more than 90 to 120 days old to verify tenant-reported incomes. HUD policy also requires that PHAs use data from HUD's income verification system if they have access to it. However, in conducting RIM reviews, some HUD field offices cited PHAs for not using data from this system, even though the PHAs had determined that the data were more than 120 days old.
- HUD changed its definition of a "systemic finding" while the RIM reviews were under way. Although HUD had initially defined a systemic finding as an error (such as a misapplied deduction) that represented 30 percent or more of the total errors identified at one PHA, the department later redefined the term to mean violations of policy that were made "consistently," leaving the interpretation of "consistently" up to the field offices. Based on the RIM review reports we examined, we found that field offices had different interpretations. For example, one field office interpreted "consistent" as errors found in 15 percent or more of the files, while another field office interpreted it as errors found in 30 percent or more of the files.
- As of December 2004, HUD had not developed a policy on the extent to which PHAs should correct the calculation errors found in their tenant files. As a result, the field offices we spoke with had varying requirements, with resulting variations in the amounts of time and

⁸HUD's income verification system is a Web-based application that allows PHAs to compare Social Security income information reported by tenants with information reported by the Social Security Administration. This system is currently available to all PHAs. The income verification system will be expanded to allow PHAs to compare earned income information reported by tenants with information that employers report to government agencies. HUD is in the process of expanding the income verification system, and it is currently available to PHAs in a limited number of states. Income verification is discussed later in this chapter.

resources PHAs expended to address the errors. For example, according to the PHAs we spoke with, some field offices required that PHAs review and correct all of their tenant files for errors—in one case 17,000 files—while others required PHAs to correct only the files that HUD examined during the RIM reviews.

- HUD did not issue a policy on how to address PHAs' disagreements with RIM review findings until May 2004, over 8 months after completing the first round of reviews and 13 months after the field offices began conducting the second round of reviews. Prior to the release of this policy, the field offices had each handled PHAs' disagreements differently.

Field Offices Did Not Always Follow Policies and Procedures for Conducting RIM Reviews and Communicating Findings

Our review of 31 RIM review reports completed by seven of HUD's field offices showed that the field offices did not consistently follow policies and procedures when conducting RIM reviews, analyzing the results of those reviews, and communicating the results of the reviews to PHAs. Specifically, we found that these field offices, contrary to HUD guidance, did not consistently provide appropriate support for each observation and finding—for example, by describing the problem, the reason for it, and its impact. Similarly, HUD's quality assurance reviews of field offices' RIM reviews revealed that several offices either had not supported their report findings or had failed to provide written reports to the PHAs.

The RIM review reports we reviewed also did not demonstrate that the field offices we visited had a clear understanding of the difference between observations and findings. HUD had defined observations as deficiencies in performance that were not based on a regulatory or statutory requirement but that should be brought to the attention of the PHA. HUD defined findings as conditions that were not in compliance with handbook, regulatory, or statutory requirements. Fifteen of the 31 RIM review reports we reviewed mischaracterized one or more "findings" as "observations" or vice versa. Properly classifying findings and observations is important because HUD policy requires PHAs to implement comprehensive corrective actions for findings but not for observations.

Finally, HUD's RIM Guide stipulated that the field offices must provide a written report to the PHA no more than 30 days after the RIM review ended, but 18 of the 31 RIM review reports we reviewed were not released

within the 30-day time frame.⁹ One PHA told us that it did not receive a report until 5 months after the completion of the RIM review and then only after PHA officials called HUD to request it.

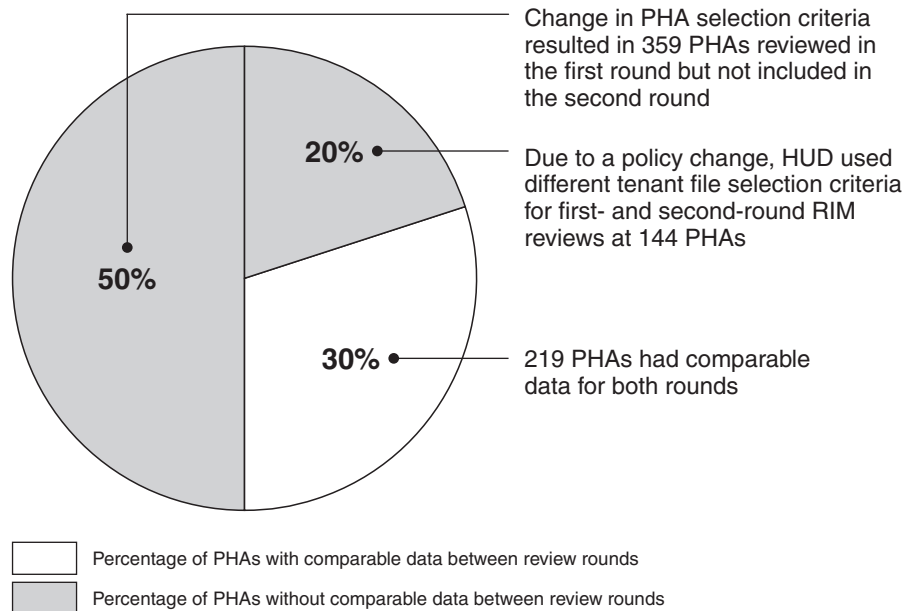
**HUD Could Not Analyze
RIM Data Because It Was
Incomplete and Inconsistent**

Incomplete and inconsistent data kept HUD from analyzing the results of RIM reviews to assess improvements in PHAs' calculations of tenant subsidies and provide targeted oversight and technical assistance to PHAs to help them address specific errors. When the RIM reviews started in 2002, the department designed a database to collect information on the results of the RIM reviews, including the total amount of subsidy overpayments and underpayments, as well as the efforts PHAs had made to improve policies and procedures. According to HUD guidance, field offices must submit a report on subsidy calculation errors and systemic findings for each PHA to HUD headquarters within 30 days of receiving the PHA's response to the RIM review report. However, as of November 2004, HUD had not entered data in many of the fields in the database. HUD officials attributed this problem to field offices that did not submit the data in a timely manner and to a lack of personnel to manage data collection and entry tasks.

Even if the database were complete, HUD would not be able to perform a meaningful analysis of the RIM review data for most PHAs because of the changes it made to the criteria for selecting PHAs and tenant files. Because of these changes, HUD does not have comparable first- and second-round RIM review data for about 70 percent of the PHAs that it reviewed. Figure 7 shows the specific reasons why the data for PHAs were not comparable for the two rounds.

⁹In a later memorandum, dated April 28, 2003, HUD instructed field offices to provide written reports to PHAs no more than 45 days after the RIM review ended, conflicting with the requirement in the RIM Guide. If we use the 45-day time frame, 13 of the 31 RIM reports we reviewed (about 42 percent) were issued late.

Figure 7: Percentage of PHAs without Comparable Data for First- and Second-Round RIM Reviews



Source: GAO.

HUD Has Not Made RIM Reviews Permanent

HUD is considering conducting additional rounds of RIM reviews sometime in 2005 but has not made any decisions on how it will determine which PHAs should be reviewed and how often these reviews should be conducted. Currently, RIM reviews are not a regular part of HUD's PHA oversight activities. HUD had initially intended to review each PHA one or two times to identify weaknesses in their policies and procedures for making subsidy determinations. According to HUD officials, they had not planned to implement routine monitoring of PHAs' subsidy determination processes. However, HUD officials said that, based on the results of the RIM reviews, they recognize that routine monitoring of PHAs may be necessary to mitigate the risk of improper rent subsidies in the future. As a result, the department is now considering making permanent some type of on-site monitoring of PHAs' subsidy determinations. For example, HUD officials said that they are considering incorporating RIM reviews into the existing performance measurement systems or conducting reviews at high-risk PHAs every 2 or 3 years. However, according to these officials, budget and staff resources will ultimately determine the extent to which the department is able to monitor PHAs in the future.

HUD's New System for Verifying Tenants' Incomes Has Limitations

To address tenant underreporting of income, HUD has implemented a new Internet-based income verification system that allows PHAs to compare income information they receive from tenants with income information employers report to government agencies. According to HUD officials, the system is intended not only to help PHAs detect unreported incomes but also to provide them with a more convenient and accurate way to verify tenant-reported information. HUD estimates that the system will yield savings of approximately \$6 billion over a 10-year period for all of its rental assistance programs. Currently, the data in the system, which HUD obtained through agreements with state wage and income collection agencies, are available to 2,366 PHAs in 22 states. HUD continues to work to provide access for the PHAs in the remaining 28 states. To increase the effectiveness and efficiency of its income verification effort, HUD intends to replace the data from the individual state agencies with similar data from a single source, the National Directory of New Hires—a database containing quarterly federal and state wage data, quarterly unemployment data, and monthly new hire data reported by employers to state agencies and compiled by the Department of Health and Human Services. Congress passed legislation in January 2004 that grants HUD the authority to request and obtain data from this directory.¹⁰ In addition, HUD officials told us that Social Security income information, which PHAs currently access through an existing system, will eventually be accessible through this new system.

According to HUD, regardless of the data source used, the income verification system does not capture unreported cash income and certain types of wages that may not be required to be reported to state agencies. In addition, income from unauthorized tenants (i.e., tenants who are not on the lease but who live in the apartment and help pay the rent) is not captured. However, some PHAs have developed ways to capture these types of income and recover improper subsidy payments. For example, several PHAs we spoke with have fraud detection units, and several have partnered with state and local agencies, including departments of labor and human services, to obtain welfare and other wage information.

Although officials of most of the 14 PHAs we contacted said that they welcomed new tools such as the income verification system that would help them verify tenant incomes and more accurately determine tenant subsidies, several also expressed concerns that the wage and income data

¹⁰Consolidated Appropriations Act, 2004, Pub. L. No. 108-199, Jan. 23, 2004.

were too old to verify tenant income. HUD policy states that data used to verify income must be no more than 120 days old (or about 4 months) on the date of the tenant's certification or recertification of eligibility.¹¹ HUD estimates that the income verification data are approximately 3 months old. However, due to large caseloads—sometimes as many as 750 tenants per caseworker—the PHAs generally begin collecting tenant income information 3 to 4 months prior to conducting an annual meeting to recertify the tenant's eligibility for housing assistance and recalculate the rent subsidy amount. As a result, verification data can be up to 6 months old on the date of recertification.¹² HUD officials told us that they are aware of this problem and are working with the Department of Health and Human Services to improve the timeliness of the data in the National Directory of New Hires.

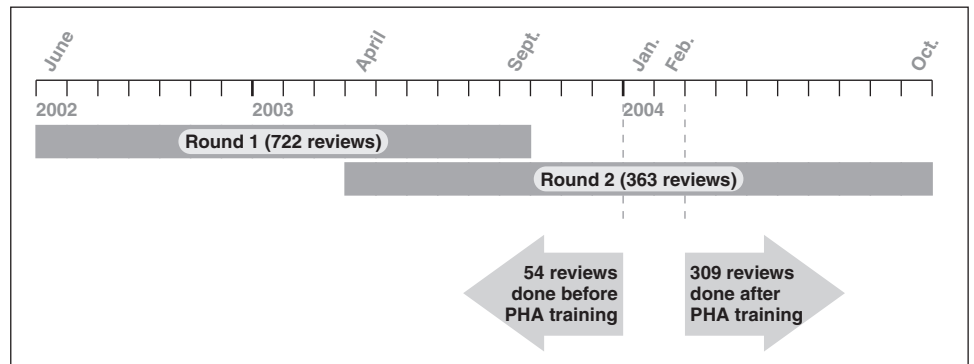
HUD's Training and Guidance for PHAs Was Not Always Adequate or Timely

HUD provided training and guidance to PHAs on topics such as how to calculate subsidies, improve quality control procedures, and comply with third-party income verification requirements, but these efforts were not always adequate or timely. For example, although HUD sponsored training for PHAs in January and February of 2004 in order to prepare PHAs for RIM reviews, the training took place after all of the first-round RIM reviews and 54 (15 percent) of the second-round RIM reviews had been completed (fig. 8). This training addressed program basics, including how to interview prospective tenants, verify tenant income information, and calculate rents. It also provided guidance to PHAs on developing policies and procedures that would prevent future subsidy calculation errors. According to some PHAs, had the training been held prior to the RIM reviews, they would have been better able to understand the basis for the RIM review findings and the corrective actions needed to address them. In addition, all of the 14 PHAs we spoke with said that they had sent a limited number of staff to the training because, for example, HUD had held only two training sessions—one in California and one in Florida. Some PHAs said that they did not have sufficient travel funds to send their staff to these locations.

¹¹Program administrators must certify incomes and eligibility for assistance when households first apply for assistance and at least annually thereafter.

¹²This problem affects recertifications, not initial certifications, because information in HUD's income verification system is limited to tenants who are already receiving housing assistance.

Figure 8: Timing of Training and RIM Reviews



Source: GAO.

In addition to training, HUD provided technical assistance through a contractor to PHAs that were deemed high risk on the basis of their performance in the first round of RIM reviews. According to a HUD official, 10 PHAs received technical assistance from the contractor between October 2002 and April 2004. The technical assistance focused on areas such as organizing tenant files, verifying tenant incomes, and calculating rent subsidies.

Finally, HUD updated or developed guidance for PHAs on how to correctly calculate rent subsidies and reduce errors. However, some of this guidance was released late in the RIM review process, contradicted other guidance, or did not provide enough information. For example, HUD did not revise its public housing guidebook—PHAs’ basic program reference—to reflect changes in program regulations until June 2003, a year after the RIM reviews began.¹³ In addition, HUD did not reconcile minor discrepancies between the voucher and public housing guidebooks on acceptable forms of third-party income verification until it issued detailed instructions on HUD’s income verification policies in March 2004.

Conclusion

Until recently, HUD did little oversight of PHA’s subsidy determinations for the voucher and public housing programs. Although introducing SEMAP and PHAS in the late 1990s allowed HUD to better oversee PHAs’

¹³The guidebook covers a range of issues, including admitting applicants to programs, calculating subsidies, and terminating leases.

performance, SEMAP provides only limited monitoring of PHAs' compliance with HUD's policies for determining rent subsidies, and PHAS provides none at all. HUD began implementing RIM reviews in 2002 but has not made the reviews a permanent part of its oversight activities. In the absence of regular monitoring, HUD cannot determine the extent to which individual PHAs comply with its policies for determining rent subsidies. Furthermore, although HUD conducted over 700 RIM reviews, it did not collect complete or consistent information from these reviews. As a result, HUD cannot assess PHAs' performance over time or identify those that have made errors in determining subsidies and thus may require additional oversight and technical assistance. Further, the lack of complete and consistent information on the results of RIM reviews limits HUD's ability to identify the factors that contribute the most to improper subsidy determinations and target its corrective efforts.

Recommendations for Executive Action

To enhance HUD's ability to reduce improper subsidies in its public housing and voucher programs, we recommend that the HUD Secretary take the following two actions: (1) make regular monitoring of PHAs' compliance with HUD's policies for determining rent subsidies a permanent part of HUD's oversight activities and (2) collect complete and consistent information from these monitoring efforts and use it to help focus corrective actions where needed.

Agency Comments and Our Evaluation

HUD agreed with our recommendation that the department regularly monitor PHAs' compliance with its policies for determining rent subsidies for the public housing and voucher programs and collect information from these monitoring efforts. HUD said that it recently updated its RHIP plan to address this recommendation. However, in addition to providing technical comments that we incorporated where appropriate, HUD commented that the draft report did not adequately recognize the increase in HUD's monitoring resulting from the RIM reviews or acknowledge that the scale of its monitoring efforts depends on the level of budgetary resources it receives. Specifically, HUD commented that the steady downsizing of the department's staffing over the past decade had caused HUD to rely on remote monitoring systems, risk-based monitoring practices, and voluntary compliance by third-party program administrators. Our draft report stated that the RIM reviews represented a significant increase in HUD's monitoring of PHAs compared with its efforts over the previous 20 years. Further, the draft report recognized that budget

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HUD Is Addressing Improper Payments for
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resources will ultimately determine the extent to which the department is able to monitor PHAs.

HUD Is Improving Oversight of Rent Subsidy Determinations for Project-Based Section 8, but Challenges Remain

The Department of Housing and Urban Development (HUD) has taken steps to implement Rental Housing Integrity Improvement Project (RHIP) efforts for its project-based Section 8 programs but also faces several challenges. First, HUD has improved its policies and guidance for its project-based Section 8 programs and trained property owners, contract administrators, and HUD field office staff on their administrative and oversight responsibilities. However, a key part of the guidance calling for contract administrators to collect information on improper rent subsidies at each property was not widely followed partly because the data collection effort was not mandatory and duplicated some contract administrators' existing procedures. Second, to improve verification of tenant income, HUD has gained access to a national database of employment and wage information.¹ But HUD will not be able to use the database for its project-based Section 8 programs until at least fiscal year 2006 because of data security issues surrounding the disclosure of tenant income information to private property owners. Finally, to implement RHIP's monitoring effort, HUD plans to rely on performance-based contract administrators (PBCA) to monitor property owners' compliance with HUD's subsidy determination policies. HUD's requirements for PBCAs call for extensive monitoring of the process for determining subsidies, but HUD may face challenges in ensuring that PBCAs follow these requirements.

As shown in table 3, these efforts collectively attempt to address the sources of errors discussed in chapter 2 (i.e., program administrator, unreported tenant income, and billing errors) that contribute to improper rent subsidies in the project-based Section 8 programs.

¹The database will also be used for HUD's public housing and voucher programs.

Chapter 4
HUD Is Improving Oversight of Rent Subsidy
Determinations for Project-Based Section 8,
but Challenges Remain

Table 3: Summary of HUD’s Efforts to Address Sources of Errors for Project-Based Section 8 Programs

HUD effort	Sources of errors		
	Program administrator	Unreported tenant income	Billing
Provide training and update program policies and guidance	X	X	X
Income verification	X	X	
Assignment of monitoring responsibilities to PBCAs	X	X	X

Source: GAO.

HUD Has Improved Guidance and Training, but a Key Element of the Guidance Was Not Widely Followed

As part of RHIIP, HUD improved its project-based Section 8 guidance and training for property owners, contract administrators, and HUD field staff in order to improve their understanding of HUD’s policies for determining rent subsidies. Although HUD’s new monitoring guidance called for contract administrators to collect information on improper rent subsidies at each property, compliance with this guidance was limited.

HUD Provided New Guidance and Training on the Subsidy Determination Process

HUD’s handbook for project-based Section 8 sets forth the requirements and procedures that property owners must follow in administering these programs, including determining rent subsidies.² In May 2003, HUD revised this handbook to reflect regulatory and policy changes that have occurred since the last significant revision in 1995. The 2003 revision included updated information on tenant screening, eviction, and citizenship requirements, as well as a new method of estimating future medical expenses. Officials at four PBCAs and five HUD field offices we contacted generally agreed that the revised handbook represented a significant improvement over the previous one. To supplement the handbook, HUD established various resources, such as field office RHIIP coordinators, and a Web-based “help desk” that allows HUD to respond to questions about program policies submitted by HUD field office staff, contract

²HUD Handbook 4350.3 REV-1, “Occupancy Requirements of Subsidized Multifamily Housing Programs,” May 2003.

administrators, and property owners. HUD also provided additional information on proper rent subsidy determinations and the RHIIP initiative. For example, HUD issued “fact sheets” on the rent determination process for property owners and tenants, which described tenants’ rights and responsibilities regarding income disclosure and third-party verification of income. HUD also issued periodic newsletters that included a description of the status of the initiative.

In August 2003, HUD issued a new monitoring guide to help contract administrators improve their oversight of property owners’ subsidy determinations. HUD intended the guide to provide contract administrators with a consistent approach for identifying and recording errors in subsidy determinations during management and occupancy reviews. Management and occupancy reviews are detailed assessments of a property’s management, physical and financial condition, and compliance with program policies and procedures, including policies concerning the eligibility of tenants and accuracy of subsidy determinations.³ However, the new guide was not mandatory, and the contract administrators we contacted—including PBCAs and HUD field offices—said that they used the guide to varying degrees. HUD is currently revising its management and occupancy review policies, which include detailed procedures for assessing rent subsidy determinations.⁴ According to HUD, the revised policies, unlike the monitoring guide, will be mandatory for contract administrators. The revised policies are currently under departmental review, and the date of their implementation is uncertain.

HUD accompanied these efforts with training for property owners, contract administrators, and HUD field offices on the updated handbook and new monitoring guide. HUD-sponsored training was primarily targeted to HUD field office staff and contract administrators and, according to HUD, nearly 2,000 individuals participated in 45 training sessions on HUD’s revised program handbook from June through December 2003. In addition, nearly 700 HUD staff and contract administrator personnel attended a satellite broadcast session on the revised program handbook and the new

³Prior to the guide’s issuance, HUD’s procedures for conducting management and occupancy reviews were not sufficiently detailed to identify and record information on improper rent subsidies, leading some PBCAs and field offices to develop their own detailed procedures.

⁴HUD Handbook 4350.1 REV-1, “Multifamily Asset Management and Project Servicing,” January 1996.

monitoring guide. Reaction to the HUD-sponsored training from the four PBCAs and five HUD field offices we spoke with was generally positive. Most of the PBCAs and HUD field offices indicated that HUD had done a satisfactory job of using training to emphasize the importance of properly determining rent subsidies.

In addition to HUD-sponsored training, private training organizations, including professional training companies and housing industry groups, offered courses on project-based Section 8 program policies. For example, according to HUD, property owners, contract administrators, and HUD staff attended sessions on the revised program handbook, which covers HUD's policies for determining rent subsidies. HUD officials stated that sessions on HUD's program policies occur regularly. On the basis of a survey of major training organizations, the department estimated that nearly 10,000 property owners and contract administrators attended such sessions from June through December 2003.

Guidance for Collecting Data Was Not Widely Followed

To monitor property owners' compliance with HUD's policies, HUD planned to collect information from contract administrators on the types and frequency of errors property owners made in determining subsidies. In the monitoring guide issued in August 2003, HUD recommended that contract administrators record subsidy errors identified during management and occupancy reviews and monthly voucher payment reviews in a uniform "tracking log."⁵ However, for several reasons, the tracking log was not widely used. First, because the log was part of HUD's recommended guidance and, therefore, not mandatory, HUD could not require contract administrators to use it. Second, according to some PBCA and HUD officials, some contract administrators found the log duplicative because they were already collecting much of the information, although not in a uniform manner.⁶ Finally, some HUD and PBCA officials said that the tracking log was problematic because errors caught during the voucher review process were generally rectified before property owners were paid and should not have been recorded on the log as subsidy errors.

⁵Contract administrators review monthly payment voucher requests from property owners to verify, among other things, that the amount of the payment for each tenant is correct and that the request does not include payment for any units that are not eligible for Section 8 rental assistance.

⁶PBCAs' contracts with HUD require that they collect this information but do not specify how this information should be collected and in what form.

As noted previously, HUD is in the process of revising mandatory procedures for contract administrators to use in identifying and recording subsidy errors during management and occupancy reviews. According to HUD, the revised procedures will require contract administrators to collect uniform information on subsidy errors, as the tracking log was intended to do. Because these revised procedures apply only to management and occupancy reviews, they will not cover information on subsidy errors—including program administrator errors—found during monthly payment voucher reviews, which PBCAs already track separately.

HUD Plans to Implement a New Income Verification System but Must First Address Data Security Concerns

HUD plans to implement a Web-based income verification system for project-based Section 8, a key effort under RHIIP, after it addresses data security concerns. According to HUD, income verification systems are a critical component of the department's efforts to reduce improper subsidy payments because these systems provide property owners with information necessary to independently check the accuracy of the incomes tenants report and identify any income source not reported by the tenant. As discussed in chapter 3, Congress granted HUD access to the National Directory of New Hires (new hires) database to verify tenant incomes in its rental assistance programs, including its project-based Section 8 programs, and required that HUD demonstrate to the Department of Health and Human Services that all necessary steps had been taken to prevent the inappropriate disclosure of information from the database before program administrators are given access.

To alleviate concerns about releasing sensitive information to private property owners, HUD will initially make the data available only to public housing agencies (PHA) and confirm that the system is secure. If the Department of Health and Human Services is satisfied with HUD's security precautions, HUD plans to make the data from the new hires database available to private owners of project-based Section 8 properties by fiscal year 2006. Once the system is implemented, property owners will be able to access earned income data from a secure Web site. In addition, HUD officials told us that Social Security income information, which property owners can currently access through an existing system, will eventually be accessible through the new system.

HUD Will Rely on PBCAs to Address Its Monitoring Effort under RHIIP

HUD plans to rely on PBCAs to monitor property owners' compliance with HUD's policies for determining rent subsidies. For the past several years, HUD has been transferring contract administration responsibilities for project-based Section 8 properties from HUD field offices to the PBCAs but, due to resource constraints, has had difficulty monitoring the nearly 6,300 properties that are still the responsibility of field office staff. Although HUD's requirements for PBCAs call for extensive monitoring of the subsidy determination process, HUD may face challenges in ensuring that PBCAs follow these requirements. Finally, HUD has continued to work with contract administrators and property owners to improve the completeness of tenant income information in a database used, among other things, to monitor property owners' subsidy calculations.

HUD Plans to Continue Transferring Contract Administration Responsibilities to PBCAs Because of Resource Constraints

In 2000, prior to the start of RHIIP, HUD began transferring the administration of project-based Section 8 contracts from HUD field offices to PBCAs. As of October 2004, HUD's project-based Section 8 program consisted of about 21,900 properties, and HUD had transferred contracts for about 11,800 of these properties to PBCAs. As of the same date, according to HUD, field offices served as contract administrators for about 6,300 properties, including 2,200 properties to be transferred to PBCAs sometime in fiscal year 2005 and about 4,100 properties with contracts that HUD will competitively source to a new contract administrator by the end of fiscal year 2005.⁷ HUD also plans to transfer about 3,800 additional properties to PBCAs that are currently the responsibility of "traditional" (i.e., not performance-based) contractors as these properties' contracts come up for renewal.

⁷Currently, HUD cannot transfer to PBCAs contracts for approximately 4,100 properties that fall under several programs: the Section 202 Supportive Housing for the Elderly, Section 811 Supportive Housing for Persons With Disabilities, Rent Supplement, and Rental Assistance Payment. According to HUD, the department cannot transfer these contracts because program legislation does not allow appropriated program funds to pay fees for contract administration by third-party entities. HUD announced in April 2004 that it would competitively source the administration of these contracts and determine the most cost-effective way of administering them. Under Office of Management and Budget policy, federal employees (including HUD field office staff) can compete with private sector employees to provide contract administration services. According to HUD, after the department determines the most cost-effective contract administrator, it will seek new budget authority to pay for these services.

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HUD has transferred contract administration responsibilities to PBCAs because its field offices lack the resources to adequately monitor properties. HUD requires PBCAs to perform annual management and occupancy reviews for all of their assigned properties and conduct monthly reviews of all payment vouchers submitted by property owners. In contrast, HUD field offices are not conducting the same level of monitoring for all of their 6,300 properties. For example, HUD conducted management and occupancy reviews for about 1,800, or approximately 30 percent, of these 6,300 properties in fiscal year 2004. According to HUD, the field offices did not perform annual management and occupancy reviews for all of these properties because of insufficient staff and funding. HUD policy also requires review of monthly payment vouchers for their properties. However, HUD's Office of Inspector General (OIG) reported in its audit of HUD's fiscal years 2002 and 2003 financial statements that the field offices were performing monthly voucher reviews for only about 2 percent of the vouchers for their assigned properties.⁸

According to HUD, traditional contract administrators also have generally not conducted management and occupancy reviews each year for all of their properties or routinely reviewed monthly vouchers submitted by property owners. HUD officials we contacted also said that although the department required that the traditional contractors perform management and occupancy reviews and voucher reviews, their contracts (unlike those with PBCAs) did not specify how frequently.⁹ HUD officials stated that, similar to HUD field offices, traditional contract administrators had concentrated their monitoring efforts on troubled properties. In fiscal year 2004, traditional contract administrators conducted management and occupancy reviews for 900, or 24 percent, of their assigned properties. HUD does not have data on the number of payment vouchers reviewed for properties with traditional contract administrators.

⁸U.S. Department of Housing and Urban Development, Office of Inspector General, *Audit of the U.S. Department of Housing and Urban Development Financial Statements for Fiscal Years 2003 and 2002*, 2004-FO-0003 (Washington, D.C.: December 2003).

⁹HUD pays PBCAs an incentive fee if they perform above a minimum quality level as determined by HUD or reduces their fee if they perform below it. Unlike for PBCAs, HUD pays traditional contract administrators a fixed fee for their services.

HUD Will Rely on PBCAs to Monitor Process for Determining Subsidies

By transferring more of its project-based Section 8 properties to PBCAs, HUD plans to increase oversight of these properties and meet RHIP's goal of reducing improper rent subsidy payments. According to HUD, the ongoing PBCA initiative precluded the need for HUD to implement a monitoring process for its project-based Section 8 programs similar to the Rental Integrity Monitoring (RIM) reviews for the voucher and public housing programs. HUD officials also said that, because of limited resources and the large number of project-based Section 8 properties, the field offices would not have been able to carry out a monitoring effort as extensive as the RIM reviews. (About 22,000 property owners administer project-based Section 8 programs, compared with about 3,300 PHAs that administer vouchers and public housing.)

As noted previously, PBCAs are responsible for performing annual management and occupancy reviews for all of their assigned properties and monthly reviews of all payment vouchers. As part of these reviews, PBCAs are required to determine whether the owners have properly calculated subsidy determinations and independently verified tenant-reported information. As of October 2004, about 11,800 properties were assigned to PBCAs, and over 90 percent of these properties received a management and occupancy review.¹⁰ In reviewing payment vouchers, PBCAs must ensure that the tenant information in HUD's databases is consistent with the requested payment amount. When errors are found, the PBCA must correct the voucher by the amount of the error.

To ensure that the PBCAs meet HUD's performance standards, HUD has developed a comprehensive oversight program. Specifically, HUD field office staff are required to review status reports provided by the PBCAs, conduct annual compliance reviews, and use the results of these reviews to determine the compensation PBCAs should receive. Implementing these oversight measures could pose challenges for HUD. For example, the OIG reported in its fiscal year 2004 financial statement audit of HUD that two of the four PBCAs it reviewed were not consistently verifying whether the project owner had properly calculated subsidy amounts and independently

¹⁰In fiscal year 2004, 879 properties that were assigned to PBCAs did not receive a management and occupancy review. According to HUD, these properties were not reviewed primarily because they were assigned to PBCAs in the last 6 months of the fiscal year, and PBCAs have 12 months to review newly assigned properties.

verified tenant-reported information.¹¹ In addition, prior GAO work has shown that HUD has often not provided adequate oversight of contractors, a factor that in 2003 led us to designate acquisitions management as one of HUD's major management challenges.¹²

HUD Has Strengthened Monitoring Efforts by Ensuring That Program Administrators Report Comprehensive Tenant Data to HUD

According to HUD, ensuring the completeness of tenant data by enforcing HUD's data reporting policy is a critical component of RHIIP that will enable the department to reduce the amount of improper rent subsidies. Contract administrators use HUD's Tenant Rental Assistance Certification System (TRACS) to monitor property owners, including identifying discrepancies between owners' payment voucher requests and the rent subsidy information. To perform their monitoring function effectively, contract administrators must ensure that property owners submit complete and accurate data in TRACS, as required by HUD policy.

Since RHIIP began, HUD has improved the completeness of tenant data in TRACS. Specifically, according to HUD, the percentage of units in TRACS for which owners reported tenant income information (i.e., the reporting rate) increased from 88 percent in December 2003 to about 95 percent in October 2004. Properties with contracts administered by PBCAs had a higher average reporting rate, as of October 2004—over 95 percent—than properties administered by HUD field offices or traditional contract administrators. This is because PBCAs perform monthly voucher reviews for all payments and thus must ensure that the information in TRACS is complete. As of that same date, HUD field offices and traditional contract administrators, which conduct fewer payment voucher reviews, had average reporting rates of 85 and 75 percent, respectively.

HUD has continued to work with contract administrators and property owners to improve TRACS information by enforcing the data reporting policy. In October 2004, HUD began notifying property owners that the department would withhold subsidy payments if tenant information was not provided for at least 85 percent of tenants. According to HUD, the department suspended subsidy payments for 10 noncompliant property

¹¹U.S. Department of Housing and Urban Development, Office of Inspector General, *Additional Details to Supplement Our Report on the U.S. Department of Housing and Urban Development's Fiscal Year 2004 Financial Statements*, 2005-FO-0003 (Washington, D.C.: November 2004).

¹²[GAO-03-103](#).

owners in November 2004 and expects to suspend payments for another 1,800 owners in December 2004.

Agency Comments and Our Evaluation

HUD concurred with our finding that guidance for collecting data on the types and frequency of errors property owners made in determining subsidies was not widely followed and stated that it would revise its contracts with PBCAs to address this issue. HUD disagreed with a recommendation in our draft report that the department analyze data it has collected on program administrator errors by differentiating among types of contract administrators and use this information to determine whether additional efforts to reduce this source of error are needed in the project-based Section 8 programs. HUD's letter characterized our recommendation as "expand[ing] the process" to provide for separate error rates, noting that sample sizes would need to be tripled to permit statistically valid comparisons, and questioning whether such an effort would be cost-beneficial. Recognizing HUD's increasing use of PBCAs, our recommendation concerned only data that HUD had already collected and was not intended to expand the scope of future data collections. In light of HUD's comments on the insufficiency of its existing data, we did not include this recommendation in our final report.

Noting the relationship between its ability to monitor and the level of resources it is provided, HUD stated that it "remains to be seen" whether requested resources will be provided to achieve comparable monitoring levels of program administrators for all of its project-based assistance programs. We agree that budget resources will ultimately determine the extent of HUD's monitoring. Further, prior GAO work has shown that HUD has not always provided adequate oversight of program intermediaries, a contributing factor to our designation of the department's rental assistance programs as a high-risk area.¹³

¹³GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

HUD is Considering Approaches for Simplifying Rent Subsidy Policies, but these Approaches Need More Study

As part of the Rental Housing Integrity Improvement Project (RHIP), the Department of Housing and Urban Development (HUD) is considering ways to simplify its policies for determining rent subsidies. HUD has met with program administrators and other interested groups to discuss simplification approaches. However, HUD has not conducted a formal study on the impact of these approaches on tenant rental payments and program costs. According to HUD, a major reason for subsidy calculation errors is the complexity of the existing policies. For example, program administrators must determine tenants' eligibility for 44 different income exclusions and deductions to determine their rent payments and subsidies. One key concern is the impact that simplification could have on how much tenants pay in rent. Specifically, some tenants could end up paying a larger share of their income toward rent if the income deductions and exclusions that currently provide additional rent relief to them are eliminated, although others could pay less under certain approaches. In addition, the transition to simplified policies could create confusion among program administrators and tenants in the short-term.

HUD Is in the Initial Stages of Considering Approaches for Simplification of Rent Subsidy Policies and Has Not Conducted Formal Study of These Approaches

As one of its efforts under RHIP, and as mandated by *The President's Management Agenda for Fiscal Year 2002*, HUD is considering various approaches for statutory, regulatory, and administrative streamlining and simplification of its policies for determining rent subsidies. According to HUD, simplification is a key part of the department's long-term strategy for reducing the risk of improper rent subsidies that result from the complexity of HUD's current policies. As of December 2004, however, HUD had not officially proposed any approach to simplification for all of its rental assistance programs. HUD intends to formulate a proposal early in calendar year 2005 after it meets with industry stakeholders. Because most of HUD's policies for determining rent subsidies have a basis in statute, major changes to these policies would likely require congressional action.

In order to reform program administration and control rising subsidy costs, HUD proposed legislative changes for the voucher program in its fiscal year 2004 and 2005 budget proposals through the Housing Assistance for Needy Families and the Flexible Voucher program, respectively. These two initiatives called for simplification of the voucher program's policies, including those for determining rent subsidies. Specifically, the initiatives would have provided administering agencies with the flexibility to determine their own rent policies. However, Congress did not include either of these initiatives in HUD's appropriations acts.

In October 2004, HUD met with various program administrators and industry and tenant groups to discuss different approaches for simplifying HUD's policies for determining rent subsidies and to gauge the extent to which program stakeholders support simplification. According to HUD, most of the participants agreed on the need for simplification and discussed how best to meet this goal. HUD field office staff, program administrators, and industry groups that we spoke with also generally agreed on the need for simplification. Specifically, all of the HUD field office staff we interviewed supported some form of simplification, and nearly all of the 14 program administrators we interviewed also supported simplification, but many were concerned about the impact on existing tenants. The major industry groups we met with were also supportive of simplification.

The October 2004 meeting concluded with HUD considering performing more extensive analysis of the various approaches to simplifying its policies for determining rent subsidies. However, HUD has not determined when it will begin performing this analysis. Although prior to this meeting HUD staff had conducted preliminary internal analyses of the impact of certain simplification approaches on tenant rental payments and program costs, as of December 2004, HUD has not conducted a formal study on the possible impact of policy changes for consideration by policymakers.

HUD's Current Policies for Determining Rent Subsidies Are Complex

A 2001 HUD study characterized HUD's policies for determining rent subsidies as "detailed, complex, sometimes ambiguous, and subject to relatively frequent legislative changes."¹ HUD field offices, program administrators, and industry groups we interviewed frequently cited the complexity of these policies as a concern and identified it as a major obstacle in reducing improper rent subsidies. For example, HUD's current policies include 44 income exclusions and deductions that program administrators must consider when determining rent subsidies and tenants' rental payments. The purpose of some of these income exclusions and deductions is to provide additional relief to certain tenants, such as elderly and disabled households with large medical expenses, by reducing the amount they contribute toward rent. Other income exclusions exist to counteract potential work disincentives—for example, increasing income

¹U.S. Department of Housing and Urban Development, *Quality Control for Rental Assistance Subsidies Determinations* (Washington, D.C.: June 2001).

resulting in higher tenant rental payments—in housing assistance programs.

As an example, some HUD field office staff and program administrators we spoke with cited the earned income disallowance as a complex income exclusion. The earned income disallowance was initially established in 1990 by the Cranston-Gonzalez National Affordable Housing Act (Pub. L. No. 101-625) and was revised in 1998 by the Quality Housing and Work Responsibility Act (Pub. L. No. 105-276). The disallowance policy provides special treatment to families whose earned income increases as a result of (1) employment of a family member who was previously unemployed for one or more years or (2) participation of a family member in a family self-sufficiency or other job training program.² Families that qualify under these provisions are not subject to increases in their rental payments (that usually occur if their incomes grow for other reasons) for a 12-month period known as the “full exclusion period.” The rent may be increased during the following 12-month period, called the “phase-in period,” but the increase may not be greater than 50 percent of the amount of the full rent increase that would occur otherwise. After completion of both the full exclusion and phase-in periods, tenant rent increases by the full amount. However, low-income tenants often have jobs with little security—that is, they move in and out of employment and training programs and their income may vary considerably from job to job. To account for this, HUD developed additional administrative guidelines. For instance, during the full exclusion and phase-in periods, the months for which a family can claim the disallowance do not need to be consecutive. Consequently, a household member can become unemployed and stop claiming the disallowance and then become reemployed in a later month and begin claiming the disallowance again. However, keeping track of when tenants are employed and the amount by which the income increased is difficult and adds a significant burden on program administrators.

The process for determining rent subsidies is further complicated by the difficulty some program administrator staff may have in understanding and implementing HUD’s program requirements. According to multiple field office staff, program administrators, and industry groups we met with,

²Eligible families can also qualify for the disallowance if they are, or were within the previous 6 months, assisted by the Temporary Assistance for Needy Families program and their earned income increased. In addition, unlike the public housing program, the voucher program restricts the disallowance to families whose income increases due to the employment or increased earnings of a household member with disabilities.

program administrator staff responsible for calculating rent subsidies are often poorly paid, have large caseloads, and have limited education. These factors can contribute to misapplication of program policies that result in errors in subsidy calculations. In addition, these same groups commented that these types of positions have high turnover, and as a result it is difficult for program administrators to retain knowledgeable and experienced staff.

Simplifying the Process for Determining Rent Subsidies Could Affect Tenants and Pose Implementation Challenges

As noted previously, HUD is considering various approaches for statutory, regulatory, and administrative streamlining and simplification of its subsidy determination policies. Regardless of the approach HUD ultimately adopts, a major concern is the effect that policy simplification will have on tenant rental payments. It is possible that tenants' rental payments could decrease under certain simplification approaches. However, tenants could also see rent increases if, all other things being equal, the income deductions and exclusions that currently provide additional rent relief to them are eliminated. In addition, simplification of HUD's policies for determining rent subsidies could be difficult to implement and could create confusion among program administrators and tenants in the short-term.

HUD is Considering Three Basic Approaches to Simplifying Policies

HUD is currently considering three basic approaches to simplifying its subsidy determination policies: (1) income-based rents, (2) tiered flat rents, and (3) mixed approaches. Descriptions of these three approaches follow:

- Under an income-based approach, the tenant rental payment is set at a certain percentage of the tenant's income. The rent subsidy covers the difference between the contract rent for the unit (or the operating cost for a public housing unit) and the amount that the tenant pays. A simplified income-based approach could involve a limited number of exclusions or deductions or none at all. For example, one approach could involve tenants paying 30 percent of their gross income in rent with qualifying tenants receiving standard deductions for special needs. A different approach HUD has considered would allow elderly, disabled, and working families to pay 27 percent of their gross income in rent while all others pay 30 percent. No other deductions or exclusions would be used in determining the subsidy amount under this approach.
- Under a tiered flat rent system, tenant rents would be calculated for several income bands—for example, low, very low, and extremely low income—and tenants would not see their rents adjusted as their

incomes changed provided that their incomes remain within the same tier.³ This option is somewhat similar to that used at properties developed with Low-Income Housing Tax Credit assistance. Under the tax credit program, property owners reserve some of their units for tenants at or below certain income limits—either 50 or 60 percent of the area’s median gross income. The owners must restrict tenant rents in these units to 30 percent of the income limit, adjusted for the number of bedrooms.

- Under a mixed approach, HUD would give program administrators various rent structures to choose from, including income-based rents and tiered flat rents. This approach would give program administrators the flexibility to choose the method that best fits their community demographics and other factors. Currently, HUD’s Moving-to-Work demonstration program allows participating public housing agencies (PHA) to obtain exemptions from certain public housing and voucher program rules, including those related to the calculation of rent subsidies, and to design and test various approaches to providing and administering housing assistance.⁴ As long as the PHA serves substantially the same number of households that it served under the public housing and voucher programs, the PHA is free to design its own rent structure for its tenants. HUD plans to study PHAs’ experiences under the Moving-to-Work demonstration as a possible model for simplifying its policies.

**Simplification of Policies
May Significantly Affect
Rents for Some Tenants and
May Be Difficult to
Implement**

Regardless of which simplification approach is ultimately adopted, a major concern of program stakeholders is the effect that policy simplification will have on tenant rent burdens. Although changes to policies could result in some tenants paying less in rent, some tenants could end up paying more in rent if, all other things being equal, the current system of income exclusions and deductions that provides additional rent relief were eliminated. To illustrate, we analyzed the potential effects of using a simple

³Tenant rents, however, could change for other reasons, such as annual adjustments for inflation.

⁴Authorized under the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Pub. L. No. 104-134), the purpose of the Moving-to-Work demonstration program is to: (1) reduce costs and achieve greater cost-effectiveness in the public housing and voucher programs, (2) give incentives to families with children to become economically self-sufficient, and (3) increase housing choices for low income families.

income-based approach in which tenant rents are set at 30 percent of gross income.⁵ Based on our analysis of HUD's data for fiscal year 2003, we found that tenants would see their rent go up by an average of \$30 per month (\$360 annually), or 16 percent. About 10 percent of these households would see their rents go up by at least \$72 per month (or \$864 annually).

Elderly and disabled households and large families who currently benefit the most from HUD's exclusions and deductions would be hit the hardest by the elimination of these income adjustments. To take these households into account, we also estimated the average change in tenant rents using an approach in which elderly, disabled, and working families would pay 27 percent of their gross income in rent, all others would pay 30 percent, and no other deductions or exclusions would apply. Again using HUD's tenant data from fiscal year 2003, our analysis showed that this option would increase tenant rents, on average, by \$16 per month (\$192 annually), or 12 percent. About half of current tenants would see modest increases of less than \$10 per month, and around one-quarter could see increases of at least \$28 per month. In addition, the rents for about 25 percent of the tenants would remain unchanged or decrease under this approach. A more detailed study by HUD would be necessary to determine the impact of the other policy simplification approaches on tenants' rental payments as well as on program costs.

Simplification of HUD's policies for determining rent subsidies may be difficult to implement and will have a direct impact on how program administrators conduct their work. Depending on the magnitude of program changes, program administrators—over the approximately 22,000 property owners and 3,000 PHAs—will have to retrain staff, update written procedures and administrative plans, and make potentially costly modifications to their software applications. Program administrators will also have to perform tenant outreach to explain changes to existing and new tenants. If HUD determines that these tenants would be protected from any increases in rent that result from simplified policies, program administrators would have to deal with the difficulties of treating existing and new tenants under different sets of policies. Furthermore, gradually phasing in rent increases for existing tenants would add additional complexities to the administration of the programs and require extensive

⁵We conducted this analysis to illustrate the potential implications of specific simplification approaches, not to draw conclusions about simplification of rent policies generally. Small changes in the assumptions used in our analysis could yield significantly different results.

regulatory guidance from HUD. These changes would likely take time and involve some trial-and-error before they are fully implemented. It is possible, at least in the short-term, that transitioning to simplified policies for determining rent subsidies would result in confusion among program administrator staff and errors in calculating rent subsidies. This problem is more likely if the changes made to program policies are comprehensive, requiring extensive retraining of staff. Because HUD is in its early stages of developing a policy simplification strategy and has not conducted a formal study of these issues, it is not possible to describe how HUD intends to address these difficulties.

Conclusion

Although part of HUD's long-term strategy to reduce the risk of improper rent subsidy payments under RHIP involves simplifying statutory and regulatory policies for determining rent subsidies, the department has not conducted a formal study of possible simplification approaches. According to HUD and program administrators, existing policies are difficult to implement and have made the process prone to error. Many of these policies are intended to provide additional relief to tenants by reducing their rents under certain circumstances. However, HUD must weigh the degree of relief these policies provide against the administrative burden they create and the increased risk of error they generate. Because most current policies stem from specific statutes, simplifying them would likely require congressional action. In order to inform potential debate on this issue, policymakers will need to fully understand how simplification could affect the amount of rent subsidy errors, program administrators' workload, tenants' rental payments, and program costs. Regardless of the simplification approach that is adopted, HUD will face many difficulties in implementing the necessary policy changes. In particular, HUD will need to promote an efficient transition and assist program administrators in making the necessary adjustments to their procedures.

Recommendations for Executive Action

To ensure that HUD's rental assistance programs are administered effectively and that policymakers have sufficient information with which to consider potential simplification approaches, we recommend that the HUD Secretary study the possible impact of alternative strategies for simplifying program policies on subsidy errors, tenant rental payments, program administrators' workload, and program costs. As part of the study, HUD should determine how it intends to implement proposed changes and

indicate how the department would help tenants transition from the old to the new rent structures.

Agency Comments and Our Evaluation

HUD stated that our draft report did not mention legislative initiatives in its fiscal year 2004 and 2005 budget justifications—the Housing Assistance for Needy Families and the Flexible Voucher programs—to simplify the voucher program’s policies for determining rent subsidies. These two initiatives were primarily intended to reform the funding mechanism for and the administration of the voucher program but also would have allowed administering agencies the discretion to define their policies on tenant eligibility and for determining rent subsidies. We included a description of these two initiatives in our final report.

HUD did not respond directly to our recommendation that the department study the impact of simplifying policies for determining rent subsidies but said that the report incorrectly stated that HUD has not conducted formal studies on or otherwise considered the effects of its program simplification proposals. HUD also stated that all of its proposals for simplifying subsidy determination policies had undergone extensive analysis. Our draft report did not state that HUD had not considered the effects of program simplification and, in fact, cited HUD’s efforts to analyze simplification approaches. Further, during the course of our review and in its technical comments on our draft report, the department provided us only an internal analysis of a single simplification approach, which, according to HUD, it is no longer considering. Moreover, HUD has not issued a study of any simplification proposal that analyzes the impact of simplification, explains how HUD intends to implement proposed changes and help tenants transition from the old to the new rent structures, and is available to policymakers. Because simplifying HUD’s policies for determining rent subsidies will likely require legislative changes, we continue to believe that a formal study will be essential to informing congressional decision making.

Data Tables

This appendix contains the results of our analysis of the Department of Housing and Urban Development's (HUD) fiscal year 2003 data on improper rent subsidies resulting from errors made by program administrators, as described in chapter 2. This appendix also provides the results of our analysis of the impact of two proposals to simplify HUD's policies for determining rent subsidies on tenant rents.

Information on Improper Rent Subsidies Resulting from Program Administrator Error

Tables 4 and 5 contain information on the estimated gross dollar amount of improper rent subsidies attributable to program administrator error in fiscal year 2003 for each HUD program.¹ These tables show the sum total of both estimated overpayments and estimated underpayments. In contrast, tables 6 and 7 provide information on estimated overpayments alone, and tables 8 and 9 have information on estimated underpayments alone.² We followed HUD's approach of not counting a discrepancy of \$5 or less between the rent on file and the "correct rent" as an error. This was done to eliminate minor calculation discrepancies that have little impact on programwide subsidy errors.

Table 4: Estimated Total Gross Improper Rent Subsidies Attributable to Program Administrator Error, Fiscal Year 2003

Program	Number of tenant files in sample	Estimated dollar error	Margin of error (95% confidence)
Public housing	447	\$316,107,576	±\$58,175,726
Vouchers	568	730,955,871	182,078,577
Project-based Section 8	462	368,789,321	75,105,022
Total (all programs)	1,477	1,415,852,768	185,371,036

Source: GAO.

¹The estimate for the voucher program includes a very small number of Section 8 Moderate Rehabilitation units, which, like vouchers, are administered by public housing agencies.

²We also show the percentile distribution of values appearing in multiple tables in this appendix. These percentiles indicate what percentage of households had values equal to or less than the value shown in the table. For example, in table 5, 25 percent of households had dollar errors of \$13 or less for all programs. (Another way of interpreting this would be that 75 percent of households had dollar errors greater than \$13.)

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Table 5: Estimated Gross Improper Rent Subsidies per Household Attributable to Program Administrator Error, Fiscal Year 2003

Program	Percentile				
	10%	25%	50% (median)	75%	90%
Public housing	\$8	\$12	\$29	\$93	\$162
Vouchers	9	16	41	91	193
Project-based Section 8	7	11	27	66	161
Total (all programs)	8	13	33	86	170

Source: GAO.

Table 6: Estimated Subsidy Overpayments Attributable to Program Administrator Error, Fiscal Year 2003

Program	Number of tenant files in sample	Estimated dollar error	Margin of error (95% confidence)
Public housing	255	\$198,822,140	±\$43,038,878
Vouchers	310	447,434,740	120,874,596
Project-based Section 8	257	250,232,869	64,151,393
Total (all programs)	822	896,489,749	131,973,665

Source: GAO.

Table 7: Estimated Subsidy Overpayment per Household Attributable to Program Administrator Error, Fiscal Year 2003

Program	Percentile				
	10%	25%	50% (median)	75%	90%
Public housing	\$9	\$15	\$41	\$107	\$170
Vouchers	10	18	44	102	248
Project-based Section 8	9	15	33	96	209
Total (all programs)	9	16	40	102	211

Source: GAO.

Table 8: Estimated Subsidy Underpayments Attributable to Program Administrator Error, Fiscal Year 2003

Program	Number of tenant files in sample	Estimated dollar error	Margin of error (95% confidence)
Public housing	192	\$117,285,436	±\$36,747,257
Vouchers	258	283,521,130	88,835,202
Project-based Section 8	205	118,556,452	31,745,109
Total (all programs)	655	519,363,019	95,571,528

Source: GAO.

Table 9: Estimated Subsidy Underpayments per Household Attributable to Program Administrator Error, Fiscal Year 2003

Program	Percentile				
	10%	25%	50% (median)	75%	90%
Public housing	\$8	\$11	\$23	\$77	\$135
Vouchers	9	15	38	82	147
Project-based Section 8	6	9	18	48	111
Total (all programs)	8	12	28	72	136

Source: GAO.

Information on the Impact of Simplifying Rent Subsidy Policies on Tenant Rents

As an illustration of the potential effects of rent simplification approaches, we used HUD's fiscal year 2003 data to determine the impact on tenant rents by estimating how tenant rental payments would change (compared with current policies) under two specific scenarios. Tables 10 and 11 show the impact of a change that would require all families to pay 30 percent of gross income toward rent. Tables 12 and 13 reflect the impact of the change that would require all elderly, disabled, and working families to pay 27 percent of gross income toward rent and all other families to pay 30 percent.

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Table 10: Estimated Dollar and Percent Change in Rent under 30 Percent of Gross Income Simplification Proposal, Fiscal Year 2003

Program	Average dollar change in rent	Average percentage change in rent
Public housing	\$26	16%
Vouchers	30	15
Project-based Section 8	33	19
Total (all programs)	30	16

Source: GAO.

Table 11: Estimated Dollar Change in Rent under 30 Percent of Gross Income Simplification Proposal, Fiscal Year 2003

Program	Percentile				
	10%	25%	50% (median)	75%	90%
Public housing	\$0	\$10	\$13	\$36	\$64
Vouchers	10	10	22	36	61
Project-based Section 8	0	10	18	41	88
Total (all programs)	0	10	21	36	72

Source: GAO.

Table 12: Estimated Average Dollar and Percent Change in Rent under HUD's "27/30" Simplification Proposal, Fiscal Year 2003

Program	Average dollar change in rent	Average percentage change in rent
Public housing	\$12	12%
Vouchers	13	10
Project-based Section 8	23	16
Total (all programs)	16	12

Source: GAO.

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Table 13: Estimated Dollar Change in Rent under HUD's "27/30" Simplification Proposal, Fiscal Year 2003

Program	Percentile				
	10%	25%	50% (median)	75%	90%
Public housing	\$-34	\$-1	\$10	24	\$54
Vouchers	-28	-4	10	24	49
Project-based Section 8	-21	10	11	36	82
Total (all programs)	-27	0	10	28	62

Source: GAO.

Information on HUD's Policies for Determining Rent Subsidies

As discussed in chapter 5, the Department of Housing and Urban Development's (HUD) policies for determining rent subsidies are complex and require program administrators to collect comprehensive personal information from tenants. This appendix describes the policies and procedures related to the process for determining tenant rental payments—the basis for calculating rent subsidy amounts. Specifically, we identified four key steps in determining tenant rental payments: program administrators must (1) gather information on tenants, (2) verify information that tenants report, (3) determine tenants' eligibility for income exclusions and deductions, and (4) calculate tenant rental payments.

Step One: Gather Information on Tenants

Program administrators must obtain comprehensive information on tenants' household composition, sources of income, assets, public assistance, and expenses. This information allows program administrators to determine tenants' gross household incomes, their eligibility for income exclusions and deductions, and their rental payments. If program administrators do not request all the required information from tenants, they cannot make correct subsidy determinations. Following are examples from HUD guidance of the typical questions that program administrators should ask tenants:

- Does any household member receive full- or part-time earnings from any type of employment, including self-employment?
- Has anyone in your household started a new job or had an increase in earnings? If yes: (a) Is this a person with a disability? (b) Has this person been unemployed for one year or longer? (c) Is this person participating in any type of economic self-sufficiency program? (d) Has this person received welfare benefits in the past 6 months?
- Does any household member receive cash, tips, bonuses, commissions, or any type of compensation, worker's compensation, or severance pay?
- Does any household member receive child support or alimony?
- Does any household member receive welfare benefits or any other public assistance?

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- Does any household member receive income from any assets, including interest on checking or savings accounts and interest or dividends on stocks or bonds?
- Does any household member receive Social Security or supplemental security income benefits?
- Does anyone outside your household pay for any of your household bills or living expenses? Or does anyone in your household receive money from someone outside your household to pay bills or living expenses?
- Does anyone in your household participate in a job training program?
- Does anyone in your family receive any type of income, money, or financial support from any sources other than the ones asked about?
- Does any household member have a checking or savings account?
- Does any household member own stocks or bonds?
- Does any household member have child care expenses for a child 12 years or under?
- Is any portion of the child care expenses reimbursed by any person or agency?
- Do you pay for a care attendant or for any equipment for any household member with disabilities that is necessary to permit that person or someone else in the household to work? Are these expenses reimbursed by a person or agency?
- Is any adult in your household a full-time student?
- Is any family member actively seeking work?
- Does any household member pay for Medicare?
- Is any household member paying on past medical bills or anticipate any medical expenses during the next 12 months that will not be reimbursed by any source outside the household?
- Does any household member pay for any type of medical insurance?

Step 2: Verify Information That
Tenants Report

After gathering information from tenants, program administrators must verify the income, asset, and expense information that the tenant reports. According to HUD policy, program administrators should begin by obtaining, where possible, the highest level of verification—that is, verification from an independent third party, such as government income databases or written statements from employers, banks, and government agencies. When third-party verification cannot be obtained, program administrators can use a lower level of verification, such as reviewing documents supplied by tenants. However, in such cases, program administrators must document in the tenant's file why other forms of verification were not used. HUD has outlined the following guidelines for verifying tenant asset and income information:

- *Automated income verification system:* Program administrators obtain this form of income verification through an independent source that systematically and uniformly maintains income information in computerized form for a large number of individuals. This form of verification includes information on Social Security income from HUD's Tenant Assessment Subsystem and earned income from state agencies and the Department of Health and Human Services' National Directory of New Hires.
- *Written third-party verification:* Program administrators contact third-party sources, such as an employer, a bank, a government agency, or a child care service provider, to obtain a written statement supporting the income and expenses that tenants report. Program administrators must receive the written statement directly from the independent source. If the tenant handles the written verification statement in any way, HUD policy no longer considers it third-party verification.
- *Oral third-party verification:* Program administrators can verify income and expense information directly via telephone or an in-person meeting with the third-party source. Program administrator staff should document in the tenant file the date and time of the telephone call or meeting, the name of the person contacted and contact information, and the confirmed verified information. This verification method is commonly used when the independent source does not respond to the program administrator's request for written verification in a reasonable time frame (e.g., 10 business days).
- *Document review:* Program administrators review original documents provided by tenants in support of their reported income, assets, and

expenses. Program administrators can use this verification method only when third-party verification cannot be obtained. When the program administrators resort to reviewing tenant-provided documents, they must document in the tenant file why third-party verification was not obtained.

- *Tenant declaration:* Program administrators may accept a notarized statement or affidavit from tenants declaring their income, assets, and expenses. As with a document review, program administrators must document in the tenant file why third-party verification was not obtained.

Step 3: Determine Tenant Eligibility for Exclusions and Deductions

A tenant's rent is based on the family's anticipated gross annual income—that is, income from all sources received by the family head, spouse, and each additional family member who is 18 years or older—less applicable exclusions and deductions. We identified 44 exclusions and deductions from tenant income, most of which were statutorily based (e.g., deductions for elderly and disabled households are mandated by the United States Housing Act of 1937, as amended). These exclusions and deductions are described below.

Federally mandated exclusions cited in 66 *Fed. Reg.* 20318, April 20, 2001, are as follows:

1. The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.
2. Payments to volunteers under the Domestic Volunteers Services Act of 1973.
3. Payments received under the Alaska Native Claims Settlement Act.
4. Income derived from certain submarginal land of the United States that is held in trust for certain Indian tribes.
5. Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance program.
6. Payments received under programs funded under the Job Training Partnership Act/Workforce Investment Act of 1998.

7. Income derived from the disposition of funds to the Grand River Band of Ottawa Indians.
8. The first \$2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the U.S. Claims Court, the interests of individual Indian in trust or restricted lands, including the first \$2,000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands.
9. Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under federal work-study programs or under the Bureau of Indian Affairs student assistance programs.
10. Payments received from programs funded under Title V of the Older Americans Act of 1985.
11. Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in *In Re Agent*—product liability litigation.
12. Payments received under the Maine Indian Claims Settlement Act of 1980.
13. The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990.
14. Earned income tax credit refund payments received on or after January 1, 1991.
15. Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation.
16. Allowances, earnings, and payments to AmeriCorps participants under the National and Community Service Act of 1990.
17. Any allowance paid under the provisions of 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran.

18. Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of a crime against the applicant under the Victims of Crime Act.
19. Allowances, earnings, and payments to individuals participating in programs under the Workforce Investment Act of 1998.

Exclusions cited in 24 C.F.R. 5.609(c) are as follows:

20. Income from employment of children (including foster children) under the age of 18 years.
21. Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).
22. Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses.
23. Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
24. Income of a live-in aide.
25. The full amount of student financial assistance paid directly to the student or the educational institution.
26. The special pay to a family member serving in the armed forces who is exposed to hostile fire.
27. Amounts received under training programs funded by HUD.
28. Amounts received by a person with a disability that are disregarded for a limited time for purposes of supplemental security income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency.

29. Amounts received by a participant in other publicly assisted programs that are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and that are made solely to allow participation in a specific program.
30. Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed \$200 per month) received by a resident for performing a service for the program administrator, on a part-time basis, that enhance the quality of life in the development.
31. Incremental earnings and benefits resulting to any family member from participating in qualifying state or local employment training programs and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives and are excluded only for the period during which the family member participates in the employment training program.
32. Temporary, nonrecurring, or sporadic income (including gifts).
33. Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.
34. Earnings in excess of \$480 for each full-time student 18 years or older (excluding head of household and spouse).
35. Adoption assistance payments in excess of \$480 per adopted child.
36. Deferred periodic amounts from supplemental security income and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.
37. Amounts received by the family in the form of refunds or rebates under state or local law for property taxes paid on the dwelling unit.
38. Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

Deductions cited in 24 C.F.R. 5.611 are as follows:

39. \$480 for each dependent.
40. \$400 for any elderly family or disabled family.
41. The sum of the following, to the extent the sum exceeds 3 percent of annual income:
 - a. unreimbursed medical expenses of an elderly family or disabled family;
 - b. unreimbursed reasonable attendant care and auxiliary apparatus expenses for each member of the family who is a person with disabilities, to the extent necessary to enable any member of the family (including the member who is a person with disabilities) to be employed.
42. Any reasonable child care expenses necessary to enable a member of the family to be employed or to further his or her education.
43. Program administrators may adopt additional deductions from annual income. These deductions must be set forth in the written policies of the program administrator.

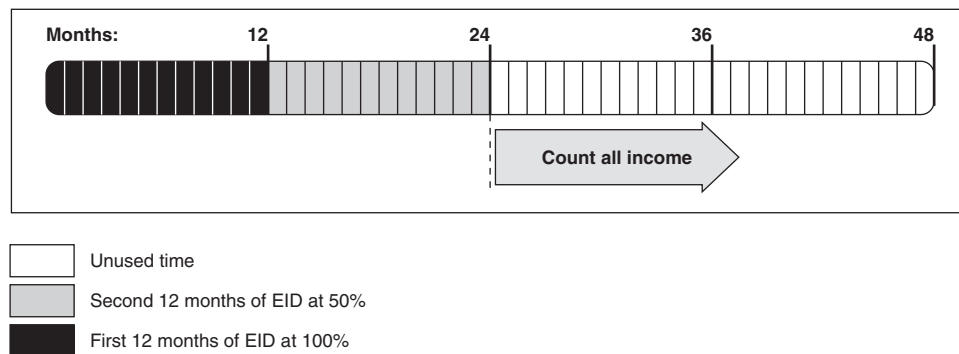
Earned income disallowance (EID) for public housing and voucher tenants cited 24 C.F.R. 960.255 and 24 C.F.R. 5.617 are as follows:

44. The disallowance policy provides special treatment to families whose earned income increased as a result of (1) employment of a family member who was previously unemployed for one or more years and (2) participation of a family member in a family self-sufficiency or other job training program. In addition, families who received assistance through the Temporary Assistance for Needy Family program and their earned income increased within the previous 6 months can also qualify for the disallowance. In addition, unlike the public housing program, the voucher program also requires that the disallowance be restricted to household members with disabilities. Families that qualify under these provisions are not subject to increases in their rental contributions due to higher income from employment or job training for a 12-month period (full exclusion period). The rent may be increased during the following 12-month period (phase-in period) but the increase may not be greater than 50 percent of the amount of the full rent increase that would be otherwise applicable. After completion

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of both the full exclusion and phase-in periods, tenant rent increases by the full amount (fig. 9). Tenants can claim the disallowance over nonconsecutive months if their employment status changes, but HUD imposes a lifetime limit of 48 months starting on the date of the initial exclusion.

Figure 9: Earned Income Allowance Timeline (Full Exclusion and Phase-In Periods Over Consecutive Months)



Source: GAO.

Step 4: Calculate the Tenant Rental Payments Using Verified Information

Finally, after obtaining all the required information and determining which exclusions and deductions the tenant is eligible to receive, the program administrator can calculate the tenant rental payment. According to HUD regulations, tenants must contribute the greater of the following toward rent for a subsidized unit:

- 30 percent of a family's monthly *adjusted* income, or monthly income less exclusion and deductions;
- 10 percent of the family's *gross* monthly income, or monthly income before exclusions and deductions; or
- the applicable minimum rent, which is typically between \$0 and \$50, as determined by the program administrator.

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Using verified tenant income information, program administrators must complete the family report.¹ In addition to information on household members' names, birthdates, and Social Security numbers, the family report also contains forms that program administrators use to calculate tenant rental payments. Figure 10 is an excerpt from the family report that illustrates some of the calculations and analysis that program administrators must perform.

¹HUD Form 50058 is used for public housing and vouchers and Form 50059 for project-based Section 8.

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Figure 10: Excerpt from HUD Family Report

6. Assets					
6a. Family member name	No.	6b. Tye of asset	6c. Calculation (PHA use)	6d. Cash value of asset	6e. Anticipated income
				\$	\$
				\$	\$

7. Income						
7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
				\$	\$	\$
				\$	\$	\$

8. Expected Income Per Year			
8a. Total annual income: copy from 7i	\$		
Permissible Deductions (Public Housing Only. If Section 8, Skip to 8f or 8q)			
8b. Family member name	No.	7c. Type of permissible deduction	8d. Amount
			\$
			\$

9. Total Tenant Payment (TTP)		
9a. Total monthly income: 8a/12	\$	9a.
9c. TTP if based on annual income: 9a X 0.10	\$	9c.
9d. Adjusted monthly income: 8y/12	\$	9d.
9e. Percentage of adjusted monthly income: use 30% for Section 8		9e.
9f. TTP if based on adjusted annual income: (9d X 9e)/100	\$	9f.
9g. Welfare rent per month (if none, put 0)	\$	9g.
9h. Minimum rent (if waived, put 0)	\$	9h.
9i. Enhanced Voucher minimum rent	\$	9i.
9j. TTP, highest of lines 9c, 9f, 9g, 9h, or 9i	\$	9j.
9k. Most recent TTP	\$	9k.
9m. Quality for minimum rent hardship exemption? (Y or N)	\$	9m.

Source: GAO.

Comments from the Department of Housing and Urban Development



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE DEPUTY SECRETARY
WASHINGTON, DC 20410-0050

February 8, 2005

David G. Wood
Director, Financial Markets
and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Wood:

Thank you for the opportunity to provide the Department's written comments on the U.S. Government Accountability Office's draft report on "HUD Rental Assistance – Progress and Challenges in Measuring and Reducing Improper Rent Subsidies" (GAO-05-224). HUD's rental housing assistance programs were separately placed on GAO's list of designated "high-risk" federal programs in January 2001, and the draft report served as a primary input to GAO's January 26, 2005 issuance of its biennial "High-Risk Series – An Update" (GAO-05-207). HUD agrees with GAO's retention of the high-risk designation for the rental housing assistance programs and with GAO's summary conclusion that:

...HUD has demonstrated commitment to and progress in addressing weaknesses identified in its high-risk program areas; however, some of HUD's corrective actions are in the early stages of implementation, and additional steps are needed to resolve on-going problems.

However, the draft report does not fully and properly present the nature and significance of many of HUD's Rental Housing Integrity Improvement Project (RHIP) activities. Therefore, HUD requests that GAO reconsider some of its draft findings and conclusions or put them in proper context in terms of their actual value in further reducing the risk of improper payments. Please consider the following general comments, as well as the separately provided matrix of detailed comments and technical corrections, in presenting a final report that is more accurate, balanced, and on point with addressing the stated objective of assessing the adequacy of HUD's actions to identify and address the sources and magnitude of improper payments in the rental housing assistance programs.

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HUD Corrective Actions to Reduce Improper Payments

Outreach, Guidance, Training, and Other Activity Reducing Improper Payments in 2003

HUD's rental housing assistance programs are administered by 4,500 public housing agencies (PHAs) and 22,000 multifamily housing property owners or management agents. Through these program partners, the Department has been working to address the causes of improper payments in those programs. An initial focus of the RHIP effort was to reach out and communicate the nature and significance of the improper payment problem to HUD's program partners, housing industry groups, and tenant advocacy groups and to solicit their support in developing and implementing corrective actions to reduce improper payments. As previously recognized in GAO's January 2003 high-risk program assessment, early RHIP efforts also focused on providing better program guidance and training to program administrators, tenant beneficiaries, and HUD monitoring staff. HUD finds the draft report remiss in its failure to recognize the Department's outreach, guidance, and training efforts as contributing factors to the reduction of improper payments through *increased voluntary compliance* by program administrators and tenant beneficiaries.

HUD believes its outreach, guidance, and training activities played a significant contributing role in the 2003 evidence of a 50 percent reduction from the 2000 baseline estimate of \$3.2 billion in gross annual improper payments due to errors in program administrator subsidy determinations and tenant reporting of income. Other factors contributing to this reduction included increased monitoring by performance-based contract administrators (PCAs) in the Section 8 Project-Based Assistance Program; early impacts of the rental integrity monitoring (RIM) efforts in the Public Housing and Section 8 Voucher Programs; promotion and initiation of improved computer matching efforts for tenant income verification; and improvements to the process for measuring the impacts of undisclosed tenant income sources. While HUD agrees with GAO's conclusion that some of these later corrective actions were not fully implemented or were in early stages at the time of the 2003 error measurement update, they nevertheless had an apparent impact on improving program compliance in 2003 and hold great promise for further improper payment reductions upon full implementation.

Increasing and Improving Program Monitoring Activity

HUD's PCA and RIM initiatives were undertaken to address decades-old inadequacies in HUD's monitoring and oversight of billings and of income, rent, and subsidy determinations in its rental housing assistance programs. HUD believes its increased monitoring efforts to date have been highly beneficial in improving program administrator compliance and performance and reducing the risk of improper payments. While HUD generally agrees with GAO's findings on the need for greater standardization and consistency in the execution of the Department's monitoring processes, the final report should put those findings in the proper context of the significant overall increase in HUD's monitoring of the rental assistance programs in the past several years and the value of those efforts in improving program administration and reducing improper payments.

GAO's final report should also acknowledge that the design and level of HUD's ongoing program monitoring efforts are directly related to the level of annual budgetary resources provided to HUD to establish and sustain an ongoing monitoring capacity. HUD's Fiscal Year (FY) 2005 funding supports less staffing, travel, and contracting for program monitoring activity than was available in FY 2004. The steady downsizing of HUD's staffing over the past decade has necessitated that the Department increasingly rely on remote monitoring systems, risk-based monitoring practices, and voluntary compliance by third-party program administrators.

In the case of the PBCA initiative, HUD was given sufficient budgetary resources for an annual onsite compliance monitoring review and a review of 100 percent of subsidy payment vouchers submitted under Section 8 project-based assistance contracts covered by PBCAs. HUD attributes the relatively low billing error rate and the 2003 reductions in other project-based assistance error components to its expanded use of PBCAs, which was the only significant explanatory variable from prior error measurement efforts in 1993 and 2000. While HUD plans to provide a comparable level of monitoring to its other project-based assistance program activity and has requested the budgetary resources to do so, it remains to be seen whether these resources will be provided and sustained. If not, HUD will have to devise other, less comprehensive methods of monitoring its project-based assistance to private owners of low-income housing. HUD is rewriting its PBCA contract requirements and will address GAO's issue that more consistent reporting of monitoring results is needed as a basis for measuring, analyzing, and resolving compliance and performance problems.

HUD's initial RIM reviews were targeted at the 490 largest PHAs that together receive 80 percent of the funds from the Public Housing and Section 8 Voucher programs of the Office of Public and Indian Housing's (PIH). These were intended to be one-time baseline and follow-up reviews of the larger PHAs' performance of income, rent, and subsidy determinations, because HUD lacks the capacity to sustain this level of RIM reviews on an annual basis without adversely affecting PIH's other program delivery and monitoring responsibilities. However, HUD's FY 2005 Management Plan guidance conveyed HUD's plans to resume the conduct of RIM reviews as part of HUD's normal oversight activities in FY 2006. These would follow a targeted FY 2005 focus on follow-up and enforcement actions on the results of the initial RIM review effort.

In its future RIM reviews, HUD plans to utilize PIH's limited monitoring capacity to perform RIM reviews on the 490 largest PHAs on a cyclical basis, along with review of an annual random selection of smaller PHAs. The frequency of the RIM review cycle will depend on PIH's staff resource level. HUD's recently updated RHIIP plan addresses GAO's recommendation on the need to collect complete and consistent information from its monitoring efforts to help focus corrective actions. In addition, the Congress provided PIH with 75 additional full-time equivalent (FTE) positions to improve controls over budgeting and accounting for the Section 8 Voucher Program. Use of those additional resources should also further reduce the risk of improper payments.

Program Simplification Efforts

The draft report does not adequately characterize the work HUD has done in developing proposals to simplify policies for rent subsidy determinations that would reduce the risk of improper payments. The report fails to mention three legislative initiatives that were proposed in HUD's FY 2004 and FY 2005 budget justifications, the Housing Assistance for Needy Families proposal, Flexible Voucher proposal and Freedom To House initiative. Each of these proposals included rent subsidy simplification. Although none of these initiatives were enacted as part of HUD's appropriations, each had been vetted through the Department and through the Office of Management and Budget (OMB) and reflected the Department's strong interest in pursuing simplification. As part of its FY 2006 budget, HUD will propose several initiatives to simplify rent subsidy determinations.

The draft report incorrectly states that HUD has not conducted formal studies on or otherwise considered the effects of its program simplification change proposals. To the contrary, all of HUD's proposals with respect to simplifying rent subsidy determinations have undergone extensive analysis by the Department's Office of Policy Development and Research (PD&R) and program staff. Nevertheless, HUD agrees with GAO's conclusions that major policy changes would require statutory action by the Congress. HUD also agrees that changes to the current system of income deductions and exclusions would likely affect many tenants' rental payments, with some tenants paying higher rent and others paying lower rent than they do under the current program structure. Given that such policy changes are beyond HUD's control, the Department remains focused on improving management controls to reduce risks in the existing program structures, while continuing to consider and advance program simplification proposals with program stakeholders.

Efforts to Identify the Sources and Magnitude of Improper Payments

HUD's efforts to measure the sources and magnitude of improper payments in its rental housing assistance programs are costly and burdensome to implement for HUD, as well as for its program administrators and tenant beneficiaries. HUD's measurement efforts to date have been designed and deployed as needed to guide corrective actions, to reduce the risk of improper payments, and to measure the general success of those activities. The draft report correctly states that HUD has identified three general sources of improper payments in its rental housing assistance programs—program administrator subsidy determination error, tenant income reporting error, and billing or payment error. However, HUD disagrees with the draft report's conclusion that HUD has complete and reliable estimates only for the program administrator subsidy determination component. The Department also disagrees with the implication that HUD lacks information for program decision-making on risk reduction efforts for the other identified error components. Regarding the draft report's conclusions that HUD should measure certain types of errors and the impacts of corrective actions in greater detail or more precisely, the Department questions the necessity and cost-benefit of such efforts.

The draft finds that HUD's FY 2003 estimate of improper rent subsidies attributable to unreported tenant income was unreliable because it was based on a sample that was too small to produce an accurate result. That finding is misleading and should be put in the proper context.

HUD used the same sampling methodology for measuring unreported tenant income in 2003 as was used and accepted by GAO and HUD's Office of Inspector General in 2000. HUD's FY 2003 sample consisted of over 5,500 tenants in the 2,401 subsidized households included in the statistically valid sample for the review of the program administrator subsidy determinations accepted by GAO. HUD identified 30 of the 2,401 tenant households surveyed as having at least one unreported income source. The estimated incidence of cases in error was 1.2 percent. There is a 95 percent likelihood that the true incidence of error was in the 0.1 to 2.0 percent range. The \$191 million dollar error estimate also has a relatively high confidence interval range, which is partly a function of the distribution of errors and partly due to the small number of errors. To obtain a precise estimate of dollar error would require a much larger and more expensive sample. Since HUD anticipates that full implementation of its Enterprise Income Verification computer matching system will eliminate any reasonably detectable underreporting of income, HUD does not believe that the cost of a survey large enough to measure this error more accurately is necessary or advisable.

The draft report's discussion of HUD's estimation of billing error in the Project-Based Assistance programs is also misleading and in need of clarification. The report ignores three points: (1) the error found was difficult to measure because it was so small; (2) the sample size used followed OMB guidelines on measuring improper payments, which were partly intended to avoid excessive sampling costs; and (3) many of the "errors" identified were due to the study's protocols, which did not resolve situations where funds paid could not be fully tracked because they had been commingled with other activities or projects under allowed procedures. Funds that could not be fully tracked were classified as discrepancies and reported as billing errors in this study, although it is unlikely that most were actually errors that adversely affected HUD or the program. HUD intends to add procedures to future billing studies that are almost certain to eliminate a significant portion of the discrepancies reported in this year's study. HUD does need to complete the ongoing billing error measurement effort for the Public Housing and Section 8 Voucher Programs to determine the nature and extent of any problems that need to be resolved. Even so, PIH is already taking action to improve controls over billings in those programs, such as establishing the Office of Voucher Quality Assurance.

While the draft report accepted the methodology and results of HUD's process for estimating program administrator subsidy determination error, the report recommends that HUD expand the process for the Project-Based Assistance programs to provide for separate error rates for activities respectively monitored by PBCAs, traditional Contract Administrators, and HUD staff. Such an effort would be far more costly, because sample sizes would need to be at least tripled to permit statistically valid comparisons. Unless HUD is unsuccessful in its efforts to provide all Project-Based Assistance program activity with the same level of monitoring provided by the PBCAs, such an action does not seem necessary or cost-beneficial. Even then, an aggregate estimate might still be acceptable, if the overall error continues to show a strong downward trend towards an acceptable level, commensurate with the implementation of HUD's corrective actions. Rather than expand the costly separate error measurement efforts, HUD prefers to consider GAO's recommendations to better capture its ongoing monitoring results as a basis for measuring, analyzing, and addressing problems in the administration of the rental housing assistance programs.

Appendix III
Comments from the Department of Housing
and Urban Development

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I appreciate GAO's efforts to assure a full and accurate assessment of all relevant facts in arriving at valid conclusions on the nature and significance of HUD's rental housing assistance program risks and the adequacy of HUD's corrective actions and plans to better manage those risks. I have requested HUD's staff to meet with GAO on an ongoing basis to help insure that to the fullest extent possible the Department addresses all of the criteria that led to GAO's "high-risk" determination. If your staff has any questions on our comments, please have them contact James M. Martin, Assistant Chief Financial Officer for Financial Management, on (202) 708-0614, extension 3706.

Sincerely,

A handwritten signature in black ink, appearing to read "Roy A. Bernardi", written over a horizontal line.

Roy A. Bernardi
Deputy Secretary

GAO Contacts and Staff Acknowledgments

GAO Contacts

David G. Wood (202) 512-8678
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Staff Acknowledgments

In addition to the individuals named above, Daniel Garcia-Diaz, Cory Roman, and Rose Schuville made key contributions to this report. Also contributing to this report were Carl Barden, Emily Chalmers, John T. McGrail, Marc W. Molino, Terry Richardson, and Jerry Sandau.

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