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**Before the
Subcommittee on Federal Financial Management,
Government Information and International Security
Committee on Homeland Security and Government Affairs**

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Chairman Coburn and other distinguished Members of the Senate Subcommittee on Federal Financial Management, Government Information, and International Security, thank you for the opportunity to testify before you today on the important topic of reducing improper rental housing assistance payments at the U.S. Department of Housing and Urban Development (HUD). My testimony will focus on the nature and extent of the improper rental housing assistance payment problem, HUD's plans for eliminating this problem, and the progress made to date. With ever increasing funding needs and competition for federal resources, it is important that every federal dollar be properly spent for its intended purpose and benefit.

Background on the Program Area and the Problem

HUD's various rental housing assistance programs – which include its public housing, tenant-based housing voucher, and project-based housing assistance programs – collectively represent its largest program areas with over \$26 billion in total payments in fiscal year (FY) 2004. These programs serve to house over 4.8 million low-income households and are locally administered on HUD's behalf by over 4,100 public housing agencies (PHAs) and 22,000 private housing owners and management agents.

Eligible tenants participating in these programs generally are required to pay 30 percent of their income towards shelter costs (rent plus utilities), with HUD providing the balance of the rental payment. New program applicants are required to provide certain information on household characteristics, income, assets, and expenses that is used to determine the amount of rent they should pay. Existing tenants are required to recertify this information on an annual basis and also, in some circumstances, when there are significant changes in household income or composition. Applicant or tenant failure to correctly report their income or other required information on allowable income exclusions or deductions may result in the Department's over- or underpayment of housing assistance. The failure of the responsible program administrator to correctly interview the tenant to obtain necessary information, or to correctly process, calculate and bill the tenant's rental assistance, may also result in the Department's over- or underpayment of housing assistance.

This program area was separately identified on the Government Accountability Office's (GAO) "high-risk" programs list in January 2001, and the HUD Office of Inspector General (OIG) has reported material weaknesses in HUD's internal controls over rental housing assistance payments since 1996. In 2000, studies completed by HUD's Office of Policy Development and Research (PD&R) estimated \$3.2 billion in gross annual improper payments, which included \$2 billion in net annual subsidy overpayments, attributed to two of three possible types of rental housing assistance program payment errors: 1) program administrator errors in housing subsidy determinations and 2) errors due to tenant underreporting of income upon which subsidies are based. The baseline estimate of the third type of error – billing error – is scheduled for completion in October of this year, with preliminary estimates in the \$300 million range for FY 2003.

HUD's Goals and Approach To Resolving the Problem

Under the President's Management Agenda formulated in 2001, HUD set goals and planned actions to eliminate the underlying OIG material weakness issues and GAO high-risk designation and to achieve a 50 percent reduction in the estimated \$2 billion in net annual subsidy overpayments by the end of FY 2005. The Rental Housing Integrity Improvement Project (RHIP) was established as a HUD Secretarial Priority to:

- 1) measure and analyze the types and underlying causes of the improper payments;
- 2) establish effective corrective action plans for addressing identified causes; and
- 3) oversee the successful implementation of corrective action plans.

The general objective of the RHIP effort is to assure that *"the right benefits are paid for the right households."* A RHIP Advisory Group was established to lead and coordinate this effort with participation from all affected program components in the Office of Public and Indian Housing and the Office of Housing, as well as the Office of the Chief Financial Officer and the Office of Policy Development and Research. The RHIP Group assessed the causes of the improper payments to include: complex program requirements; outdated program guidance; insufficient training; an absence of a HUD monitoring presence on this issue; insufficient program incentives and sanctions for program administrators and tenant beneficiaries; and a lack of authority and/or capability to verify tenant income with available data sources. A RHIP strategy was developed to include actions that seek to:

- 1) simplify overly complex program requirements that contribute to error;
- 2) enhance the existing capacity to effectively administer and monitor the programs, through enhanced guidance, training and resource allocations; and
- 3) establish the controls, systems, incentives, sanctions and oversight necessary to improve program performance and accountability on the part of HUD's third party program administrators, tenant beneficiaries, and the Department.

RHIP activities and progress are overseen by the Office of the Deputy Secretary and are tracked as part of the President's Management Agenda by the Office of Management and Budget. RHIP goals and action plans are engrained in HUD's internal management planning processes and in the performance standards and evaluation criteria for affected HUD managers and staff. HUD actively communicates and coordinates its RHIP goals and action plans with its third party program administrator partners and tenant advocacy groups to gain their necessary support in achieving RHIP objectives.

Interim Results Achieved To Date

HUD and its housing industry partners have surpassed all interim goals for reducing the estimated \$2 billion in net annual rental housing assistance overpayments. HUD’s interim goals were for a 15 percent reduction in FY 2003, 30 percent reduction in FY 2004 and 50 percent reduction in FY 2005. These goals were established based on the FY 2000 estimates of improper payments attributed to both housing administrator errors in subsidy determinations and tenant underreporting of income upon which benefits are based. Completed updates of the measure of these two error components in FY 2003 and FY 2004 found the following significant reductions in improper payments compared to the FY 2000 baseline:

Reductions in Improper Payments Due to
Subsidy Determination and Income Reporting Errors

Period	Percent of Cases In Error	Over Payments*	Under Payments*	Net Over-Payments*	Gross Improper Payments*
2000	60	2.594	.622	1.972	3.216
2003	41	1.087	.519	.568	1.606
2004	34	.926	.306	.620	1.232
Reduction from 2000 to 2004	26	1.668	.316	1.352	1.984
% Reduction from 2000 to 2004	43%	64%	51%	69%	62%

* - Amounts shown in dollars in billions

Whereas 60 percent of all subsidy determinations were found to be in error in 2000, that number declined to 41 percent in FY 2003 and 34 percent in FY 2004. The reductions in the dollar impacts of erroneous program administrator subsidy determinations and tenant underreporting of income has been even greater, going from a baseline estimate of gross annual improper payments of \$3.2 billion in 2000, to \$1.6 billion in 2003, and \$1.2 billion in 2004. This represents a total reduction of 62 percent over four years.

The reductions in subsidy determination errors resulted from HUD efforts to work with its housing industry partners at PHAs and multifamily housing projects through enhanced program guidance, training, oversight, and enforcement:

- The Offices of Housing and Public and Indian Housing developed and issued new handbooks and instructional material that detailed all current HUD program requirements and standardized them to the extent possible without regulatory or statutory change. These handbooks cover nearly all aspects of occupancy policy, from the point of tenant application for admission and rent calculations through ongoing occupancy to lease termination. The issuance of the *Public Housing Occupancy Guidebook* and the handbook on *Occupancy Requirements of Subsidized*

Multifamily Housing Programs represented the first such effort in over 20 years, and provided defined methodology for calculating a number of complex requirements (e.g., the Earned Income Disallowance).

- Both the Office of Housing and the Office of Public and Indian Housing substantially increased training efforts, and have held a number of national and regional training sessions. New web-based training on the occupancy function is now available to program administrators and HUD staff via the Internet. Both program offices are committed to providing ongoing training and technical assistance to program administrators. This contrasts with a less activist role in the 1980's and 1990's.
- Both program Offices initiated comprehensive, large-scale, on-site occupancy and management reviews, which also represents a major procedural change from the previous two decades for most HUD offices:
 - The Office of Housing is using agreements with Performance-Based Contract Administrators, which are usually state agencies, to increase monitoring of the 20,000 project-based Section 8 housing assistance payment contracts. The Performance-Based Contract Administrators review and approve 100 percent of each program administrator's housing assistance payment contract billings and perform annual on-site monitoring reviews of each program administrator's compliance with the associated requirements of the occupancy function. Program administrator billings are adjusted for errors detected. The Office of Housing also improved its oversight of its other 7,000 project-based assistance contracts and has plans for further increases in monitoring of that activity, comparable to the increased monitoring provided for the Section 8 Program activity.
 - The Office of Public and Indian Housing (PIH) placed a priority emphasis on completing a "Rental Integrity Monitoring" (RIM) review initiative that provided comprehensive on-site compliance reviews at the 494 largest PHAs that receive 80 percent of PIH's rental assistance funding. The objective of the RIM reviews was to identify and correct processing deficiencies that contribute to erroneous payments. As an incentive for proper future processing, PIH published a sanctions notice that provides for the recovery of erroneous subsidies attributed to PHA errors and imposes penalties for the failure to implement corrective actions needed to address systemic program administration deficiencies identified during RIM reviews. The Office of Public and Indian Housing has plans to enhance its remote monitoring of income verification efforts of all PHAs and to continue to provide comprehensive on-site monitoring of the largest PHAs on at least a five-year cycle, with a five percent sample selection of smaller PHAs each year.

In response to GAO findings and recommendations, both HUD program offices have plans to improve the consistency of their monitoring reviews, as well as the tracking, reporting and resolution of monitoring results.

The reduction of erroneous payments due to tenant under-reporting of income is attributed to: improved income verification efforts by housing program administrators; increased voluntary compliance by tenants due to promotion of the issue; HUD's initiation of improved computer matching processes for upfront verification of tenant income; and an improved methodology for reviewing income discrepancies identified through computer matching to better determine actual cases of under-reported income impacting subsidy levels.

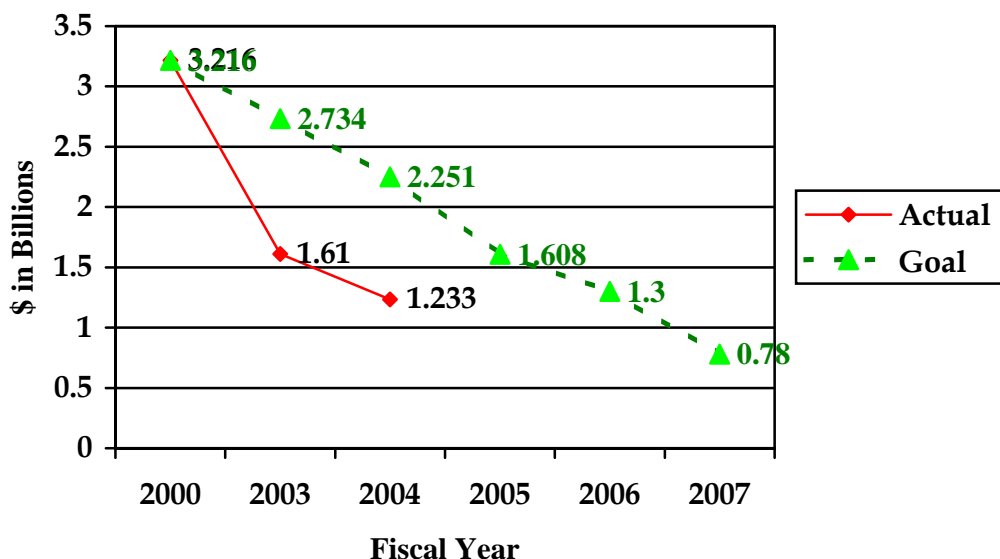
In FY 2004, HUD developed and began implementation of the Enterprise Income Verification System to share social security benefit data and wage and unemployment compensation data from computer matching agreements with the Social Security Administration and individual states, respectively, for upfront use by PHAs in validating tenant reported income during annual re-certifications of tenant income and subsidy levels. As of September 2005, HUD had implemented agreements with 29 states in support of this upfront income verification system for PHA use.

In January 2004, the Congress enacted HUD's proposal for statutory authority to work with the Department of Health and Human Services (HHS) on an enhanced computer matching capability using the National Directory of New Hires database. This HHS database is a central source of all quarterly state wage and unemployment compensation benefit information, as well as monthly employer information on new hires. HUD's Enterprise Income Verification System will begin utilizing this new computer matching data source for programs administered through local public housing authorities (PHAs) at the end of this month, September 2005. By the end of FY 2006, HUD plans to consolidate all available income match data sources in the Enterprise Income Verification System for controlled use by program administrators in all HUD rental housing assistance programs. We believe this increased computer matching capability has the potential to eliminate the majority of the remaining estimated improper rental housing assistance payments.

Continuing Goals and Actions

HUD will continue to work with its third party program administrator partners and tenant advocacy groups in pursuit of the aggressive future improper payment reduction goals shown on the following chart:

Improper Payment Reduction Goals And Actual Progress 2000 - 2007



Under Office of Management and Budget guidance for implementing the Improper Payments Information Act of 2002, future improper payment levels and reduction goals are to be expressed as a percentage of total program payments. In FY 2000, HUD's estimate of \$3.2 billion in gross annual improper rental housing assistance payments represented 16.9 percent of the total \$18.9 billion in rental assistance payments made that year. In contrast, HUD's FY 2003 estimate of \$1.6 billion in gross annual improper rental housing assistance payments represented only 6.5 percent of the total \$24.6 billion in rental assistance payments made that year. (This percent of improper payments will increase when the baseline billing error estimate is established and added for FY 2003.) HUD's goal is to reduce the total improper rental housing assistance payment rate to 3 percent of total program payments in FY 2007.

To achieve these reduction goals and the related goals of eliminating the OIG's reported material internal control weaknesses and the GAO's high-risk program designation on HUD's rental housing assistance programs by January 2007, HUD must:

- 1) sustain an adequate level of on-site and remote monitoring of program administrator performance;
- 2) improve the tracking, reporting and resolution of monitoring results;
- 3) fully implement the Enterprise Income Verification system to improve the upfront tenant income verification process for all rental assistance program areas; and
- 4) continue to show a favorable downward trend in the reduction of estimated gross annual improper payment levels.

Secretary Jackson, Deputy Secretary Bernardi and the rest of HUD's leadership team are committed to taking these actions and achieving the related goals for the benefit of the

American taxpayers and the low-income households HUD serves. HUD will also continue to work with the Congress to consider possible program simplification options that would reduce the risk of errors while sustaining intended benefit levels.

Conclusion:

Mr. Chairman, I hope that I have been able to shed some light on the nature of HUD's completed corrective actions and continuing plans for eliminating the improper rental housing assistance payment problem. Your Committee's interest and oversight on this issue is appreciated. That concludes my testimony and I stand ready to answer any questions the Committee may have on this important issue.