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Report to the Chairman and Ranking
Minority Member, Committee on
Governmental Affairs, U.S. Senate

September 2000

BENEFIT AND LOAN PROGRAMS

Improved Data Sharing Could Enhance Program Integrity



G A O

Accountability * Integrity * Reliability

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Abbreviations

ACF	Administration for Children and Families
AFDC	Aid to Families with Dependent Children
BSRT	Benefit Systems Review Team
CMPPA	Computer Matching and Privacy Protection Act
DMDC	Defense Manpower Data Center
DMV	Department of Motor Vehicles
FAFSA	Free Application for Federal Student Aid
HEA	Higher Education Amendments of 1998
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IEVS	Income and Eligibility Verification System
IRC	Internal Revenue Code
IRS	Internal Revenue Service
OASDI	Old Age, Survivors, and Disability Insurance
OCSE	Office of Child Support Enforcement
OIG	Office of Inspector General
OMB	Office of Management and Budget
PARIS	Public Assistance Reporting Information System
PHA	public housing authority
PMO	priority management objective
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996
QHWRA	Quality Housing and Work Responsibility Act of 1998
REAC	Real Estate Assessment Center
SAVE	Systematic Alien Verification for Entitlement
SESA	state employment security agency
SSA	Social Security Administration
SSI	Supplemental Security Income
TANF	Temporary Assistance for Needy Families



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Health, Education, and
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September 13, 2000

The Honorable Fred Thompson
Chairman, Committee on Governmental Affairs
United States Senate

The Honorable Joseph Lieberman
Ranking Minority Member, Committee on Governmental Affairs
United States Senate

Many federally funded benefit and loan programs rely on applicants and current recipients to accurately report their own important information, such as the amount of income they earn, that affects their eligibility for assistance. To the extent that such information is underreported or not reported at all, the federal government overpays benefits or provides loans to individuals who are ineligible. In recent years, reviews that we have conducted and that offices of inspectors general (OIG) and others have conducted demonstrate that federally funded benefit and loan programs such as housing and higher education assistance have made hundreds of millions of dollars in improper payments.¹ Some of these payments were made improperly because the federal, state, and local entities that administer the programs sometimes lacked adequate, timely data needed to determine applicants' and current recipients' eligibility for assistance. Our previous work has demonstrated that improper payments can be avoided or detected more quickly by using data from other programs, or maintained for other purposes, to verify self-reported information. For example, we estimated that direct on-line connections between the Social Security Administration's (SSA) computers and databases maintained by state agencies containing information on wages, welfare benefits, unemployment insurance, and workers' compensation benefits could have prevented or more quickly detected \$131 million in Supplemental Security

¹*Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments* (GAO/AIMD-00-10, Oct. 1999). See also OIG, Department of Housing and Urban Development, *U.S. Department of Housing and Urban Development: Attempt to Audit the Fiscal Year 1999 Financial Statements*, 00-FO-177-0003 (Washington, D.C.: n.d.), and OIG, Department of Education, *Accuracy of Student Aid Awards Can Be Improved by Obtaining Income Data From the Internal Revenue Service*, ACN: 11-50001 (Washington, D.C.: Jan. 29, 1997).

Income (SSI) overpayments in one 12-month period.² We also estimated that about \$648 million in SSI overpayments that occurred in one year could have been avoided or more quickly detected if SSA had had access to the Office of Child Support Enforcement's (OCSE) National Directory of New Hires, as well as financial institution data.³

Data sharing, as we use the term in this report, means obtaining and disclosing information on individuals from independent, third-party sources such as federal and state government agencies or private organizations to determine their eligibility for federally funded benefit and loan programs. Commonly used data sources include tax return information from the Internal Revenue Service (IRS), earnings information maintained by SSA, and unemployment insurance data maintained by state employment security agencies. You asked us to study whether improved data sharing among federally funded benefit and loan programs could help them make more accurate initial and continuing eligibility determinations. Specifically, you asked us to determine (1) the data that selected benefit and loan programs use to verify self-reported, eligibility-related information; (2) whether additional data sharing with federal, state, and local governments, or private entities, could avoid some improper payments; and (3) the legal or other barriers to enhanced data sharing.

²SSI is the nation's largest cash assistance program for the poor. In 1999, it paid about 6.6 million aged, blind, and disabled recipients more than \$28 billion in benefits. See *Supplemental Security Income: Administrative and Program Savings Possible by Directly Accessing State Data* (GAO/HEHS-96-163, Aug. 29, 1996).

³*Supplemental Security Income: Opportunities Exist for Improving Payment Accuracy* (GAO/HEHS-98-75, Mar. 27, 1998).

To respond to your request, we examined three federally funded benefit and loan programs:⁴ (1) the Department of Housing and Urban Development's (HUD) Public Housing and Tenant-based Section 8 programs, (2) the Department of Health and Human Services' (HHS) Temporary Assistance for Needy Families (TANF) program, and (3) the Department of Education's Student Financial Assistance programs. These programs represent three different modes of program administration: direct federal administration (Student Financial Assistance), block grants with state and local administration (TANF), and local agency administration with some federal involvement (HUD housing assistance). We interviewed federal officials from each of these programs as well as from other federal agencies.⁵ We also interviewed state and local officials who administer the three programs in eight locations: Sacramento and San Francisco, California; Miami and Tallahassee, Florida; Baltimore, Maryland; Newark, New Jersey; Albany and New York City, New York. In addition, we collected available data from federal, state, and local governments on improper payments and cost savings related to the use of data sharing. We also cosponsored a symposium on data sharing with the Senate Committee on Governmental Affairs in June 2000. This conference examined a number of different issues related to data sharing, including its benefits for program integrity, the role of technology, and challenges to enhanced data sharing, as well as privacy and information security issues. Numerous representatives attended the conference from federal agencies, as well as state and local governments and private sector organizations.⁶ We performed our work between June 1999 and June 2000 in accordance with generally accepted government auditing standards.

Results in Brief

Federally funded benefit and loan programs require similar types of information about individuals to correctly determine their eligibility for assistance. Such information includes their identity (name, Social Security number, date of birth), earned income (wages) and unearned income (food stamps), assets (bank accounts, automobiles), citizenship status, and

⁴We use "programs" to refer to individual programs as well as groups of closely related programs. For example, Student Financial Assistance is a group of several loan and grant programs including Pell Grants, Stafford Loans, Direct Loans, PLUS Loans, and others.

⁵The Office of Management and Budget (OMB), SSA, OCSE, Food and Nutrition Services, the Department of Labor, and the Department of Treasury, including IRS.

⁶We will issue a separate report on the symposium in fall 2000.

household composition. While numerous factors can affect an individual's eligibility for benefits, income is generally one of the most important and most prone to error or inaccurate reporting. Some programs obtain information from independent, third-party sources such as federal and state agencies, including IRS or state unemployment insurance programs, or private companies such as credit bureaus to verify the accuracy of self-reported data. For example, some of the public housing agencies we visited obtained information from national credit bureaus such as Equifax to verify applicants' and recipients' financial resources. Matching automated computer files and accessing online databases are two methods by which federally funded benefit and loan programs obtain and share eligibility information. In our earlier reviews of the SSI and Food Stamp programs, we noted the efficacy of using federal and state data sources to verify self-reported information and control improper program payments.

The three programs we reviewed could use enhanced data sharing to make more timely and accurate eligibility determinations. While each of the programs uses varying degrees of computer matching and other methods to verify the information that applicants and current recipients provide, the programs could benefit from access to additional data sources. For example,

- HUD estimates that the lack of adequate information on applicants' and tenants' income contributed to \$935 million of excess rental subsidies in 1998.⁷ While federal HUD officials have access to data from various computer matches (such as those conducted with IRS taxpayer data), under current law they are not permitted to share federal tax information with public housing agencies and private owners who administer HUD's rental assistance programs.⁸
- The Department of Education's OIG estimates that underreported income contributed to roughly \$109 million in excess Pell Grant awards in 1995-96. Access to IRS taxpayer information could have helped Education prevent some of these overpayments.

⁷This figure includes improper payments (as reported in the fiscal year 1999 financial statements) for HUD's project-based and tenant-based housing programs. We did not, however, include the project-based housing programs in our review.

⁸HUD is permitted, however, to disclose to public housing agencies and private owners the identity of individuals who have potential income discrepancies. See 42 U.S.C. 3554(c)(2)(A)(ii).

- The Administration for Children and Families (ACF) within HHS estimates that program savings of about \$100 million could be realized in the TANF program if all states participated in the Public Assistance Reporting Information System (PARIS) match.⁹

An example of an information source that many program administrators cite as being beneficial is OCSE's National Directory of New Hires. Access to this source would provide these programs with the most timely and comprehensive source of state wage, unemployment insurance, and new hire data available. However, current law requires OCSE to establish and implement safeguards designed to restrict access to confidential information to authorized persons for authorized purposes and does not permit the three programs we examined to obtain information from the directory for purposes of verifying applicants' eligibility for benefits or loans.¹⁰

Other legal restrictions, as well as management, administrative, and technological challenges, limit the ability of federally funded benefit and loan programs to effectively share information with one another. A number of laws have been enacted over the past 25 years that limit access to sensitive data sources (or restrict how such data may be used) in an effort to protect individual privacy and the confidentiality of sensitive information or to address concerns about taxpayer compliance with tax laws. These statutes include section 6103 of the Internal Revenue Code (IRC), which governs the disclosure of taxpayer information; provisions in the Social Security Act that restrict access to OCSE's National Directory of New Hires; and the Privacy Act (including the Computer Matching and Privacy Protection Act amendments of 1988, or CMPPA), which balances the government's need to collect and maintain sensitive information about individuals against their right to privacy. Providing more federally funded programs access to restricted data sources (such as the National Directory of New Hires) and the ability to share this information with state and local agencies that administer various benefit and loan programs often requires amending federal laws governing the use of the data.¹¹ However, increasing the access to sensitive data for benefit and loan programs can be balanced

⁹This estimate was derived from cost-benefit analysis on the PARIS project performed by ACF.

¹⁰See 42 U.S.C. 653(m).

¹¹Providing such access may also require amending state laws.

with the need for personal privacy, confidentiality, and tax compliance. For example, providing access to restricted data sources in this context does not mean that personal information on citizens will be available in the public domain or that the confidentiality of sensitive data will not be protected from unauthorized disclosure. Rather, only agencies or their representatives with the need to view the information for purposes of determining eligibility for individuals who apply for benefits and loans should have access to such data and would be responsible for protecting them from unauthorized disclosure. In addition to legal restrictions, other issues complicate the ability of benefit and loan programs to share information. For example, the lack of a system through which the states can share data to detect individuals who have obtained TANF benefits in more than one state makes it difficult for states to ensure that only eligible individuals and families receive benefits. This type of challenge will likely require federal facilitation to address the management, administrative, and technological issues that are involved. We are suggesting to the Congress and the heads of the Office of Management and Budget (OMB), HHS, and HUD actions that will help address some of these issues.

Background

Federally funded benefit and loan programs provide cash or in-kind assistance to individuals who meet specified eligibility criteria. TANF, SSI, Food Stamps, housing assistance, and student loans are representative of such programs. Some are administered centrally by federal agencies (such as SSI), while states and localities are involved in the administration of others (such as TANF). Many of these programs rely on applicants and current recipients to self-report important information that can affect their eligibility for benefits, such as the amount of income they earn. Because many benefit and loan programs require the same information, it is more efficient for them to share the necessary data with one another rather than requiring each program to independently verify similar data. Sharing important eligibility-related information across programs can also reduce the burden on individual applicants and recipients, businesses, and other entities for repeatedly supplying it. These programs may verify self-reported information by comparing their records with independent, third-party data sources from other federal or state agencies as well as private organizations.

Data Sharing Concepts

Benefit and loan programs can compare large amounts of information on applicants and recipients by using computers to match automated records. Electronic transmission of data and online access to agencies' databases

are additional tools program administrators can use to share important information on applicants and recipients in a timely, efficient manner. If used consistently, they can help program administrators check the accuracy of individuals' self-reported statements, as well as identify information relevant to eligibility that the applicants and recipients themselves have not provided.

We discuss two types of accuracy checks related to data sharing in this report: positive verification, or confirming the accuracy of information that an applicant or recipient has voluntarily reported, and negative verification, or checking independent, third-party data sources to detect information that may not have been reported. The following example illustrates the difference between the two concepts. To confirm the amount of earned income that an applicant reports at an eligibility interview, a public assistance program administrator sends a letter to an employer the applicant cited and requests the employer to certify the applicant's wages. This is a form of "positive verification" because the administrator is able to confirm only employment and wage information that is voluntarily provided. "Negative verification" in this example could consist of the program administrator's accessing the central state wage database and checking all the wages reported to the state by all employers on behalf of the applicant. This type of verification is superior because it allows program administrators to identify more relevant earned income information for an individual, including information that is not volunteered on an application.¹² Moreover, sharing important data across benefit and loan programs with similar information needs may result in more efficient program administration, including more timely and accurate eligibility determinations.

¹²However, this type of verification cannot identify wages individuals receive that employers do not report.

Key Aspects of Programs Reviewed

HUD funds and regulates the Public Housing and Tenant-based Section 8 programs, both of which local public housing agencies administer under contract to HUD.¹³ The Public Housing Program provides subsidies to nearly 3,200 public housing authorities (PHA) to help them pay a large portion of the cost of operating and maintaining public housing units. In fiscal year 1998, this program spent about \$8 billion to subsidize 1.3 million public housing units.¹⁴ The Section 8 Rental Assistance Program subsidizes low-income families' choice to live in privately owned housing by providing rental assistance payments to landlords on behalf of families. In fiscal year 1998, HUD spent about \$8.3 billion to help about 1.6 million families obtain affordable, private housing. In general, tenants are required to pay 30 percent of their anticipated income toward rent, with HUD paying the balance of the rental amount. The PHAs are responsible for verifying the information applicants and current tenants provide that may affect their eligibility for assistance. In contrast to entitlement program benefits, which generally go to all who qualify, the benefits of HUD's housing assistance programs are limited by budgetary constraints to about one-fourth of the households that are eligible.

TANF was created by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) and replaced the federal entitlement awarded to eligible families under the Aid to Families with Dependent Children (AFDC) program with temporary benefits contingent on successful completion of work and education requirements. TANF has been implemented in the form of a block grant to states, designed to help low-income families with children reduce their reliance on welfare and move toward economic independence. The annual block grant to states is \$16.5 billion. In fiscal year 1999, states spent a total of \$11.2 billion of federal funds and \$11.3 billion of their own funds on this program.¹⁵ While HHS oversees TANF at the federal level, states have much greater flexibility than under AFDC to design and implement programs to meet state and local needs and to establish eligibility requirements. However, among its other provisions, PRWORA requires that states impose work

¹³HUD funds both tenant-based and project-based rental assistance programs. Our review focused exclusively on the tenant-based programs administered by public housing agencies.

¹⁴This figure includes expenditures for the operating fund, capital fund, debt service, drug elimination fund, and HOPE VI.

¹⁵The states may carry forward funds that are not spent to meet program needs in future years.

requirements for adults, meet specified requirements for the percentage of adults who participate in work activities, and enforce a 5-year lifetime limit on receiving TANF benefits. States and localities are also responsible for verifying the accuracy of information that applicants and TANF recipients provide.

The Department of Education's Office of Student Financial Assistance for higher education provides federal student aid in the form of grants and loans to eligible applicants based on key financial and student status information. The grant and loan programs include Pell Grants, the Federal Family Education Loan Program, and the Federal Direct Loan Program. Applicants report pertinent information on the Free Application for Federal Student Aid (FAFSA) form. In general, Education relies on institutions (such as universities) to verify the accuracy of this information. It also conducts various internal and external computer edits to detect errors on applications. Education currently oversees a total of about \$51 billion in federal student aid grants and loans to nearly 8.4 million students and parents.

Laws Governing Data Sharing and Privacy

A number of different laws and regulations govern the ability of benefit and loan programs to obtain access to and share sensitive information such as the Social Security numbers of and income data on applicants and recipients. Among the most important of these are the Privacy Act, including the Computer Matching and Privacy Protection Act amendments of 1988 (CMPPA) and 1990, and IRC section 6103.

The Privacy Act (5 U.S.C. section 552a) is intended to balance the government's need to collect and maintain information about individuals against their right to be protected against unwarranted invasions of their privacy resulting from federal agencies' collections and use of information about them. The act addresses four basic policy objectives: (1) restricting the disclosure of records that contain personal identifiers maintained by agencies; (2) providing individuals the right of access to agency records about them; (3) granting individuals the right to seek amendment of agency records on them if they can show that such records are not accurate, relevant, timely, or complete; and (4) establishing a code of fair information practices that requires agencies to comply with statutory norms for collecting, maintaining, using, and disseminating records. During the June 2000 data sharing symposium, some observers stated that the act was primarily designed to address privacy concerns in a paper environment. As such, it is not well suited to addressing some of the issues that arise from

the widespread use of computerized records and electronic dissemination of information and may need to be updated.

CMPPA permits federal agencies to conduct matches with one another, subject to various provisions. In general, all matching agreements must include the purpose and legal authority for a match, anticipated results, a cost-benefit analysis, procedures to notify applicants and recipients who are identified in a match, and procedures for verifying the information to be produced. In addition, CMPPA (see 5 U.S.C. §§ 552a(o), (r), and (u)) requires agencies to publish matching agreements in the *Federal Register*, report matching programs to the Congress and OMB, and establish internal data integrity boards to review and approve matching programs. An initial matching agreement may be in force for 18 months, which may be followed by a 12-month renewal period. To continue a match beyond 30 months, a new agreement must be negotiated between the agencies, even if the provisions of the matching agreement remain the same.

Under IRC section 6103, federal, state, and local agencies may receive IRS taxpayer information only for certain specified purposes, including administering state tax programs and verifying eligibility for various welfare and public assistance programs (such as public housing).¹⁶ According to the Department of the Treasury, this section of IRC was enacted to limit the instances in which other agencies used tax data for nontax purposes to cases in which the need for the information outweighs the related concerns of taxpayer privacy and continued compliance with tax laws. Section 6103(l)(7) specifies that taxpayer information may be disclosed to federal, state, or local agencies administering any of nine program categories, such as unemployment compensation or housing assistance.¹⁷ Agencies are also required to protect the confidentiality of the information they receive and to implement safeguards that are designed to prevent unauthorized access, disclosure, and use. Unauthorized disclosure or access may result in criminal penalties (section 7213) or civil damages (section 7431). Individual taxpayers may also authorize IRS to disclose

¹⁶Taxpayer information may consist of an individual's name, Social Security number, address, wages, self-reported earnings, unearned income from interest and dividends, tax returns, and miscellaneous income statements as well as other things. For a full description of IRC section 6103 and related issues, see *Taxpayer Confidentiality: Federal, State, and Local Agencies Receiving Taxpayer Information* (GAO/GGD-99-164, Aug. 30, 1999).

¹⁷See Joint Committee on Taxation, *Study of Present-Law Taxpayer Confidentiality and Disclosure Provisions as Required by Section 3802 of the Internal Revenue Service Restructuring and Reform Act of 1998* (Washington, D.C.: Jan. 28, 2000), p.46.

their tax return information to specified entities by providing a written consent (IRC section 6103(c)). However, such disclosures are not subject to the same safeguards or penalties that exist for disclosures to specified agencies under IRC section 6103.

Benefit and Loan Programs Have Similar Data Needs

Many federally funded benefit and loan programs (including the three programs in our review) require common information on applicants and recipients to accurately determine their eligibility for benefits. These data include a person's identity (name, date of birth, Social Security number), address, income (both earned and unearned), assets (such as bank accounts), household composition (including number of dependents), citizenship status, incarceration status, and whether the person has died.¹⁸ Applicants' and recipients' income are the most vital pieces of information in making an accurate decision, because income is often a main requirement for an individual's (or family's) eligibility. In addition, assets such as bank accounts can affect applicants' and current recipients' eligibility for assistance. In many instances, program administrators rely on applicants and recipients to self-report important information, such as income, which can be subject to error and abuse. Administrators of some benefit and loan programs may gain access to records maintained by other federal, state, or local agencies by means of computer matching or on-line access to "live" databases to verify the accuracy of self-reported statements. However, they do not consistently use such sources to make timely and accurate eligibility determinations. Table 1 shows potential sources for some commonly required types of data, including federal, state, local, and private entities.

¹⁸TANF administrators require additional information to accurately determine applicants' and recipients' eligibility for assistance, including interstate receipt of benefits, program disqualifications, and benefit time limits.

Table 1: Potential Sources of Data for the Three Programs in Our Review

Type of data needed	Federal	State	Local	Private
Identity (name, Social Security number, birth date)	SSA			
Citizenship status	—Immigration and Naturalization Service —SSA			
Address	—IRS —OCSE, National Directory of New Hires —SSA	—Department of motor vehicles (DMV) —State directory of new hires		Credit bureaus
Household composition ^a				
Earned income (wages)	—IRS —OCSE, National Directory of New Hires —SSA	—State employment security agency (SESA) —Department of labor —State directory of new hires ^b		
Unearned income (public assistance benefits, pensions, interest)	Various departments and agencies ^c	—Department of human services or the equivalent —Department of labor or the equivalent —SESA	Various agencies (such as housing authorities) administering federal and state programs	Financial institutions
Assets (bank accounts, automobiles)	IRS	—DMV —Lottery agencies	Various agencies maintaining property records	—Credit bureaus —Data vendors —Financial institutions
Incarceration status and criminal history	—Department of Justice —SSA	Prisons and criminal justice agencies	Jails	Data vendors
Death information	SSA	Bureau of vital statistics		Data vendors

Note: The data and sources are not exhaustive but illustrate some of the more common types of data needed, as well as some of their potential sources.

^aAlthough no single source of data is generally available to verify household composition, program administrators may use a combination of sources that may provide limited information, including state bureaus of vital statistics, local marriage license data, prison match data from SSA, and local school attendance forms.

^bPRWORA required states to set up databases of new hires to help locate individuals involved in child support cases and to verify eligibility for certain programs. See 42 U.S.C. 653(h).

^cFederal departments and agencies that maintain information on unearned income, such as public assistance benefits, include HUD, IRS, SSA, and the Veterans Administration.

A relatively small number of federal and state agencies as well as private companies maintain substantial information that is required by many federally funded benefit and loan programs. For example, IRS is a main source for taxpayer information on earned and unearned income, including wages, interest from bank accounts, and investment income.¹⁹ OCSE's National Directory of New Hires also contains important information for all 50 states. The directory includes centralized sources of state wage data, unemployment insurance, and new hires data that could help benefit and loan programs make more timely, accurate eligibility determinations. During the data sharing symposium we cosponsored in June 2000, several representatives from federal, state, and local government agencies inquired about how they could obtain access to information contained in the directory. However, provisions in the Social Security Act specify that in addition to OCSE, only three agencies (IRS, SSA, and the Department of Education) may use information maintained in the directory, and they may use it only for specific purposes. The data in the directory are not legally accessible to most benefit and loan programs.

At the state level, one of the main sources of information for data sharing is the Income and Eligibility Verification System (IEVS).²⁰ IEVS draws on numerous federal and state data sources, including IRS Form 1099 data and Social Security benefits and earnings information, as well as state wage and unemployment insurance data. PRWORA also required states to continue using IEVS in administering their TANF programs.

Another source of valuable information (particularly for verifying applicants' or recipients' assets) is private financial institutions such as banks. However, only two federal agencies that administer benefit or loan programs (OCSE and SSA) currently have legislative authority to request data from financial institutions.²¹ For example, the Foster Care Independence Act of 1999 authorizes SSA to require applicants and current recipients of SSI benefits to provide SSA with the authority to check the records of all financial institutions as part of its eligibility determination

¹⁹See *Taxpayer Confidentiality: Federal, State, and Local Agencies Receiving Taxpayer Information* (GAO/GGD-99-164, Aug. 30, 1999).

²⁰IEVS was originally created by the Deficit Reduction Act of 1984 and was built on earlier state data sharing activities in the 1970s that used state wage data to control welfare payments.

²¹See section 353 of PRWORA and section 213 of the Foster Care Independence Act of 1999, Pub. L. No. 106-169.

process. However, most federally funded benefit and loan programs do not have this type of authority. Table 2 describes some of the types of data that may be available from some selected federal, state, and private sources.

Table 2: Some Major Federal, State, and Private Data Sources

Source	Description	
Federal agencies and systems	IRS Individual Master File and related databases	Federal taxpayer information, including individual income tax, Form W-2 (wage statements received from SSA), Form 1099 (unearned income), taxpayer name, mailing address, and marital and tax filing status.
	OCSE, National Directory of New Hires	Quarterly state wage data, new hires data, and unemployment information from all 50 states and the District of Columbia.
	SSA databases	Form W-2 (wage statements); Social Security number verification; Old Age, Survivors, and Disability Insurance data; SSI data; death information; and prisoner data from states and localities.
State agencies and systems	IEVS	States use this mechanism to compare data that applicants and recipients of welfare programs (TANF, Food Stamps, and Medicaid) supply with various federal data sources.
	State directory of new hires	New hires data from states.
	Employment security agencies	Quarterly wage data, unemployment information.
	Bureaus of vital statistics	Births, deaths, marriages, and divorces.
	DMV	Address, asset information (such as automobiles).
Private companies and credit bureaus	Private data vendors, financial institutions, and credit bureaus	Credit history, address information, assets.

Note: Access to some of these data sources, including but not limited to IRS taxpayer data and information contained in the National Directory of New Hires, is restricted to agencies specified in current law.

Data Sharing in Three Federal Program Areas Could Be Improved

While each of the three programs we examined (HUD assisted housing, Education’s Student Financial Assistance loans and grants, and TANF) use some data sharing to control their payments, weaknesses still exist. HUD’s housing assistance programs rely heavily on applicants and current tenants to self-report important information, such as income that affects their eligibility for assistance. This is particularly true during the initial application process, yet little is done to check independent data sources for information that applicants may omit or overlook. Inaccurate reporting in these programs contributed to several hundred million dollars in excess rental subsidies in 1998. Similarly, the Department of Education relies on applicants for student financial aid to accurately report their income and other important information. Excess awards of more than \$100 million

have been documented in the Pell Grant program as a result of applicants' underreporting their income. States we visited that are administering the TANF program use numerous data sources to verify applicants' and recipients' eligibility for benefits. However, state and local officials told us that they currently lack a comprehensive, reliable source of data to track duplicate receipt by recipients, program disqualifications, and time limits imposed by welfare reform across state lines.

Housing Programs: Some Areas Use Data Sharing to Improve the Accuracy of Eligibility Determinations

Despite HUD's improvements in the scope of its computer matching activities to verify important information such as income, the Public Housing and Tenant-based Section 8 programs still lack adequate information for making accurate and timely eligibility determinations for applicants and recipients. For example, in its fiscal year 1999 financial statements, HUD reported \$935 million in subsidy overpayments for calendar year 1998.²² These improper payments are largely attributed to tenants' unreported or underreported income. Given that the population that uses housing assistance is a low-income population, it is unlikely that more than a small fraction of these improper payments will be recovered. Moreover, subsidy overpayments to some tenants may result in other eligible low-income families not being served because of the limited availability of public housing units and rental vouchers. Although HUD uses negative verification to verify Social Security and SSI information for its rental assistance programs, it could make more accurate and timely eligibility determinations by using the wage, unemployment insurance, and new hire data maintained in OCSE's National Directory of New Hires. However, current law does not permit HUD to access this information source.

²²The estimate includes HUD's project-based housing programs for calendar year 1998 and is statistically projected at the 95 percent confidence level, plus or minus \$133 million.

PHAs that administer the Public Housing and Tenant-based Section 8 programs at the local level often do not have access to the third-party data sources they need to make accurate eligibility decisions. For example, restrictions in IRC section 6103 do not permit HUD to provide applicants' or tenants' tax information to PHAs.²³ Instead, the PHAs we visited rely extensively on applicants and current tenants to self-report information vital to their eligibility determination, such as income, assets, and household composition.²⁴ Most of the PHAs perform some form of positive verification by following up with third parties to verify data reported by the applicant or tenant. In general, applicants and tenants are required to have employers or program administrators from other public assistance programs (such as TANF) sign verification forms confirming the wages or benefits they reported to the PHA. For example, the San Francisco PHA obtains signatures from employers, financial institutions, and SSA representatives, confirming income that applicants or tenants reported. Housing eligibility workers may also telephone such entities if they suspect that the information provided is incorrect. Officials in this and other PHAs told us that the current process is helpful for verifying the accuracy of information that is volunteered but cannot detect wages, bank accounts, or other vital pieces of information that are intentionally concealed or overlooked by applicants and tenants. For example, PHAs do not have independent access to potentially helpful sources of asset information, such as financial institutions. In addition, staff at most of the PHAs we visited said that they do not have a reliable source of data to verify an applicant's previous address or rent history. This information can be important for determining a family's eligibility for housing assistance, because public housing and Section 8 tenants sometimes vacate their apartments once they are notified of an income discrepancy during an

²³HUD matches its Multifamily Tenant Characteristics System against IRS taxpayer information. However, it cannot provide federal tax data to PHAs because they are not considered officers or employees of HUD. Section 6103 generally restricts access to taxpayer information to officers or employees of agencies permitted to receive the information.

²⁴San Francisco, California; Hialeah and Miami-Dade, Florida; Baltimore, Maryland; Newark, New Jersey; New York, New York.

annual recertification rather than repay rent retroactively.²⁵ If such a family applies for housing assistance at a PHA in another jurisdiction and does not disclose its previous address or landlord, that PHA may not be able to accurately determine the family's eligibility for assistance.

Some of the PHAs we visited have limited access to independent, third-party databases for identifying unreported income or assets. For example, the Baltimore, Hialeah, Newark, and San Francisco PHAs use national credit bureaus such as Equifax to obtain information on applicants' and tenants' assets and outstanding loans (which can provide additional information about the financial resources the applicants have access to for their own support).²⁶ The Newark PHA also recently began implementing a new system that provides access to state wage data over the Internet. A PHA official demonstrated how this on-line system, once fully implemented, would provide eligibility workers with real-time access to individual applicants' wage histories and employers for several preceding quarters. In addition, the Newark PHA has already used the new system to identify tenants who have failed to report or who have underreported their income. For example, in a recent sample of 161 families that claimed to have no income, the PHA found 76 (47 percent) with unreported income.²⁷ The total amount of unreported wages for these 76 cases was about \$1.2 million during calendar years 1998 and 1999 and resulted in about \$350,000 in back rent owed to the PHA. PHA officials told us that they intend to use the system to verify earned income for all applicants and current tenants.

²⁵PHAs are generally required to check all tenants' continued eligibility for assistance annually or more often if circumstances warrant. An income discrepancy report may result from one of HUD's periodic computer matches with IRS or SSA. Moreover, failure to pay retroactive rent could result in future ineligibility for housing assistance benefits. However, the Quality Housing and Work Responsibility Act of 1998 (QHWRA) allows PHAs to provide "flat rents" to tenants who meet certain qualifications. Under QHWRA, PHAs may have to perform eligibility recertifications on tenants with flat rents only once every 3 years rather than annually.

²⁶The Hialeah PHA uses credit bureau reports only for current tenants at recertification.

²⁷According to PHA officials, this sample was judgmentally selected to focus only on families that reported having no source of income. Thus, the sample was not random or statistically projectable.

Overall, PHA and HUD officials we interviewed emphasized the importance of using timely, third-party data sources to verify applicants' and current tenants' eligibility. In an effort to improve its ability to verify unreported and underreported income, HUD has taken various steps to improve its data sharing capabilities in recent years.²⁸ For example, in 1999 HUD's Real Estate Assessment Center (REAC) started to conduct its first large-scale computer match using Form 1099 data provided by IRS and W-2 data provided by SSA.²⁹ Of the 2.1 million households included in the match, REAC has identified about 280,000 with potential income discrepancies. HUD also conducts regular matches with SSA to identify tenants who receive unearned income from old age, disability, or SSI benefits. Discrepancy reports may be sent to PHAs to alert them to inconsistencies found as a result of the computer matches.

Although HUD's computer matches are useful for verifying the eligibility of current tenants, HUD officials concede that HUD lacks the ability to adequately verify important information, such as income, for applicants during their initial certification for assistance. Moreover, several HUD and PHA officials we interviewed acknowledged that given the difficulty of recovering improper payments, accurately verifying individuals' eligibility during initial application becomes even more important for controlling program payments. In addition, some HUD and PHA officials told us that certain QHwRA provisions will likely make accurate initial eligibility determinations even more important. For example, section 523 of the act specifies that PHAs may provide qualified public housing tenants with flat rents (as opposed to standard rents indexed to the family's income) that remain fixed for up to 3 years. Further, the act only requires the recertification of families who select the flat rent option once every 3 years (as opposed to annually). Thus, with longer periods between eligibility checks for some tenants, the need to make accurate decisions during the initial application phase is even more important.

²⁸HUD has also taken other steps to improve its ability to verify tenants' and applicants' eligibility, such as encouraging the states to share automated wage data with public housing agencies.

²⁹In 1999, HUD transferred the income verification function from the Office of Public and Indian Housing to REAC, which is primarily responsible for the development, maintenance, and operation of systems used in computer matching. It is also responsible for the administrative and technical compliance of those systems within legal and regulatory requirements concerning individual privacy.

The current lack of adequate data sharing and payment controls may be attributed to a number of factors, including a lack of adequate resources, time constraints, legal restrictions, and technological limitations. In particular, staff at the PHAs we visited cited inadequate staffing levels, insufficient computer resources, and the inability to access third-party data sources as their most significant challenges. For example, officials at the New York City PHA told us that they rely heavily on applicants to self-report eligibility-related information, because they do not have adequate staff or time to verify the data that are provided. They also emphasized that the housing authority has few computers that can access the Internet or that are linked with independent sources of data such as New York's Welfare Management System.³⁰ In addition, HUD and the PHAs do not have the authority to independently match applicants and recipients of housing assistance against data from all financial institutions, such as the authority recently granted to SSA.³¹ Therefore, PHAs must rely on self-reported information. Staff at one PHA also said that they were unaware that sources of data such as state wage information existed and therefore had not taken steps to obtain them. In other instances, some PHA staff identified the need for a system that links the PHAs together to better share information on applicants' address and rent histories. However, a comprehensive, national system to track such information does not currently exist.

³⁰This system contains individual-level information from various programs such as TANF and SSI, as well as state wage information.

³¹See section 213 of the Foster Care Independence Act of 1999, Pub. L. No. 106-169.

Student Financial Assistance Programs Lack Access to IRS Taxpayer Information

To obtain student financial assistance, applicants must provide various pieces of information on the FAFSA, including their Social Security number, adjusted gross income, assets, federal taxes paid, and citizenship status.³² Applications are processed by Education's Central Processing System, in which a number of consistency tests are conducted to determine whether the information on the applications is accurate. These tests include computer matches to verify information (such as citizenship) that can affect the applicants' eligibility for student aid.³³ Following the matches, eligibility reports are sent to the individual institutions, such as colleges and universities, where financial aid packages are determined. However, neither Education nor the institutions have access to third-party data sources to independently verify most applicants' or parents' income before disbursing loan and grant payments. Insufficient data are available to precisely document the extent to which student aid applicants do not report or underreport their income and related information. However, some studies suggest that the problem could be substantial. For example, a 1997 Education OIG report found that at least 102,000 students were awarded approximately \$109 million in excess Pell Grant funds because they either failed to report or underreported their income.³⁴ More than 300 of these grant recipients underreported their adjusted gross income by more than \$100,000.

While Education's verification procedures (such as computer matching edits to identify error-prone applications) are reasonable for detecting and correcting mistakes on applications, they cannot identify students who intentionally underreport their income. Federal regulations require institutions to verify certain information for at least 30 percent of the applications they receive annually.³⁵ However, this process is generally

³²Adjusted gross income is a figure reported on IRS forms 1040, 1040A, and 1040EZ.

³³One such match is a comparison between the Central Processing System file of applicant records and SSA data to verify the accuracy of Social Security numbers; another matches up data with the National Student Loan Data System to determine whether an applicant is in default on a federal loan.

³⁴OIG, Department of Education, *Accuracy of Student Aid Awards Can Be Improved by Obtaining Income Data From the Internal Revenue Service*, ACN:11-50001 (Washington, D.C.: Jan. 29, 1997).

³⁵34 C.F.R. 668.54(a)(2)(i) requires that institutions participating in the title IV student aid programs verify key eligibility information for at least 30 percent of the federal student aid applicants in attendance.

limited to requiring applicants to produce additional self-reported information, such as copies of tax returns, in some instances Form W-2 (wages reported to SSA), or other tax-related forms. The process provides the institutions with documentation from which verification can be conducted, but there is no way for institutions or Education to verify that the applicants provide accurate copies of the forms they send to IRS.

The weakness in this process was documented by Education's OIG, which traced a sample of adjusted gross income data from applications that institutions had verified. Although the results from the institutions' verification procedures indicated that 99.5 percent of the cases were accurate or within Education-specified tolerances, IRS records revealed significantly higher income for all the cases they examined. To address this type of problem, institutions can request applicants selected for verification to sign an IRS Form 4506, consenting to have copies of their tax returns released to the institutions as a means of independently verifying income information provided on applications.³⁶ However, this process can be time-consuming and cumbersome and may be impractical for large-scale use with millions of applications.

While a match between Education application data and IRS taxpayer information could be a more efficient method of verifying applicants' adjusted gross income, such a match may not be timely enough for initial eligibility verification purposes. Education and university officials told us that the student aid packages are processed before IRS has complete taxpayer data for the prior year available for matching. However, because student loan and grant payments are typically not made until late August or September, it may be possible to conduct a match with IRS using fairly complete taxpayer data, before making such payments. This would allow Education to verify the information on more students' financial aid applications than under current procedures.

Although section 483(e) of the Higher Education Amendments of 1998 (HEA) was apparently aimed at giving Education access to specific IRS taxpayer information, IRS had not granted Education permission to receive taxpayer information for use in verifying data provided on FAFSAs as of

³⁶IRS Form 4506 can be used to give an applicant's consent to sending a transcript of a tax return to a third party that the applicant designates. Each return sent costs the applicant \$23.

June 2000.³⁷ IRS officials told us that the language of the 1998 amendments was not sufficient to grant Education access to taxpayer data because the HEA provision did not expressly override the general prohibition on disclosure of those data found in IRC section 6103(a). Because section 6103(a) permits exceptions to section 6103's general rule of confidentiality only as provided in title 26, an amendment to section 6103 is necessary to effectuate IRS's disclosure authority for the purposes contemplated in HEA. Education believes, however, that it needs not only authority to obtain the taxpayer data from IRS but also the authority to redisclose the data to contractors and schools in order to effectively determine applicants' eligibility for assistance. One alternative would be for Education to request that every student aid applicant sign an IRS Form 4506. But, as noted above, both Education and IRS have suggested that this consent-based approach could be administratively cumbersome, given the large number of applications that are received annually for student aid.³⁸ Moreover, Treasury and IRS officials told us that a large-scale consent-based approach would release a substantial amount of taxpayer data from the protections of IRC 6103, an approach that Treasury and IRS generally do not support.

Education and IRS are conducting two statistical pilot matches that would involve summary information, but not individual-level taxpayer data, to determine how effective a full-scale match would be. The first pilot involves matching the Social Security numbers of 50,000 student aid applicants against IRS taxpayer data. The second pilot expands on the first by including the Social Security numbers of parents for applicants who are dependents. According to Education officials, this step is important because it will allow Education to more effectively gauge a family's true

³⁷HEA's section 484(q) authorizes the Secretary of Education, in cooperation with the Secretary of the Treasury, to confirm with IRS the adjusted gross income, federal income taxes paid, filing status, and exemptions applicants and their parents report on their federal income tax returns for the purpose of verifying the information they report on student financial aid applications. Education, IRS, and OMB were negotiating how to grant Education limited access to taxpayer data when we completed this report. The 1998 amendments reference IRC section 6103(l)(13) as a source of authority for the release of tax return information to "officers or employees of the Department of Education." According to Education officials, if they were to perform an IRS match using FAFSA data, tax return information would have to be released to Education contractors and to individual schools.

³⁸IRS and Education are studying the feasibility of developing a system that would enable financial aid applicants, on a pilot basis, to electronically transmit consent forms to IRS over the Internet using electronic signatures. However, such a system may not be available until at least 2001.

ability to pay for higher education, independent of self-reported information on the FAFSA. At the time of our work, Education did not yet have the results from these pilot matches.

TANF Programs in Selected States Use Data Sharing

PRWORA significantly changed the federal role in ensuring that states have access to accurate and timely data on the eligibility of their clients for TANF-funded benefits and services. PRWORA contains an explicit limitation on federal regulation and enforcement and provides specific, limited responsibilities for the federal government. The TANF block grants are fixed, and the states receive the funds regardless of the number of clients who are eligible for benefits. Block grants present unique challenges to providing adequate accountability for federal funds. Block grants give states flexibility to adapt funded activities to fit state and local needs, and they devolve responsibilities to the states themselves to oversee their TANF programs. For example, under PRWORA the states establish their own program eligibility requirements. In addition, any savings achieved as a result of cost avoidance and eligibility disqualification accrue only to the state. The federal government does, however, have an interest in ensuring that certain eligibility requirements are met that require the states to share client data. For example, PRWORA prohibits families that include an adult from receiving federal TANF-funded assistance for more than 5 years. Without the ability to verify interstate historical data on an individual's receipt of TANF-funded benefits and services, states cannot ensure compliance with the time limits.

The agencies that administer TANF in the states we visited (California, Florida, Maryland, and New York) make fairly extensive use of data sharing to determine applicants' and current recipients' eligibility for benefits and verify self-reported information. Most of their data sharing activities are focused on obtaining information on individuals' income, assets, household composition, and other factors that frequently have an effect on eligibility, such as citizenship, incarceration, and recipients' death. However, less is done to identify information across states that can affect eligibility, such as duplicate receipt of benefits, TANF disqualifications, and time limits. State TANF officials estimated that improper payments related to unreported or underreported income may account for between 40 percent and 70 percent of all payment errors. Household composition and unreported assets are also sources of payment error, according to officials, although to a somewhat lesser degree than unreported and underreported income.

Quarterly state wage data are generally viewed as the most valuable source for verifying earned income in each of the states we visited. They are also a relatively timely source of information; state officials said that the data are generally between 4 and 6 months old by the time they are available to TANF eligibility workers. Employers are required to provide wage information to the state in order to facilitate the administration of the unemployment insurance programs. Access to these data may also result in significant savings or cost avoidance for a program. For example, New York estimated that its use of state wage data resulted in about \$72 million in cost avoidance between January and September 1999.³⁹ Some but not all state TANF programs can also draw on the recently created state directories of new hires to detect unreported or underreported household income.⁴⁰ While these databases do not contain wage information, they can show eligibility workers that applicants or recipients (or other household members) were recently employed as indicated by a new hire record. New hire data are generally about a month old when they are available to TANF eligibility workers.⁴¹ In this regard, such data sources are useful in detecting unreported or underreported income during the initial application process. Maryland officials reported that using the new hire data has dramatically reduced the opportunity for TANF applicants and recipients to misreport or fail to disclose income during the application process. However, officials at ACF confirmed that not all state TANF programs have access to their state's directory of new hires data, because they have not completed an agreement to obtain access to the database.

Unearned income, such as benefits from other public assistance programs, can also affect individuals' eligibility for TANF benefits. Information that an applicant or recipient does not report may be obtained from various federal or state agencies. For example, New York City reported that between July 1993 and June 1999, its computer matching programs identified cost savings of about \$66 million from unreported unemployment insurance benefits, \$28 million from Old Age, Survivors, and Disability Insurance (OASDI), and \$69 million from SSI. Other relevant sources of unearned

³⁹Savings from data sharing activities in state TANF programs do not translate into direct savings for the federal government, because the funds have already been block-granted to the states.

⁴⁰PRWORA required the states to establish state directories of new hires to assist in locating noncustodial parents for child support enforcement purposes.

⁴¹Florida officials reported that new hire data there are less timely, from 4 to 7 months old.

income such as veterans' benefits and workers compensation benefits are not routinely checked in the states we visited. Access to such data sources could result in additional cost savings for the states. For example, Maryland reported \$500,000 in savings from a 1997 match with veterans' benefit data, and New York reported about \$600,000 in savings from a workers compensation match between 1993 and 1999.⁴²

Data sources for other information that affects eligibility for benefits such as assets, household composition, and citizenship status are not always timely and may not be available at all. For example, the primary data source for assets is matches with IRS unearned income (Form 1099) data.⁴³ Because of the annual nature of tax reporting, IRS Form 1099 data may be 18 to 24 months old by the time match results are available to eligibility workers. However, IRS is currently the only centralized source for Form 1099 data, which leaves program administrators with few other options. Access to other, more timely sources of asset information could be helpful. For example, New York City supplements IRS Form 1099 data with a match that uses data from large banks doing business in the city, such as Astoria Federal Savings and Apple Bank.⁴⁴ New York City attributed about \$8.7 million in cost savings to the identification of unreported assets through the bank match from 1993 to 1999.⁴⁵ With regard to household composition, no sources of information directly or adequately measure this variable. Citizenship status may be confirmed with the Systematic Alien Verification for Entitlement (SAVE) system that the Immigration and Naturalization Service administers under section 1137 of the Social Security Act. However, the states we visited reported that this system is not always reliable or timely, particularly for making initial eligibility decisions.

⁴²Information on veterans' benefits is generally available to states from the Veterans Administration. However, workers compensation data may be less complete, because some states do not have data for self-insured employers and benefits paid by insurance companies.

⁴³Some states also make use of other data sources that can provide information on assets, such as DMVs or credit bureaus.

⁴⁴Not all banks doing business in the city participate. Additionally, the bank match is not statewide, although certain large districts (counties) outside New York City conduct their own bank matches.

⁴⁵New York City also uses local sources to obtain a variety of other kinds of asset data, such as estates and liens, stocks and bonds, real property, and legal settlements and awards.

In addition to the problems with data sharing operations just described, officials in the states we visited consistently pointed to the need for more timely sources of information suitable for timely and accurate initial eligibility decisions. Access to more timely data is important because overpayments are difficult to recover. States generally rely on computer matches whose results may not be available until after an applicant has begun to receive benefits. Local eligibility workers reported that fewer overpayments would occur if more timely data were available during the application process. For example, fraud units in Florida have access to more online sources than do eligibility workers. One district's fraud unit reported cost savings of about \$200,000 during November 1999. Additionally, Maryland, New York, and eight other states are participating in a pilot project that permits online access to SSA benefit data to help them better control TANF payments.⁴⁶

State officials also emphasized that the TANF programs they administer lack a comprehensive data source to track interstate receipt of benefits, TANF disqualifications, and benefit time limits across all states.⁴⁷ Traditionally, states have tried to address the problem of interstate receipt of benefits by negotiating matches with neighboring states. Florida, Maryland, and New York reported conducting such matches. However, state officials explained that in their experience, the surrounding states do not always agree to participate in a match, thereby limiting its coverage and effectiveness. In 1997, HHS submitted a report to the Congress that outlined the status of automated data processing systems operated by the states and noted that, among other findings, virtually no state agency could identify duplicate TANF cases or implement the TANF time limit across state boundaries.⁴⁸ The report defined five alternative systems for a

⁴⁶The initial pilot, known as the State Online Query, includes Illinois, Kentucky, Montana, North Carolina, Tennessee, Utah, Washington, and Wisconsin. The pilot also allows states to verify applicants' and recipients' Social Security numbers. In return, SSA will access state data useful for controlling payments in the SSI program.

⁴⁷Under PRWORA, states can disqualify recipients from receiving benefits, temporarily or permanently, for certain violations of program rules, such as welfare fraud. PRWORA also set a maximum 5-year time limit on the receipt of TANF benefits and allowed states to set shorter time limits. However, the law did not establish a nationwide database of time limits that would allow states to determine the number of benefit months remaining for clients who have recently moved in from another state.

⁴⁸ACF, *Report to Congress on Data Processing and Case Tracking in the Temporary Assistance for Needy Families (TANF): Report of Data Processing* (Washington, D.C.: Dec. 1997).

centralized national client database that would address this type of weakness in the states' systems. In 1999, the Department of Agriculture produced a supplemental report that assessed the current state agency efforts to identify interstate, duplicate receipt of benefits, as well as state agency capabilities to participate in a national client database. This report built on the findings in the HHS report and concluded that a national database system would be feasible and cost-effective if it were configured in a specified manner and encompassed both the TANF and Food Stamp programs.⁴⁹

In a recent report on welfare reform, we also found that five of six states we reviewed reported that they do not collect data on recipients' prior receipt of TANF in other states or that they rely on recipients to disclose this information.⁵⁰ ACF initiated a project in 1993 that may be useful in addressing this problem. Its Office of State Systems created the Public Assistance Reporting Information System (PARIS) with the computer operations support of the Defense Manpower Data Center (DMDC) facility in Monterey, California. This system uses the facility's computer matching capabilities to compare various state and federal program databases.⁵¹ Although the number of states participating in PARIS has been limited, the project has identified significant potential cost savings.⁵² For example, Pennsylvania has estimated its annual cost savings at \$2.8 million from the PARIS interstate match. In addition, ACF estimates that the August 1999 PARIS match with the DMDC databases identified potential cost savings of about \$28.6 million. Increased savings and cost avoidance estimated at more than \$100 million could be realized if the match were conducted nationally with all states participating. In addition, ACF estimates that cost savings of \$15.3 million could have been achieved in 1999 from matching Veterans Administration data with 16 states and the District of Columbia. As discussed previously, the savings resulting from PARIS benefit the states; the federal government does not realize any direct savings from this

⁴⁹See Department of Agriculture, *Options for a National Database to Track Participation in Federal Means-Tested Public Assistance Programs: Report to Congress* (Washington, D.C. : Nov. 1999), p. xii.

⁵⁰See *Welfare Reform: Improving State Automated Systems Requires Coordinated Federal Effort* (GAO/HEHS-00-48, Apr. 27, 2000).

⁵¹The four states we visited had participated in PARIS.

⁵²A total of 11 states and the District of Columbia participated in the August 1999 PARIS match.

activity. In addition, while the PARIS project demonstrates the efficacy of cross-state data sharing, the computer matches it uses are primarily targeted at posteligibility verification (once benefits have already been dispensed to recipients). A more efficient approach would be to help states obtain eligibility information on new applicants, before benefits are paid, and to track time limits and disqualifications across state lines. However, a nationwide system with these capabilities does not currently exist.

We recently reported that action at the federal level could better facilitate states' efforts to improve their automated systems in four areas. Among these were addressing the need for states to have access to cross-state information on individuals' TANF receipt to enable the enforcement of the 5-year TANF time limit. We also recommended that the Secretary of HHS establish an interagency group to identify, and develop implementation plans for, federal actions that would facilitate states' efforts to improve their automated systems for federal programs that serve low-income families.⁵³

Privacy and Security Requirements Limit Data Sharing

Several legal as well as management, administrative, and technical challenges limit the ability of benefit and loan programs to use data sharing to control their payments. Central to some of these challenges are concerns about protecting individuals' privacy, the confidentiality of sensitive data and taxpayer compliance with tax laws, and balancing such concerns with the government's need for certain information to provide financial stewardship for its programs. Legal issues closely tied to privacy, confidentiality, and tax compliance concerns include (1) IRC section 6103 governing the disclosure and use of taxpayer data, (2) some provisions of the Social Security Act that limit access to important data sources such as OCSE's National Directory of New Hires, and (3) provisions of CMPPA that limit the amount of time during which initial matching agreements and renewals may be in effect. Management and administrative challenges include balancing the objective of providing flexibility for the states and localities to administer programs such as TANF against the need for accountability and program performance information and the need for a more comprehensive management approach by OMB to coordinate and support data sharing activities across federal agencies. Technical issues include the need for more timely and accurate data, as well as the need for

⁵³GAO/HEHS-00-48.

consistent eligibility criteria and data formats across programs. Balancing the competing objectives of privacy, data security, and tax compliance with the need for program integrity and efficiency involves some trade-offs. For example, individuals who seek public benefits or loans may have to be willing to provide sensitive information to the government so that their eligibility for benefits can be accurately verified. The experience of agencies such as SSA demonstrates, however, that maintaining and sharing sensitive data is possible while maintaining the protections afforded by the Privacy Act and related statutes.

The Internal Revenue Code Limits the Disclosure of Taxpayer Data

IRC section 6103 is one of the main statutes that limits more extensive data sharing among federally funded benefit and loan programs. To protect the confidentiality of taxpayer information and ensure compliance with tax laws, IRS is prohibited from disclosing taxpayer information to other federal departments and agencies without specific statutory authorization in IRC section 6103. Moreover, even in cases in which a federal department is authorized to obtain protected information, it may be prohibited from sharing that information with state and local entities that are involved in administering programs that the department or agency funds. For example, IRC section 6103(l)(7)(D)(ix) authorizes SSA and IRS to disclose income information to HUD in order to verify applicants' and recipients' income. However, only officers or employees of HUD may use the information. This restriction precludes HUD from redisclosing the data to housing authority administrators at the local level who need the information to accurately verify individuals' income.⁵⁴ Similar issues have surfaced with regard to other federal agencies' use of private contractors to administer their programs, such as in the case of Education, discussed earlier.

IRS officials told us that limitations on the dissemination of taxpayer information are intentionally restrictive because of the risk of unauthorized access when use is widespread. As a general rule, they stated, the further that taxpayer information is disclosed from centralized protections and controls, the more risk there is of improper disclosures, intentional or otherwise. These officials were also skeptical of agencies' ability to police themselves in terms of adequately protecting taxpayer data. Allowing state or local entities (such as private contractors) access to sensitive taxpayer

⁵⁴The Public Housing Tenant Integrity Act of 1997, a bill introduced in January 1997, would have modified section 6103(l)(7) so that HUD could redisclose federal tax return data to public housing agencies, but the bill was never passed.

data would be even more problematic, in their view. The Joint Committee on Taxation reiterated this viewpoint in its January 2000 report when it recommended that “present-law disclosure rules for using contractors for nontax administration purposes should not be expanded.”⁵⁵

One solution to these restrictions, according to IRS officials, is for federal agencies to verify data they receive from IRS through an independent party, such as an employer or bank. Any corroborated data the agency obtains are not subject to the restrictions in IRC section 6103 and therefore may be disclosed to the state and local entities (although the agency would have to then delete the remaining IRS information from its databases). Another alternative is for agencies to use a consent-based approach, in which applicants and recipients provide written consent for IRS to release their information to a designated third party. However, IRS and Treasury officials are concerned about the widespread use of consent-based disclosures because of the potential administrative problems as well as their inability to protect the confidentiality of the data.

Access to the National Directory of New Hires Is Limited

Section 453(l) of the Social Security Act, as amended, restricts access to the National Directory of New Hires to particular agencies for specified purposes. For example, Treasury (including IRS) has access to its database to administer federal tax laws, as well as to verify claims for the Earned Income Tax Credit. SSA also has access to the National Directory of New Hires data to help it administer the SSI and OASDI programs. More recently, Education was granted access for purposes of obtaining the addresses of individuals who have defaulted on student loans or who owe grant repayments to Education.

According to OCSE officials, numerous federal agencies and departments have requested access to the National Directory of New Hires to help them administer their programs. In most cases, such requests have been denied because there was no statutory authority in the Social Security Act to allow release of the data. OCSE officials told us of a variety of concerns regarding how the National Directory of New Hires data are used and what entities have access to them. For example, they emphasized that the directory was designed primarily to help OCSE administer its responsibilities for

⁵⁵See Joint Committee on Taxation, *Study of Present-Law Taxpayer Confidentiality and Disclosure Provisions as Required by Section 3802 of the Internal Revenue Service Restructuring and Reform Act of 1998* (Washington, D.C.: Jan. 28, 2000), p. 9.

enforcing child support. In their view, opening the database to widespread data sharing could reduce support for the database among important groups, such as employers. In addition, they expressed concern about the security of the data in the directory if they were to become more widely accessible. Moreover, these officials told us that wider access would likely raise additional questions about the privacy and confidentiality of the information contained in the database.

Some CMPPA Provisions Are Viewed as Too Cumbersome

We interviewed officials from various agencies who expressed frustration with some of the provisions of CMPPA and who viewed the current renewal procedures as unnecessarily burdensome. In particular, several officials argued that the current 18-month and 12-month periods in which, respectively, initial matching agreements and renewals may be in effect are too short. Because the processes for getting new agreements approved and existing contracts renewed are often lengthy and cumbersome, agreements that are currently in force may lapse before new ones can be approved and implemented. This can be disruptive to both agency operations and relationships with other federal and state entities that are parties to a match. Various officials familiar with the process of instituting matching agreements suggested lengthening these time periods. Some officials told us that extending agreement periods would not adversely affect the intended confidentiality or due process rights that CMPPA was created to protect. This is particularly true for routine matching agreements that do not change substantively from year to year.

During the symposium on data sharing among federally funded benefit and loan programs that we and the Senate Governmental Affairs Committee sponsored in June 2000, representatives of various federal agencies stated that the current time periods for implementing new matches and renewing existing matches are unnecessarily burdensome. They emphasized that they are committed to the privacy and data confidentiality protections that CMPPA was created to protect and believe that longer time periods could be instituted while maintaining such protections. Overall, these officials were uniform in their assessment that the time limits on new and existing matching agreements in CMPPA need to be lengthened. One agency official stated that a legislative proposal is being considered that would extend the current time limits for new agreements to 5 years and 3 years for extensions.

In 1997, the Benefit Systems Review Team (BSRT) led by OMB also found that the procedures for renegotiating matching agreements was

burdensome to the agencies that conducted computer matches and could be significantly streamlined.⁵⁶ BSRT concluded that agencies' administrative burden could be reduced by amending the computer matching sections of the Privacy Act to allow for interagency agreements that would be effective for 3 years initially and for an unlimited number of 2-year extensions. In addition, BSRT concluded that such changes could be implemented without degrading the protections intended by the Privacy Act. Finally, BSRT also recommended that OMB work with the agencies to obtain an amendment to the Privacy Act to permit the extensions to the time periods through which initial agreements and renewals could be in force.

Balancing Program Flexibility With the Need for Accountability

Welfare reform gave states and local governments additional flexibility to design and administer public assistance programs such as TANF in a manner that fits their needs. As state welfare agencies implement their plans, they are drawing on numerous federal and state programs—often administered by separate agencies—to provide a wide array of services such as child care, food stamps, and employment training. These changes have had implications for the states' information needs. For example, in the new welfare environment, information systems to support expanded functions are necessary in three key areas: case management, including eligibility determination; service planning; and program oversight, with a new emphasis on outcomes and results. In addition, the increased devolution of responsibility for program operation and performance to states and localities increases the need for information systems that can respond to the multiple needs of users at all levels of government. We have found that shortcomings in some of the automated systems that state and local officials use to administer TANF have resulted in insufficient data to ensure some aspects of program integrity, such as enforcement of the 5-year time limit.⁵⁷ In this regard, the lack of adequate data to ensure program integrity in some states may affect their ability to ensure that taxpayer dollars are spent only on families who qualify for benefits. However, improved automated systems coupled with an enhanced emphasis on data sharing activities may improve the ability of local, state, and federal

⁵⁶BSRT included information systems and program experts from the major benefit programs in numerous federal departments, including Agriculture, the Department of Defense, the Department of Labor, the Department of the Treasury (including IRS), HHS, the Office of Personnel Management, SSA, and the Veterans Administration.

⁵⁷GAO/HEHS-00-48.

programs to effectively communicate with one another. Such improvements could benefit the ability of states to track and assess the performance of service delivery, as well as help provide greater program accountability by ensuring that the intended goals and requirements of programs such as TANF (for example, the 5-year time limit) are met. It is likely that additional federal assistance may also be necessary to help states develop systems capable of performing these varied tasks. While PRWORA reduced the role of HHS in overseeing systems funded solely with TANF funds, HHS and other agencies (such as Agriculture and Labor) still play a key role in funding and overseeing states' information systems for social programs. The federal government could further facilitate states' automated systems initiatives.

Greater Coordination Across Federal Programs Could Facilitate Access to Data

OMB is responsible for providing overall leadership and coordination of federal information resources management within the executive branch.⁵⁸ OMB also has the core responsibility for managing federal computer security and information technology, including data sharing among federally funded benefit and loan programs. In our earlier work, we found that mission fragmentation and program overlap are widespread in the federal government and that crosscutting program efforts are not well coordinated.⁵⁹ Without adequate coordination, scarce funds are wasted, program customers are confused and frustrated, and the overall effectiveness of the federal effort is limited. We have found that OMB needs to take more initiative in setting the agenda for this type of governmentwide issue. In particular, we have called for a more decisive and assertive OMB role in defining the problems, developing appropriate management strategies, and overseeing progress.

OMB has pursued such an approach in the past, as evidenced by the BSRT report in 1997.⁶⁰ Initiated by OMB in February 1995, this interagency effort suggested numerous actions for improving data sharing among federally

⁵⁸See OMB Circular A-130, sec. 9(h)(1), which provides governmentwide information resources management policies as required by the Paperwork Reduction Act of 1995, as amended.

⁵⁹See *Office of Management and Budget: Future Challenges to Management* (GAO/T-GGD/AIMD-00-141, Apr. 7, 2000).

⁶⁰OMB Benefit Systems Review Team, *Strategies for Efficiency: Improving the Coordination of Government Information Resources* (Washington, D.C.: Jan. 1997).

funded benefit and loan programs, including moving from a “pay and chase” mode to a more proactive and efficient approach (such as using data sharing to prevent improper payments before they are made).⁶¹ Various pilots and data sharing initiatives have been started by a number of federal agencies since the inception of BSRT.

However, during our review, several federal officials we spoke with said that more recently, OMB has not provided adequate leadership and coordination to facilitate the efficiency and effectiveness of data sharing throughout the federal government. Representatives of various federal agencies indicated that federal data sharing efforts lack the necessary coordination and leadership to maximize the efficiency of data sharing activities. OMB activities appear to be largely geared toward resolving problems case by case, without a more systematic, governmentwide approach to these issues. As a result, some federal officials told us that federal data sharing operations are not as effective or efficient as they could be and suggested that OMB should take a more proactive, strategic approach to federal data sharing issues. In light of the concerns about data security, privacy, and confidentiality that proposals for improved data sharing raise, it is even more important for OMB to demonstrate strong leadership that emphasizes coordination and communication among all federal agencies.

OMB has recently indicated that it is taking a number of steps to improve coordination across federal agencies, as well as the priority it is placing on data sharing activities. For example, during our data sharing symposium in June 2000, an OMB official said that the agency is preparing to issue new guidance to all federal agencies that will focus on the interagency sharing of sensitive data within the existing constraints of the Privacy Act. In addition, OMB officials point to one of the 24 priority management objectives (PMO) contained in the U.S. budget for fiscal year 2001 as evidence of their commitment to managing data sharing activities.⁶² PMO

⁶¹“Pay and chase” refers to the labor-intensive and time-consuming practice of trying to recover overpayments once they have already been made rather than preventing erroneous payments in the first place.

⁶²According to the fiscal year 2001 budget document, OMB coordinates PMOs with assistance from the National Partnership for Reinventing Government and interagency working groups. Managers in the agencies have the primary responsibility for achieving the objectives by implementing detailed action plans, periodic reporting, and corrective action during the year.

10 emphasizes the administration's focus on ensuring that administrative and program payments to recipients are made accurately up front.⁶³

Data Are Often Not Timely and Their Definitions Vary

State and local officials we interviewed in the three programs we examined told us that their inability to obtain timely data from independent sources is a major problem. A common complaint was that some data derived from the IEVS were not timely. For example, IRS Form 1099 data were usually too old to be useful, particularly for making timely eligibility decisions at the point of application. State officials generally agreed that the lack of timely income data from IRS makes access to alternative sources of income information, such as the National Directory of New Hires or state wage data, even more important. In addition to concerns about the timeliness of various data sources, some officials questioned the reliability of the data they receive. Two commonly cited examples of data that were sometimes unreliable included SSA prisoner data and citizenship status data from INS' SAVE system.

Some officials also said that varying data formats and eligibility criteria can make efficient data sharing among public assistance programs difficult. One state official told us that differing definitions of an "active" TANF case in different states has made it more difficult to determine the accuracy of match hits and complicates the follow-up required. For example, while some states consider only a family that is receiving cash benefits an "active" case, other states also include families whose applications are pending or who have been suspended. Another example is the complexity that is introduced to data sharing operations from nonuniform definitions of "income" in various public assistance programs. Although some programs such as SSI use a definition of income that is fairly broad and includes in-kind support such as food and shelter provided by family or friends, other programs have more restrictive definitions. Some officials told us that such variations can make it difficult to share data across programs. In addition, one official noted that different data formats across numerous programs and systems for a commonly required variable such as an individual's address complicates data sharing activities.

⁶³See *Budget of the United States Government, Fiscal Year 2001* (Washington D.C.: 2000), p. 298.

Options for Enhanced Data Sharing

The objective of individual privacy can be compatible with the objectives of program efficiency and integrity but may involve some trade-offs. For example, individuals who wish to obtain public assistance or loans may have to be willing to give administrators of benefit and loan programs access to sensitive data. However, it is possible to improve access to important data sources in a manner that is consistent with protections in the Privacy Act, the Computer Matching Act amendments, and other privacy statutes. One potential solution might include providing OCSE with the authority to share data from the National Directory of New Hires with benefit and loan programs such as HUD housing under controlled conditions within the limits of the Privacy Act. For instance, periodic computer matches between benefit programs' applicants and current recipients and the directory could specify the type and amount of data that are shared and which federal, state, or local entities could have access to the data. Moreover, federal, state, or local agencies that have access to sensitive information could be required to demonstrate adequate data security environments before receiving match results.

SSA is an example of an agency that has significant experience in balancing privacy with program integrity and efficiency. In recent years, SSA has increased its use of data sharing as a tool to protect the integrity of the SSI program. For example, SSA is expanding its use of on-line state data to obtain more real-time applicant and recipient information. SSA is conducting a pilot that gives selected field offices (that are responsible for determining applicants and recipients' eligibility for SSI benefits) on-line access to wage data, new-hire data, and unemployment insurance data that SSA obtains from OCSE's National Directory of New Hires.⁶⁴ To protect the security of sensitive data in the directory and ensure that individual privacy is maintained to the maximum degree possible, SSA is working to strengthen a number of safeguards to limit access to the database, as well as maintaining an audit trail that identifies the employees who have used the database.⁶⁵

⁶⁴*Supplemental Security Income: Action Needed on Long-Standing Problems Affecting Program Integrity* (GAO/HEHS-98-158, Sept. 14, 1998).

⁶⁵An independent auditor has found serious computer security weaknesses in SSA's systems. SSA has put together a corrective action plan and is working to address these deficiencies. See *Financial Management: Agencies Face Many Challenges in Meeting the Goals of the Federal Financial Management Improvement Act* (GAO/T-AIMD-00-178, June 6, 2000).

SSA is also working on obtaining access to other important data sources. The Foster Care Independence Act of 1999 (Pub. L. No. 106-169) includes provisions that give SSA the authority to require SSI applicants and current recipients to authorize SSA to obtain financial records from any and all financial institutions by conducting periodic data matches. This new authority should allow SSA to more effectively verify the assets of SSI applicants and recipients, such as bank accounts. The Congressional Budget Office estimates that this provision will reduce spending on SSI benefits by \$70 million from 2000 through 2004.⁶⁶

Other federal agencies could benefit from the experience of agencies such as SSA in terms of balancing privacy interests with the need for more timely, accurate sources of eligibility information. For example, allowing HUD to match applicants and current recipients of housing assistance programs against the state wage, unemployment, and new hire data in OCSE's National Directory of New Hires would provide HUD with the most timely, comprehensive information available for verifying wages and unemployment compensation. Such an arrangement could permit routine computer matches that OCSE could administer and would not necessarily entail direct access to the sensitive directory databases for HUD. Any matching agreement between HUD and OCSE could specify what pieces of information would be matched and that only information on individuals identified in a match could be provided to state or local program administrators, such as public housing agencies. In addition, HUD and individual housing agencies would be responsible for ensuring that the privacy of individuals identified in a match is adequately protected. HUD and public housing agencies could also be required to demonstrate that they have sufficient data security protections in place before receiving any data from OCSE.⁶⁷ However, providing access to this data source would require making changes to existing laws, because HUD does not have access to the National Directory of New Hires, and providing taxpayer data to local public housing agencies is not permitted. Moreover, it would require HUD and numerous housing agencies to institute adequate data protections in consultation with IRS and OCSE.

⁶⁶See Congressional Budget Office, *Congressional Budget Office Cost Estimate: H.R. 1802, Foster Care Independence Act of 1999* (Washington, D.C.: June 9, 1999).

⁶⁷IRS sets the standards for ensuring the security and confidentiality of taxpayer information in Publication 1075.

In addition, while programs like TANF rely on the initiative of state and local program administrators to obtain some of the information they need to make eligibility decisions (such as the activities in New York City to obtain bank account information from local financial institutions), it may not be the most efficient or comprehensive arrangement for obtaining such information. Access to information sources such as financial institutions through a more consolidated source (perhaps with the facilitation of a federal agency such as HHS) could provide a more efficient method for obtaining asset information across multiple states. However, most federal agencies do not have authority to independently obtain asset information from financial institutions (similar to the authority granted to OCSE and SSA).

As the steward of taxpayer dollars, the federal government has the responsibility to ensure that public assistance benefits and loans go only to the persons who are eligible to receive them. When ineligible individuals or families receive benefits, those who are eligible may not receive assistance, and the public's confidence in the government may be undermined. To ensure privacy and the confidentiality of personal information, access to sensitive data and systems must be controlled so that only authorized individuals are able to view specific pieces of information. Audit trails are also necessary to track which individuals have accessed sensitive databases. Thus, with adequate protections for privacy and data security in place, it may be reasonable for applicants and recipients of benefits and loans to provide the government with access to sensitive, private information (as well as the authority to share such information with other benefit and loan programs) in exchange for assistance. However, an ongoing dialogue involving the Congress, OMB, other federal agencies, the states, and the public will be required to reach consensus on how best to balance personal privacy and data security with the objectives of program integrity and efficiency.

Conclusions

Data sharing among federal, state, and local governments is a powerful internal control tool that helps benefit and loan programs make more accurate initial and continuing eligibility decisions. The three federally funded benefit and loan programs we examined all use data sharing to substantial but varying degrees to verify information that applicants and current benefit recipients provide. The weaknesses in these programs' eligibility determination processes could be mitigated if additional data sources were available for sharing. The continued reliance on self-reported information from applicants and recipients leaves these programs at risk

for improper payments. In recent years, federal departments such as HUD and Education have attempted to improve their access to important data sources. For instance, Education has repeatedly sought access to IRS taxpayer information to help it administer its student loan and grant programs. However, legal and other restrictions have impeded its ability to obtain the information it needs. The programs we reviewed could all use access to additional data sources to control their payments. For example, allowing TANF and HUD's housing assistance programs to require applicants and recipients to authorize them to obtain data from all financial institutions (similar to the authority recently granted to SSA in the Foster Care Independence Act) would provide useful tools for verifying self-reported information that affects individuals' and families' eligibility.

Federal leadership could also be helpful in addressing the lack of a mechanism to share some eligibility information across states (such as duplicate benefit receipt and time limits on TANF usage), which hampers the ability of program administrators to obtain some information they require to make accurate eligibility decisions. Federal action to facilitate improved data sharing and program coordination—particularly across states—while protecting the confidentiality of sensitive data may be needed. Federal departments that have primary oversight responsibility for benefit and loan programs administered at the state and local levels—such as HHS (TANF), HUD (housing assistance), and Agriculture (Food Stamps)—are candidates for facilitating improved data sharing.⁶⁸ Moreover, additional leadership and coordination from OMB, contributing to a governmentwide dialogue on data sharing issues, could further facilitate greater efficiency and effectiveness in data sharing activities among federal programs. OMB could draw upon the expertise and resources of interagency groups such as the Chief Information Officers Council to achieve this objective. Because of OMB's ability to look across agencies and mediate competing demands or concerns, it is the appropriate federal entity to provide the leadership and coordination necessary for enhanced data sharing. Its PMO 10, which emphasizes verifying the accuracy of benefit payments (as articulated in the fiscal year 2001 budget) is a positive development, but additional actions are needed.

⁶⁸In a recent report, we recommended that the Secretary of HHS establish an interagency group to identify, and develop implementation plans for, federal actions that would facilitate states' efforts to improve their automated systems for federal programs that serve low-income families (GAO/HEHS-00-48). Such a system could also be used to enhance data sharing for more accurate eligibility determinations.

The programs we reviewed are making progress in expanding the range of information they use to control their payments but could also benefit from access to more timely and comprehensive sources of information for making eligibility determinations, such as OCSE's National Directory of New Hires. Enhanced front-end data sharing would help avoid some overpayments and allow programs to move away from a "pay and chase" mode toward an approach that would prevent erroneous payments. For example, providing HUD with access to the directory and permitting HUD to redisclose specific, limited information to the public housing agencies that administer the Public Housing and Tenant-based Section 8 programs could help them make more accurate initial eligibility determinations and avoid some of the nearly \$1 billion in estimated annual subsidy overpayments that have been identified in recent years. In addition, providing Education with the ability to confirm information on applications with IRS taxpayer information would help schools more accurately determine applicants' eligibility for loans and grants. However, the various challenges we have outlined make such front-end data sharing problematic. In particular, current laws (such as parts of IRC section 6103 and the Social Security Act) prevent many benefit and loan programs from obtaining access to important and timely data sources, such as the National Directory of New Hires. Other challenges we highlighted, such as the burden placed on federal agencies by the time limits on initial and renewed matching agreements in CMPPA, could be addressed with relatively minor modifications to existing law. The current time periods (18 months for initial agreements and 12 months for renewed agreements) are too short to allow efficient operation of the matches and do not permit sufficient time to negotiate new or extended agreements. Many federal officials involved in computer matching activities agree that the time limits on initial and renewed matching agreements could be extended while maintaining existing privacy protections.

When considering changes to existing privacy and confidentiality provisions in current laws, the Congress must weigh the concerns about sharing sensitive data against the government's need for timely and accurate information to ensure accurate payments in its benefit and loan programs. In an age in which technological advances such as the Internet have facilitated an increasingly free flow of information, the federal government has the duty to protect the security and confidentiality of the data with which it is entrusted. However, providing access to restricted data sources does not mean that sensitive data become available in the public domain or that existing data security protections are eliminated. Rather, agencies or their representatives with the need to view certain

information (such as income) for purposes of determining eligibility for individuals who apply for benefits and loans would have access to such data under controlled conditions and would be responsible for protecting them from unauthorized disclosure.

Matters for Congressional Consideration

The Congress should consider how to improve the ability of federally funded benefit and loan programs to obtain and share the information they need to make timely and accurate eligibility determinations while protecting personal privacy and the confidentiality of sensitive information. Specifically, the Congress should consider

- Amending the Social Security Act to allow HUD's Public Housing and Tenant-based Section 8 programs to match applicants and current recipients against OCSE's National Directory of New Hires. To facilitate accurate initial eligibility determinations, HUD would have to be authorized to share the results of a match with the local agencies that administer programs (such as public housing agencies). To maximize privacy and data security protections, HUD could screen the results of such a match to ensure that only data vital to determining eligibility for individuals identified as having reported erroneous information would be made available to state and local program administrators. The local agencies should also be required to demonstrate that adequate privacy and data security measures are in place.
- Amending section 6103(l) of the Internal Revenue Code to authorize IRS to disclose certain taxpayer data to officers, employees, and contractors or other agents (such as schools) of Education for purposes of verifying information reported on applications for financial aid. Again, only the minimum amount of information necessary to determine eligibility for cases that are identified in a match would be provided to schools or other entities, subject to agreed upon privacy, data security, and safeguard measures.

Recommendation to the Congress

To decrease the burden of initiating and renewing computer matching agreements, the Congress should amend the Privacy Act's computer matching requirements by increasing the time limits under which initial matching agreements and renewed agreements may be in force. The appropriate time period through which initial and renewed agreements should be in force is subject to debate. However, existing recommendations from various entities (such as BSRT) range from

doubling the existing limits (from 18 months and 12 months for initial and renewed agreements, respectively, to 3 years and 2 years, respectively) to as long as 5 years for initial agreements and 3 years for renewed agreements.

Recommendation to the Secretaries of HUD and HHS

The Secretaries of HUD and HHS should develop a strategy for obtaining access to automated data from financial institutions, determine the most cost-effective, efficient method for obtaining such data, and report to the Congress on any legislation that would be needed to implement this strategy. HUD and HHS should also coordinate with SSA and OCSE to determine what strategies are the most effective for obtaining this information.

Recommendation to the Secretary of HHS

The Secretary of HHS should facilitate the development of a system for tracking duplicate benefit receipt, program disqualifications, and recipient time limits across states in the TANF program. The Secretary should also coordinate with other federal departments that oversee major public assistance programs, such as Food Stamps, to ensure the compatibility and cost-effectiveness of such a system.

Recommendation to the Director of OMB

To facilitate more efficient data sharing and help federal agencies that administer benefit and loan programs to control their payments, OMB should lead an effort that involves key departments and agencies (such as Agriculture, Education, HHS, IRS, and SSA) to develop an overall strategy for improving data sharing operations across all benefit and loan programs. Such a strategy should include actions for further defining the problems agencies encounter in sharing data, developing appropriate management strategies to address these problems, and overseeing progress. OMB could draw on the resources and expertise of the Chief Information Officers Council and other related organizations to coordinate the appropriate officials and federal agencies to achieve this objective.

Agency Comments and Our Evaluation

We provided the federal departments and agencies we reviewed—Agriculture, Education, HHS (including ACF and OCSE), HUD, OMB, SSA, and Treasury (including IRS)—with the opportunity to comment on this report. Education supports our recommendations, and HHS, HUD, and

OMB indicated that they generally support the direction and intent of our recommendations, with some qualifications. Treasury noted that our report provides a fair and balanced assessment of the challenges facing federally funded benefit and loan programs in terms of making timely and accurate eligibility determinations. However, Treasury and IRS also emphasized the unique challenges to the tax system presented by the use of taxpayer data to verify self-reported information, particularly with regard to taxpayer compliance with tax laws. Formal comments from the agencies appear in appendixes I-VI.

With regard to our first matter for congressional consideration, to allow HUD's Public Housing and Tenant-based Section 8 programs to match applicants and current recipients against the National Directory of New Hires, HUD is generally supportive. However, it suggested that this recommendation be broadened to include HUD's project-based programs. OMB also agrees with the intent of this recommendation but noted that responsible government must promote data sharing in a manner that is consistent with strong privacy and data security safeguards. OMB told us that it is currently examining whether the National Directory of New Hires is an appropriate source of wage data but emphasized that in its view any broad government or private sector access to the financial data maintained in the directory could adversely affect individual privacy and confidentiality. The other agencies did not provide specific comments.

With respect to HUD's response, we note that our review focused exclusively on HUD's tenant-based programs that are administered by public housing agencies; we did not examine HUD's project-based housing programs. Therefore, its suggestion to broaden this recommendation to include project-based housing programs administered by private owners is beyond the scope of this report. With regard to OMB's comments, we recognize the sensitivity of the data maintained in the directory and the need to carefully consider how the data could be made available to departments such as HUD while preserving privacy and data security to the maximum degree possible. As we discussed in the section on options for enhanced data sharing, having OCSE perform a routine computer match using HUD's data on housing applicants and current tenants, and limiting the data that public housing agencies receive from such a match, would likely provide a greater degree of individual privacy and data security than giving HUD online or direct access to the National Directory of New Hires would afford. Moreover, requiring HUD and public housing agencies to implement privacy and data security measures that are consistent with the principles in the Privacy Act (and any additional guidelines that HHS or

OCSE may stipulate) could help ensure that only authorized individuals have access to sensitive information. Although computer matches are often viewed as less timely than online access for purposes of making initial eligibility determinations, in our view computer matching could still be used effectively to reduce the incidence of unreported or underreported income in HUD's tenant-based housing programs, particularly if the matches were performed at frequent intervals.

Education supports our second matter for congressional consideration, to amend section 6103(l)(13) of IRC to authorize IRS to release certain taxpayer data to Education's contractors and schools. Although Treasury did not address this recommendation directly, it emphasized that IRC section 6103 was enacted to limit the instances in which agencies used tax data for nontax purposes to cases in which the need for the information outweighs the related concerns of taxpayer privacy and continued taxpayer compliance. It noted that in the past, the Congress has provided narrowly tailored exceptions to section 6103 when it has determined that the need for taxpayer information outweighs the concerns about taxpayer privacy and compliance. Treasury also argued that tying tax reporting to needs-based government benefits may lead some individuals to misreport their income, thus undermining the integrity of the data provided to IRS and diminishing the utility of the data for the very purpose for which they were originally collected. Treasury believes that the integrity of the tax system could be compromised and noted that a decrease of just 1 percentage point in taxpayer compliance could cost the federal government more than \$10 billion annually. Treasury further reiterated its opposition to using taxpayer consent for large-scale income verification programs. However, Treasury indicated that it is willing to allow the use of consent forms to permit the disclosures contemplated in HEA on a limited scale, pending an amendment to section 6103 and the outcome of the ongoing statistical pilot matches between Education and IRS.

We acknowledge Treasury's position that its primary responsibility is to protect the fiscal integrity of the U.S. Treasury and ensure taxpayer compliance with existing tax laws and regulations. However, there is little evidence to suggest that allowing IRS to disclose limited taxpayer information on specific individuals who apply for needs-based benefits or loans would lead to a reduction in overall taxpayer compliance. Numerous federal as well as state and local agencies already have (or have recently had) access to IRS taxpayer information. For example, as we noted in our recent report on taxpayer confidentiality, 37 federal and 215 state and local agencies received, or maintained records containing, taxpayer information

under provisions of section 6103 during 1997 or 1998.⁶⁹ Moreover, these agencies are required to protect the confidentiality of the information they receive and to implement safeguards that are designed to prevent unauthorized access, disclosure, and use. Although IRS safeguard reviews have identified deficiencies in some agencies' safeguard procedures, it has recommended various corrections and has followed up to ensure that the agencies have implemented acceptable solutions to these deficiencies. Additional disclosures of taxpayer information such as those envisioned in HEA always involve some degree of risk of unauthorized disclosure. However, it is the responsibility of departments such as Education to implement appropriate safeguards that comply with existing regulations to ensure that privacy and data security are maintained. Pending any amendment to section 6103, we encourage Treasury and IRS to continue working with Education to study the feasibility of using consent on a limited scale. It will also be helpful to examine the results of the ongoing pilot matches between IRS and Education to obtain the most up-to-date information on how widespread underreporting of income currently is among applicants for student financial aid.

Both HHS and HUD generally agree with our recommendation that they develop a strategy for obtaining access to automated data from financial institutions. HHS agrees that a system to accomplish this objective would be beneficial but noted that there are a number of confidentiality and data security issues as well as technical issues that must be addressed. HHS said that it will consider implementing the recommendation in the context of existing operational, budget, and personnel constraints. HUD stated that the recommendation should be broadened to include data from state wage agencies and should involve Labor because Labor has responsibility for overseeing state wage information.

We agree that various confidentiality and data security issues will have to be addressed to implement this recommendation, and we reiterate the need for HHS and HUD to coordinate with OCSE and SSA to address such issues in the most timely and efficient manner. To the extent possible, HHS and HUD should implement this recommendation within the framework of existing privacy laws. HUD's suggestion to broaden the recommendation to include wage information is partly addressed in the first matter for congressional consideration that suggests providing HUD with access to data (including wage data) in OCSE's National Directory of New Hires. We

⁶⁹GAO/GGD-99-164.

agree with HUD that state wage agencies are also a valuable source of wage information and should not be overlooked as potential sources of these data, but the recommendation is directed at information available at financial institutions.

HHS generally agrees with our recommendation to develop a system for tracking duplicate benefit receipt, program disqualifications, and recipient time limits in the TANF program. It noted that the 1997 report to the Congress on data processing (and the more recent Agriculture report that supplemented it) identified a number of systems that could accomplish these objectives.⁷⁰ HHS also indicated, however, that additional program authority and resources would be required to implement this objective.

Our recommendation envisions HHS taking the next step to facilitate the development of such a system in cooperation with Agriculture and the states. If additional legislative or program authority and resources are required, we encourage the Secretary to seek congressional approval to facilitate the development of such a system. Further, we continue to believe that it is important for HHS to work closely with Agriculture to ensure that any system that is developed integrates the Food Stamp program to promote maximum efficiency and cost-effectiveness.

OMB supports the general thrust of our recommendation to develop an overall strategy for improving data sharing across all benefit and loan programs. It also emphasized the need to carefully consider the potential implications that enhanced data sharing may have for individual privacy, as well as the security of sensitive information. For example, OMB stated that it is studying whether additional uses of the National Directory of New Hires are appropriate as a source of wage data but noted that expanding access to its data requires careful study of the potential effect on personal privacy.

We agree that expanding access to data sources such as the directory, whether through more traditional computer matches or online access, requires careful consideration of the potential effect on personal privacy and data security. We believe that OMB can help promote the necessary balance between program integrity issues and privacy concerns by implementing our recommendation and promoting an open, ongoing dialogue on these issues with the Congress, federal agencies, states, private

⁷⁰See our section above on TANF.

organizations, and the public. The results of the OMB-led Benefit Systems Review Team demonstrate that OMB (with the assistance of the Chief Information Officers Council and other organizations) can facilitate this discussion and can develop a strategy for improving data sharing among federally funded benefit and loan programs.

A number of HUD's comments requested that we add language to the report to include private owners who administer HUD's project-based housing programs. HUD noted that about one-third of the total number of assisted households receive rental assistance from the Office of Housing's programs that are generally administered by private owners. Our review focused exclusively on HUD's tenant-based programs (Tenant-based Section 8 and Public Housing) that are administered by public housing agencies. Data sharing with private owners was outside the scope of our work. Moreover, providing private owners with access to sensitive information raises additional privacy and data security issues that require careful consideration before data sharing can be implemented.

Education, HHS, HUD, OMB, Treasury, and IRS also provided us with technical comments that we have incorporated into our final report where appropriate.

As we agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. We will then send copies to the federal agencies and states we reviewed that have administrative or oversight responsibility for the public assistance and loan programs we discussed, and we will make copies available to others on request.

Please contact me at (202) 512-7215, or Sigurd Nilsen at (202) 512-7003, if you have any questions concerning this report or need additional information. Other contacts and contributors to this report are listed in appendix VII.



Cynthia M. Fagnoni
Director, Education, Workforce,
and Income Security Issues

Comments From the Administration for Children and Families



DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
Office of the Assistant Secretary, Suite 600
370 L'Enfant Promenade, S.W.
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July 18, 2000

Ms. Cynthia M. Fagnoni
Director, Education, Workforce,
and Income Security Issues
Health, Education and Human Services Division
U. S. General Accounting Office
Washington, D.C. 20548

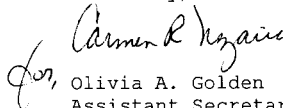
Dear Ms. Fagnoni:

This is in response to your letter of June 29, 2000, transmitting the draft report "Benefit and Loan Programs: Improved Data sharing Could Enhance Program Integrity (GAO/HEHS-00-119)." We appreciate the opportunity to review this draft and provide comments before the report is issued in final form.

The Administration for Children and Families (ACF) is in general agreement with the thrust of the report and the report's findings. As you will see from our comments, enclosed, there are several areas in which we have suggestions, including a number of technical corrections. Our comments on the recommendations that are directed to this Department indicate our general agreement with the intent of the recommendations.

I hope this response is helpful to you.

Sincerely,


for, Olivia A. Golden

Assistant Secretary
for Children and Families

Enclosure

**Appendix I
Comments From the Administration for
Children and Families**

**COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE
U. S. GENERAL ACCOUNTING OFFICE'S DRAFT REPORT, "BENEFIT AND
LOAN PROGRAMS: IMPROVED DATA SHARING COULD ENHANCE PROGRAM
INTEGRITY"**

General Comments

HHS is in general agreement that improved data sharing among benefit and loan programs could enhance program integrity. But this report also makes it clear that State agencies lack data systems to track benefit receipt and to verify eligibility. Expanding authorization for use of Federal data for eligibility verification purposes does not address the need for systems that track benefit receipt and effectively use existing State employment data. State and local agencies must have the necessary infrastructure in place to benefit from expanded access to Federal systems.

We are not aware of a Department of Health and Human Services (HHS) estimate that program savings of about \$100 million could be realized in the TANF program if all States shared applicant and recipient information. On page 4 of the draft report, this figure is attributed to ACF.

As the draft report observes "*...not all State TANF programs have access to their State's directory of new hires data, because they have not completed an agreement to obtain access to the database*" (page 21). Although State benefit programs have the authority to access employment data maintained by their own State for eligibility verification purposes, numerous States have chosen not to implement these processes. It would be helpful if GAO could describe the reasons for these State decisions.

The Office of Child Support Enforcement (OCSE) within HHS collects employment information on US wage earners. OCSE receives over 600 million employment and unemployment records per year from 50 States, Puerto Rico, the District of Columbia, and 146 Federal agencies. It is HHS' responsibility to ensure that multiple statutory, regulatory and administrative requirements (including the Privacy Act, title IV-D of the Social Security Act, the Computer Matching Act, and a number of OMB circulars) are followed to ensure the privacy and confidentiality of these data.

Now page 7.

Now page 26.

**Appendix I
Comments From the Administration for
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Now page 31.

Now page 39.

GAO recognizes that *"...Balancing the competing objectives of privacy and data security with the need for program integrity and efficiency involves some trade-offs..."* (page 25). HHS takes this approach in every data sharing agreement with a Federal or State agency. For example, as the GAO report discusses, SSA and OCSE are moving forward to give SSA field offices on-line access to NDNH data (page 33). As part of the SSA on-line access, HHS required on-line controls to minimize the opportunity for misuse of NDNH data. SSA responded by building on-line controls that limit access to specific SSA field staff, limit the queries to individuals involved in an SSI application or re-certification, and created audit trails to track the types of queries performed by SSA staff. These controls are managed at the SSA central office.

HHS recognizes the important role that the National Directory of New Hires (NDNH) can play in verifying employment history for benefit loan applicants and recipients. The Department, however, wants to ensure that agencies that have access to NDNH are capable of safeguarding the NDNH data from unauthorized disclosure. Thus if, as proposed by GAO, HUD receives authorization to access NDNH data for administering Section 8 funding, HHS will require appropriate safeguarding procedures to be in place. Since public housing authorities are operating local data systems with no centralized access controls, the risk of unauthorized access to and disclosure of NDNH data may be greater in this context.

Now page 8.

In addition, the report recommends data sharing across programs, *"Because many...programs require the same information, it is more efficient for them to share the necessary data with one another, rather than requiring each program to independently verify similar data"* (page 5). This could mean multiple redisclosures of data obtained from the NDNH and other data systems making it difficult for the source agency to ensure the safeguarding of data and monitor the use and disposition of the data.

GAO Recommendation

The Secretaries of HUD and HHS should develop a strategy for obtaining access to automated data from financial institutions, determine the most cost-effective, efficient method for obtaining such data and report to the Congress on any legislation that would be needed to implement this strategy. HUD and HHS should also coordinate with SSA and OCSE to

**Appendix I
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determine what strategies are the most effective for obtaining this information.

Department Comment

The Department agrees that a system that would accomplish these purposes could be beneficial. There are of course a number of serious confidentiality and security concerns that must be addressed, as noted in the Department's General Comments, and some serious technical problems that must be faced. The Department will consider GAO's recommendation in the context of existing operational, budget and manpower constraints.

GAO Recommendation

The Secretary of HHS should facilitate the development of a system for tracking duplicate benefit receipt, program disqualifications, and recipient time limits across States in the TANF program. The Secretary should also coordinate with other federal departments that oversee major public assistance programs, such as Food Stamps, to ensure the compatibility and cost-effectiveness of such a system.

Department Comment

The 1997 HHS Report to Congress on TANF Data Processing, noted by the GAO in its April, 2000 report on TANF information systems, identified a number of ways to establish a system for tracking duplicate benefits and the five year TANF time limit. The HHS report also included the observation that in order to establish such a system, additional program authority and resources would be required. A Department of Agriculture report, also cited by GAO in its April report, included discussion of a system for tracking TANF time limits and duplicate eligibility.

Technical Comments

The report contains no mention of HHS' responsibility to safeguard the NDNH data. This is especially critical given the multiple redisclosures of data that the GAO report appears to contemplate. In addition to the limitations or omissions from current law, the report should also reference HHS' affirmative responsibility for safeguarding NDNH data. To address these concerns, HHS provides the following comments:

- In the first full paragraph on page 4, insert the underlined words in the third sentence to read as follows: "However,

Now page 7.

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current law requires OCSE to establish and implement safeguards designed to restrict access to confidential information to authorized persons for authorized purposes and does not permit the three programs . . . to obtain information from the directory". A footnote should reference 42 USC 653(m).

- The report should address the challenges associated with the redisclosure of data that appears to be contemplated by the report. See 42 USC 633(j)(6)(E), especially clause (iii).

References to federal laws in the draft report may create the impression that statutory changes apply only -- or primarily -- to Federal laws. The report should recognize that most States -- often as a condition of receipt of Federal funding -- have complied with Federal mandates (e.g., Section 303 of the Social Security Act (unemployment and wage information) or section 466(c)(1)(D) of the Act (access to governmental and private records for IV-D child support purposes)) to enact specified State laws. In addition, many, if not most, States have statutes that are analogous to the Federal Privacy Act. These statutes, too, could require amendment to support enhanced data sharing.

Now page 7.

- Revise the first full sentence on page 5 to read as follows: "... often requires amending the law federal and state laws governing the use of the data."

The report underscores the importance of data sharing, but does not examine *how* to implement data sharing. GAO did not make any assessment of batch data matching versus online access in light of some of the specific objectives data sharing seeks to achieve. If GAO's examination of Federal programs garnered any insights on the topic, the draft report should include a section on methods of data sharing and the implications of each method.

Now page 7.

- On page 5 of the draft report, after the third full sentence, insert the following new sentence: "Moreover, in some cases the method of data sharing can go a long way to promoting both data sharing and confidentiality of personal data."

Now pages 32-33.

The report addresses the issue of access to data by private contractors solely within the context of IRS' experience (page 26). Yet the role of contractors and agencies under cooperative agreement raises recurring questions that should be mentioned in the report. The IRS' position described on page 26 may not be applicable to other agencies. Moreover, independent

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verification of data as a prerequisite for data sharing may not be feasible or cost-effective in all circumstances. HHS recommends that the report recognize this fact and address it. For example, how would a recipient of data "independently verify" information? If the solution is to verify through the originator of the data, does this partially defeat the purpose of data matching in the first place?

Additional Technical Comments:

- Now page 7. Page 6, Negative verification should not be described as "superior," since it has a significant disadvantage in that the data do not correspond to monthly budget periods, but are reported on a quarterly basis and cannot be compared with actual data reported by the client.
- Now page 14. Page 11, Table 1: Potential Sources of Data for the Three Programs in Our Review
- Column 2: Federal sources of data, Row 7: Assets (bank accounts, automobiles)
The NDNH does not contain information on assets, such as bank accounts or automobiles. This reference should be deleted.
 - Footnote d: *The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 required states to set up databases of new hires to help ~~identify and track individuals owing child support~~ locate adult individuals involved in child support cases and to verify eligibility for certain programs". See 42 USC 653(h).*
- Now page 15. Page 12, top: State TANF agencies may also request NDNH data (42 USC 653(j)(3)).
- Now page 16. Page 13, Table 2: Some Major Federal, State, and Private Data Sources
- Column 2: Data Sources;
 - Row 3: SDNH is a State data system, not a Federal one
 - Row 5: Income and Eligibility Verification System is a mechanism - input/output specifications - available to States to check data with various data sources and not necessarily a data system.
- Now page 25. Page 20, Second paragraph:

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- For example, PRWORA prohibits *families that include an adult from receiving federal TANF-funded assistance for more than five years.*

Now page 26.

Page 21, Second paragraph

- *"...While these databases do not contain wage information, they can show eligibility workers that applicants or recipients (or other household members) ~~are employed~~ were recently employed as indicated by a new hire record ..."*

Now page 33.

Page 27, Third paragraph

- *"...OCSE officials told us of a variety of concerns regarding how the National Directory of New Hires data are used..."*
- *"In most cases, such requests have been denied because there was no statutory authority to allow release of the data."*

Now page 39, footnote 67.

-
Page 34 - Footnote 68 incorrectly suggests that information in the NDNH is subject to 26 IRC 6103. The NDNH does not maintain information derived from IRS. Section 42 USC 653(1)(1) references the Federal Parent Locator Service (FPLS) components that maintain IRS information. The IRC provision is not applicable to NDNH but applicable to other FPLS components that maintain IRS information.

Comments From the Department of Education



UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

July 17, 2000

Ms. Cynthia M. Fagnoni
Director, Education, Workforce,
and Income Security Issues
United States General Accounting Office
Washington, DC 20548

Dear Ms. Fagnoni:

Thank you for the opportunity to review and comment on your draft report, *Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity*. The draft report includes important information on the issue of data sharing by federal agencies to determine individuals' eligibility for federal benefits or loans.

We are in general agreement with the results of your study that found the programs you reviewed could use enhanced data sharing to make more timely and accurate eligibility determinations. While the Department currently uses computer matching and other methods to verify information that applicants and current recipients provide, we also believe the student financial assistance programs could benefit from access to additional data sources.

Many in the Department and the higher education community have long advocated automated income verification with the Internal Revenue Service. We appreciate the work of your staff that resulted in the comprehensive discussion of issues included in your report relating to accessing third-party data sources. Further, we support your recommendation(s) that the Congress consider ways to support federal agency data verification efforts, including amending the IRS Code.

Again, we appreciate the opportunity to review and comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank S. Holleman III".

Frank S. Holleman III

cc: Greg Woods
James R. Lynch

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-0500

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Comments From the Department of Housing and Urban Development

The Department of Housing and Urban Development (HUD) did not provide a formal comment letter. However, as we agreed with HUD, we have included the portions of its technical comments that pertain to our recommendations.

With respect to the first matter for congressional consideration, HUD believes that the Social Security Act should be amended to allow matching to all HUD rental assistance programs. As presently worded, the recommendation would exclude project-based rental assistance programs. The wording of the proposed amendment to the act should contain language authorizing HUD access to the National Directory of New Hires (and permit HUD to redisclose the data to all administrators of its rental assistance programs). The matching should occur through a coordinated effort of HUD and HHS. HUD's existing computer security infrastructure and centralized tenant databases could aid in facilitating the matching and dissemination of matching results to entities that administer HUD's rental assistance programs—much as what is now done with the Social Security and Supplemental Security Income matching. The recommendation should be that the legislation allow HUD access to the current against OCSE's National Directory of New Hires and permit HUD redisclosure of the data to its local administrators of rental assistance programs.

The National Directory of New Hires would be useful in determining the accuracy of eligibility determination for program participants and new applicants. However, it is unlikely to ensure the accuracy of eligibility determinations and amounts in all instances because of some time delays in the data. Generally, HUD's rental assistance programs, eligibility, and level of rental assistance are determined by "anticipated income" for the coming 12-month period. HUD would also need to be authorized to share the matching results with public housing agencies and private owners (or their management agents) or other entities that administer HUD's rental assistance programs. Further, HUD would need to require local administrators of the programs to supply data on new applicants so that computer matching could be conducted with the National Directory of New Hires. HUD databases presently include information only on program participants. Regarding initial eligibility determinations, it is important to note that many abuses of the program occur after the initial eligibility determination—that is, failure to report income from a new job and failure to report the move of a family member. Therefore, HUD believes that the recommendation should change from "To facilitate accurate initial eligibility determinations" to "To aid administrators of HUD's rental assistance program in obtaining income data needed for initial eligibility determinations." In addition, it would change "state and local agencies that administer programs (such as public housing agencies)" to "state and local agencies (i.e., public housing authorities) and private owners and management agents."

With regard to the recommendation to the Congress to amend the Privacy Act's computer matching requirements by increasing the time limits under which initial agreements and renewed agreements may be in force, HUD strongly supports the recommendation to extend the time limits of initial matching agreements and renewals.

With regard to the recommendation to HUD and HHS to develop a strategy for obtaining access to automated data from financial institutions, the GAO recommendation

**Appendix III
Comments From the Department of Housing
and Urban Development**

discusses data sharing among state and federal agencies and the statutory privacy barriers. It does not discuss the utility of state or interstate systems when the data are different in the various states. It also does not fully address technology and costs. For example, the Federal Unemployment Tax Act, section 3304(a)(16), states that state employment insurance agencies should share wage data with public housing and Temporary Assistance for Needy Families (TANF) agencies. Yet, the Department of Labor's directives to state Unemployment Insurance agencies require public housing authorities and TANF agencies to assume the entire cost of data transfer—including the cost of the transfer and the data transfer infrastructure. The GAO recommendation should be broadened to request recommendations on the better use of State systems for financial as well as wage information. The Secretary of Labor should be mentioned in the follow-up proposal since Labor oversees the State labor agencies that provide quarterly wage information. Language should be added to state that the Departments should explore the feasibility and costs for developing automated systems to access timely wage as well as financial information.

Comments From the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 7, 2000

Ms. Cynthia M. Fagnoni
Director, Education, Workforce
and Income Security Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Ms. Fagnoni:

Thank you for the opportunity to review and comment on your recent draft report entitled "Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity." We are pleased to have worked with your staff as the study progressed. We believe the result is a report that provides some good information on the complex issues that arise when information on individuals, including tax return information, is obtained and disclosed for use in determining eligibility for federally funded loan and benefit programs.

Most of the broad policy concerns raised by the General Accounting Office are addressed in the Department of Treasury's *Report on Confidentiality Required by Section 3802 of the Internal Revenue Service Restructuring and Reform Act of 1998*. I would note that, while this is Treasury's report, we have worked closely with Treasury in its development. We expect they will issue this report soon. The report will address specific issues regarding Housing and Urban Development (HUD) and the Department of Education data programs. The use of agents/contractors, interagency sharing of data, and statutory construction interpretations will be covered in depth. This report will represent the official Department of the Treasury and Internal Revenue Service (IRS) view on these issues.

As you point out in the report, the IRS does share tax information with federal and state entities as permitted under Internal Revenue Code Section 6103. We understand that data sharing can aid administrators as they seek to ensure federal benefits only go to those who are eligible to receive them. For the IRS, though, data sharing is second to its primary mission of responsible administration of the tax laws. We recognize that, as tax administrators, there is an inherent tension between the collection of personal information for tax administration and the subsequent use of such information for non-tax purposes. Both the IRS and Congress have consistently rejected the idea of using the IRS as a "lending library" for all tax information. Tax information should not be considered a shared government resource without careful consideration and management. We believe such an approach would further undermine voluntary compliance.

**Appendix IV
Comments From the Internal Revenue
Service**

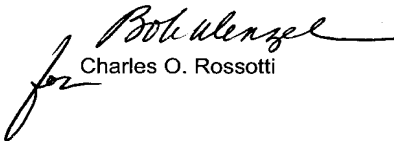
2

We agree that Congress must carefully weigh concerns about sharing sensitive tax information when considering legislative proposals for increased tax disclosures for non-tax purposes. The Department of the Treasury Section 3802 Report will include a statement of the criteria that we believe Congress should consider when reviewing proposals for access to tax information.

I have enclosed a number of suggested changes to the report. I believe these changes will enhance the accuracy of the report.

In closing, we take seriously our mandate to provide tax information where authorized and to assure confidentiality of that information as required by the provisions of Internal Revenue Code 6103. Please call me or Tom Marusin, Acting Director, Governmental Liaison and Disclosure, at 202-622-3633 if you would like to discuss this further.

Sincerely,


for Charles O. Rossotti

Enclosure

IRS' Suggested changes to the Draft GAO Report

Now page 12.

1. On page 9, the report discusses unauthorized disclosure but not unauthorized access or UNAX. Increased statutory access to tax return and return information leads to increased risk of unauthorized browsing, or UNAX. "Browsing" was the term formerly used to describe the unauthorized inspection of, or access to, federal tax returns or return information without regard to whether the "browser" further disclosed the information to another person. The Internal Revenue Service now refers to such activity as unauthorized access, or UNAX. Congressional concern about UNAX led to passage of the Taxpayer Browsing Protection Act, Public Law 105-35. That Act amended the Internal Revenue Code (IRC) to add section 7213A, which makes it unlawful for any officer or employee of the United States, or any person described in IRC 6103(n), or officer or employee of such person, to willfully inspect, except as authorized by Title 26, any return or return information. Section 7213A(a)(2), relating to state and other employees who acquired returns or return information under certain provisions of IRC 6103, makes it unlawful for any {such} person willfully to inspect return and return information except as authorized by Title 26. There is a need to know standard for authorized access to returns and return information.

Now page 18, footnote 23.

2. On page 14, footnote 22 should be amended to state that disclosures are not allowed because IRC section 6103(l)(7) does not allow the use of agents/contractors. "Agents or employees" are not the determinative status under the code section.

Now page 24.

3. On page 19, there is a detailed discussion of the Higher Education Amendments Act of 1998. We believe GAO may want to amend this section based on the discussion in the Department of the Treasury's Section 3802 Report.

Now page 39, footnote 67.

4. On page 34, footnote 68 should be amended to state that the data in the National Directory of New Hires (NDNH) is not all governed by IRC section 6103. There is limited tax data in the NDNH (see the IRC Section 6103(l)(6) limited use of contractors). Only that limited tax data is governed by IRC 6103.

Now page 44.

5. On page 38, GAO proposes a recommendation to Congress regarding disclosures for Free Application for Federal Student Aid (FAFSA). GAO may want to consider that the scope of Section 6103(l)(13) is limited to income contingent loan repayments. This section does not cover authorizing the release of certain taxpayer data to Education's contractors and schools for purposes of determining eligibility for cases that are identified in a match. If the recommendation regarding schools/contractors is for FAFSA, then a different statutory access scheme needs enactment. Also, we have been advised that items of tax information laid out in IRC section 6103(l)(13) and

Appendix IV
Comments From the Internal Revenue
Service

the Higher Education Amendments Act of 1998 do not satisfy the Department of Education's needs. Therefore, the scope of information may also need amendment.

Comments From the Office of Management and Budget



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 21, 2000

Cynthia M. Fagnoni
Director, Education, Workforce and
Income Security Issues
U.S. General Accounting Office
441 G Street NW
Washington, DC 20548

Dear Ms. Fagnoni:

Thank you for the opportunity to comment on GAO's draft report, "Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity."

The area you have studied here is of great importance. We share your view that government must explore data sharing opportunities to reduce fraud and error in government payments. We have already been focusing on estimating the extent of improper payments in federal benefit and loan programs. We are also considering data sharing opportunities to reduce improper payments, whether in the form of underawards and overawards. We have established this effort as a priority management objective, as indicated in the FY 2001 President's budget ("PMO 10").

The draft GAO report emphasizes that savings might be realized with increased data sharing in three areas: the Department of Housing and Urban Development's Public Housing and Section 8 programs; the Department of Health and Human Service's Temporary Assistance for Needy Families programs; and the Department of Education's Student Financial Assistance programs. We appreciate GAO's close look at these programs and their data sharing needs. At the same time, we believe that issues of privacy and security raised by the data sharing proposals are more complicated and difficult than they may appear at first look. In our view, there is no simple formula that is appropriate in each case. We have found that privacy and security considerations vary depending on, for example, the sensitivity of the data, the expectations of individuals of how their data will be used, and the feasibility of ensuring that each person with access to confidential data is handling that data properly. Responsible government must promote data sharing to ensure program integrity but only where the data sharing can be accomplished consistent with strong privacy and security safeguards.

We have been working on improved approaches in this area for some time. As the report describes, the OMB-led Benefit Systems Review Team (BSRT) in 1996 and 1997 coordinated a substantial inter-agency effort to address data sharing in benefit and loan systems, consistent with privacy protection. At the time the BSRT issued its report, IRS was the main source of income-related data. The IRS data raised special confidentiality concerns, in part because of the concern that extensive sharing of IRS data could adversely affect tax compliance. There was no real experience with the child support enforcement system's National Directory of New Hires (NDNH) database.

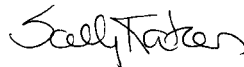
**Appendix V
Comments From the Office of Management
and Budget**

As indicated above, we continue to explore data sharing issues through PMO 10, a priority management objective that focuses on verifying that the right person is getting the right benefit. As part of PMO 10, we are examining whether additional uses of the NDNH database are appropriate as a source of wage data. Use of the NDNH, however, also raises privacy considerations. For example, we recognize that there is concern that any broad government, or perhaps private sector, access to the financial data contained in the NDNH database could diminish individual privacy and confidentiality. As we proceed with PMO 10, we need to study the responsible uses of government data – from the IRS, the NDNH, and other sources – with special attention on privacy and security needs in government data sharing initiatives.

With this background, we fully support the general thrust of GAO's draft recommendation. We will continue to work with key agencies on our overall strategy for improving data sharing operations across all benefit and loan programs. In that strategy, we will include actions for further defining the problems agencies encounter in sharing data; developing appropriate management strategies to address these problems, taking into account privacy and security needs; and overseeing progress.

Thank you once again for the opportunity to comment on the draft report. We look forward to continuing to work with you on our common goal of preserving program integrity in the government's benefit and loan programs.

Sincerely,



Sally Katzen
Counselor to the Director

Comments From the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

July 19, 2000

ASSISTANT SECRETARY

Mr. Jeremy Cox, Evaluator-in-Charge
U.S. General Accounting Office
441 G Street NW, HEHS/EWIS
Washington, DC 20548

Dear Mr. Cox:

Thank you for the opportunity to comment on the draft report *Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity* (GAO/HEHS-00-119). Treasury supports the goal of reducing improper payments by Federal loan and benefit programs.

Overall, we believe the report paints a fair and balanced picture of the challenges facing Federal loan and benefit programs that rely on self-reporting to determine eligibility for and amount of payments. We do, however, wish to stress the unique challenges to the tax system presented by the use of tax data to verify self-reported amounts. Although the report accurately notes that one of the key principles underlying section 6103's rule of the confidentiality of tax information is taxpayer privacy, less prominent in the report is the notion that taxpayer compliance could be affected as the result of the use of tax information to determine eligibility for Federal benefit and loan programs. The legislative history of section 6103 indicates that it was enacted specifically to limit the instances in which other agencies used tax data for nontax purposes to those cases in which the need for the information outweighs the related concerns of taxpayer privacy and continued compliance with our voluntary system of self-assessment.

Treasury must, first and foremost, protect the fisc. This means ensuring that tax compliance is not compromised. Overtly tying tax reporting to needs-based government benefits may lead some individuals to underreport their income in order to qualify for such benefits. Conversely, overtly tying tax reporting to the ability to qualify for loans, credit, etc., may lead some individuals to overreport their income. In both cases, the integrity of data provided to the IRS by taxpayers is undermined, diminishing the utility of the data for the very purposes for which it was originally collected and ultimately disclosed, and, more importantly, posing a serious long-term threat to the integrity of the tax system. Taxpayers who view the IRS as a resource for a variety of other programs may be less inclined to voluntarily turn over sensitive financial information out of uncertainty over where it might ultimately land.

Thus, the benefits to be obtained from access to tax data must be balanced against the potential impact not only on taxpayer privacy but also on taxpayer compliance. A decrease of even one percentage point in taxpayer compliance could cost the Federal government in excess of \$10 billion annually. This is not a risk to be taken lightly.

Our specific comments on various sections of the report follow:

Results in Brief

This section includes the following statement, on page 4, "A number of laws have been enacted over the last 25 years that limit access to sensitive data sources (or restrict how such data

Now page 7.

**Appendix VI
Comments From the Department of the
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Now page 7.

may be used) in an effort to protect individual privacy as well as the confidentiality of sensitive information.” The next sentence indicates that section 6103 of the Code is one such law. This section goes on to state, at page 5, “However, increased access to sensitive data for benefit and loan programs can be balanced with the need for personal privacy and confidentiality.” We believe that this provides an incomplete picture of the policy underlying section 6103 and thus misleadingly suggests that privacy and confidentiality are the only, albeit important, principles that must be balanced with agencies’ need for more accurate information. Consistent with our general comments, this section should mention concerns about tax compliance as well.

Laws Governing Data Sharing and Privacy

Now page 12.

We believe the discussion of section 6103, beginning on page 9, should include a description of the underlying intent of section 6103 similar to that provided with respect to the Privacy Act on page 8. Specifically, section 6103 grew out of a desire to protect return information from unfettered use by the President and various Federal agencies. Congress believed that not only did taxpayers have a reasonable expectation of privacy in the personal information they were asked to turn over to the IRS, but that such privacy protection was also an important component of continued voluntary compliance with the internal revenue laws.

Now page 11.

In the final sentence of this section, we would insert the words “or penalties” after the word “safeguards,” because the civil and criminal penalties for unauthorized disclosure do not apply to disclosures made pursuant to taxpayer consents.

Now page 18, footnote 23.

Page 14, footnote 22: The word “agents” should be changed to “officers.” In addition, we would add the following clarifying sentence: “Section 6103 generally restricts access to taxpayer information to officers or employees of agencies permitted to receive the information.”

Student Financial Assistance Programs Lack Access to IRS Taxpayer Information

The discussion of section 6103(l)(13) in this section is inaccurate. Although it is true that section 6103(l)(13) limits disclosures to officers and employees of the Department of Education, the disclosures permitted by that section are completely unrelated to the disclosures contemplated by the Higher Education Amendments (HEA). Specifically, section 6103(l)(13)(B) permits disclosures under that section “only for the purposes of, and to the extent necessary in, establishing the appropriate income contingent repayment amount for an applicable student loan.” This section does not permit disclosures of taxpayer information for the purposes specified in the HEA, i.e., determining initial eligibility for financial assistance. Thus, Treasury believes the cross-reference to section 6103(l)(13) in the HEA is erroneous, and that there is no authority in section 6103 for the disclosures contemplated by the HEA. Because section 6103(a) permits exceptions to section 6103’s general rule of confidentiality only as provided in Title 26, an amendment to section 6103 is necessary to effectuate IRS’s disclosure authority for the purposes contemplated by the HEA.

This section also includes a discussion of the use of Form 4506, on which a taxpayer consents to the release of his or her tax information to a third party, as a means of verifying income information. Treasury wishes to emphasize and clarify its general objection to using

**Appendix VI
Comments From the Department of the
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taxpayer consents for large-scale income verification programs. In the past, Congress has provided narrowly tailored exceptions in section 6103 for such purposes when it has determined that the need for the information outweighs concerns about taxpayer privacy and compliance. Using taxpayer consents as an alternative to Congressional action potentially circumvents Congressional intent. Moreover, as the draft report notes earlier, disclosures pursuant to consents are not subject to the safeguarding requirements and penalties associated with section 6103 exceptions. Treasury has indicated its willingness, however, to permit the use of consents on a limited scale pending an amendment to section 6103 that would permit the disclosures contemplated in the HEA. We are also awaiting the outcome of the statistical pilot matches mentioned in the report to determine the effectiveness of such a program.

Privacy and Security Requirements Limit Data Sharing

This section again suggests that the “competing objectives” are limited to “privacy and data security” and “program integrity and efficiency” without acknowledging concerns about taxpayer compliance.

The Internal Revenue Code Limits the Disclosure of Taxpayer Data

We reiterate our objection to the discussion of a consent-based approach as an appropriate alternative.

Matters for Congressional Consideration

Consistent with our discussion of section 6103(l)(13), the first sentence of the recommendation on the top of page 38 should be reworded to read, “Amending section 6103(l) of the Internal Revenue Code to authorize the IRS to release certain taxpayer data to officers, employees, and contractors or other agents of Education for purposes of verifying information reported on applications for financial aid.”

Once again, we appreciate the opportunity to comment on this report. Please let us know if you have any questions or if we can be of further assistance.

Sincerely,



Jonathan Talisman
Acting Assistant Secretary (Tax Policy)

Now page 44.

Major Contributors to This Report

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