Income Match Study
FY 2009 Final Report

October 29, 2010

Quality Control for Rental Assistance Subsidy Determinations

Final Income Match Report FY 2009

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A. Overview

As part of the Quality Control for Rental Assistance Subsidy Determinations Study, the U.S. Department of Housing and Urban Development (HUD) has contracted with ICF Macro to conduct the income match between the National Directory of New Hires (NDNH) income data and the Quality Control (QC) income data collected during field data collection. All household members in the FY 2009 HUDQC study were matched with the Enterprise Income Verification (EIV) system and NDNH files. This report includes information for the PHA-administered Public Housing, Section 8 Housing Choice Voucher, and Moderate Rehabilitation programs; and the Housing-administered Section 8, Section 202 and Section 811 Project Rental Assistance Contracts (PRAC) and Section 202/162 Project Assistance Contracts (PAC). The findings from the FY 2009 analysis of NDNH data indicate that intentional unreported income results in an estimated overpayment of $302.5 million in annual HUD subsidy costs. Exhibit 1 provides subsidy cost information by program type.

Exhibit 1
Summary of FY 2009 Subsidy Cost Estimates Associated with Intentional
Unreported Income by Program Type, Nationally Weighted

Program Type	Subsidy Cost
PIH-administered - Public Housing	$84,733,000
PIH-administered - Section 8 Voucher	$121,477,000
Owner-administered	$96,326,000
Total	**$302,536,000**

B. Background

NDNH data is used to identify sources of earned income or unemployment compensation not found during the QC field data collection process.[1] The NDNH data contain quarterly information on the source and amount of nearly all legally reportable sources of earned income and unemployment compensation benefits. However, it excludes sole proprietors without any employees. For each source of earned or unemployment compensation income identified through NDNH, determinations are made about whether the source is new, or one that was identified during the QC field data collection process. Each case is thoroughly analyzed to avoid double counting income. For cases where a potential new source of income is identified, third- party verification data is gathered. This third-party verification is used to confirm the tenant's employment and amount of income. Confirmed new sources of income, are added to the QC files and rent is recalculated to estimate the impact the unreported income has on HUD subsidies.

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[1] QC field data were collected from three primary sources, the 50058/50059 Forms found in tenant files, documentation found in tenant files, and household interviews. A fourth source, third-party verification obtained by ICF Macro was also used on an as-needed basis.

ICF Macro conducted a similar income match using FY 2008 data, and estimated an annual subsidy overpayment of $416.5 million associated with unreported income.

C. Preparation for the FY 2008 Income Match and Basic Methodology

In preparation for the FY 2009 income match, ICF Macro reviewed HUD guidelines and protocols, and the correspondence and forms used in the previous (FY 2008) income match. Forms were revised as appropriate, and instructions for processing the data were updated. The income match review and analysis was conducted by following the detailed procedures found in the *FY 2009 Income Match Plan*. As in FY 2008 when a household member received both unemployment compensation income and earned income in the QCM quarter, if one of those sources of income was already counted in the QC process, a new unreported source of income was not counted. So if the QC data indicated the household member was receiving unemployment compensation benefits for example, earned income discovered through the NDNH match was not used even if the annualized earned income was higher than the unemployment compensation income.

In brief, the four step protocol for reviewing and analyzing household member income data is as follows:

Step 1: Each case is quickly reviewed and organized by sorting cases with similar issues.

During the initial review, cases are assigned to the following general categories:

1. Cases with a match in NDNH and QC income. A match means the same employer is identified by both sources.

2. Cases where both NDNH and QC data indicate the tenant had income, but it was not clear if the income was from the same employer. These cases required further investigation to determine if the employer was the same.

3. Cases with income according to NDNH data, but the reporting periods were either before or after the quarter covering the point in time for which QC data were collected. This point in time is called the Quality Control Month (QCM). The quarter in which the QCM falls is called the QCM Quarter.

4. Cases with income reported according to the QC data only.

5. Cases where the NDNH data indicates a potential source of new income.

6. Cases where it was suspected that the income identified in the NDNH data was not earned by the tenant (for example, if the employee name and tenant name do not match).

7. Cases where the income earned in the QCM Quarter was less than $100.

8. Cases where the income was earned by a minor, full-time student, foster-adult/child or live-in-aide.

Each source of income is reviewed twice to assure the case is categorized correctly.

Step 2: After each case is categorized, a more thorough review is conducted for cases in categories 2, 3, 5 and 6. Staff members are assigned to one or two categories, allowing them to become experts on how to resolve specific issues. This second review results in re-categorizing all the cases into either resolved (no new income discovered) or potential new source of income.

Step 3: For cases with a potential new source of income, further follow-up is taken:

1. If the employer is connected with The Work Number,[2] verification is requested through The Work Number.

2. If the employer is not connected with The Work Number, employer mailing addresses are checked on an as needed basis to make sure that the address is for the company itself as opposed to a company that processes the payroll.

3. Letters are mailed to all employers, requesting monthly wage income for two months before, two months after and during the QCM; the hire and end dates (if applicable) of employment; any special funding sources (to identify income excluded according to HUD regulations), and any additional comments.

4. Follow-up calls are made to all employers who do not respond to the request for verification by the deadline.

Again, all decisions are double checked to make sure the correct decision is made.

Step 4: The following rules are followed for determining the dollar amount of new sources of income:

1. If third-party verification supports NDNH data indicating the household member was employed (by an employer not identified during the QC field data collection effort), the income received during the QCM Quarter is multiplied by four to determine the annual countable income.

2. In the absence of third-party verification, earnings that start or end in the QCM Quarter are not considered new sources of income, unless the amount earned during that quarter is similar (between 85% -115%) to the income earned in either the previous or subsequent quarters. Assuming the income meets this criterion, the income received during the QCM Quarter is multiplied by four to determine the annual countable income.

Based on the four step process described above, each match with NDNH data is given a final QC resolution code and categorized into one of the following groups:

QC Resolution Code 1 – The NDNH employer and the QC employer were the same.

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[2] The Work Number is a private accounting firm contracted by employers to process payrolls and provide employment verification and payroll data to authorized third-parties.

QC Resolution Code 2 – The NDNH employer was not considered a new source of income.

QC Resolution Code 3 – The NDNH employer was a new source of income

The annual subsidy loss associated with these new sources of income is determined by adding these new sources of income to the income already identified during the QC field data collection, and recalculating the household's rent. Weights are used to determine nationally representative subsidy losses associated with all the income discovered for the households in the QC sample.

D. Summary of Findings from the Review of the NDNH Data

As mentioned earlier, the NDNH match provides data for both earned income and unemployment compensation benefit income for the household members included in the FY 2009 QC sample. Comprehensive findings are presented for households with earned income and households with unemployment compensation benefit income.

Earned Income. The match with the NDNH database identified earned income for 1,070 households from the FY 2009 QC sample. During the *initial* review of the data (step 1), households were categorized as follows:

- NDNH and QC employer are the same. The employer identified through the NDNH data was the same as the employer identified through the QC process.

- NDNH earnings are not considered a new source. The earnings identified through the NDNH match were not considered new sources of income primarily because they were not earned during the appropriate time period.

- Unclear whether NDNH employer is new. It was not clear whether the earnings identified through the NDNH match were the same as earnings identified during the QC process. These cases required further investigation to determine if the income was from a newly identified source.

Exhibit 2 summarizes how households were categorized by program type.

Exhibit 2
Categorization of Earned Income for Each Household by Program Type

Categories	PIH-administered		Owner-administered		Total	
	Number	Percent	Number	Percent	Number	Percent
NDNH and QC employer are the same	285	35%	67	27%	352	33%
NDNH earnings are not considered to be new	373	45%	124	51%	497	46%
Unclear whether NDNH and QC are the same	167	20%	54	22%	221	21%
TOTAL	**825**	100%	**245**	100%	**1070**	100%

Data in this exhibit are unweighted

A more detailed review was conducted for the 221 households where it was not clear if the NDNH and QC income were the same income. For each of the employers involved, one or more of the following types of actions were taken to obtain additional information:

- The Work Number was used to gather wage information.

- Employers were sent a letter requesting wage verification.

- Employers were called to clarify the employee name or to determine if the QC and NDNH employer were the same.

- An Internet search was conducted to obtain additional information about both the QC and NDNH employers.

Of the 221 households where it was not clear if the NDNH data was a new source of income, a total of 276 third-party verification requests were sent to 262 different employers. Of the 276 third-party verification requests, 240 were directly mailed to the employers and for 36 information was sought via The Work Number.

Exhibit 3 presents the results of the search for additional information.

Exhibit 3
Results of Verification Attempts for Earned Income

Third-Party Verification Requests	PIH-administered			Owner-administered			Total		
	# Requested	Received		# Requested	Received		# Requested	Received	
		#	%		#	%		#	%
Directly to the employer	176	145	82%	64	54	84%	240	199	83%
The Work Number	32	31	97%	4	4	100%	36	35	97%
Total number of requests	**208**	**176**	**85%**	**68**	**58**	**85%**	**276**	**234**	**85%**

Data in this exhibit are not weighted

As part of the review process, NDNH income was excluded for household members who were full-time students, live-in-aides or dependents. After reviewing the information obtained through the NDNH match and all the verification received from the third-parties, it was determined that there were 54 households with new sources of earned income.

Unemployment Compensation Benefits. The match with the NDNH database identified unemployment compensation (UC) income for 348 of the households in the FY 2009 QC sample. During the *initial* review (step1), these households were categorized as follows:

- NDNH and QC benefits were the same. Unemployment compensation benefits were identified in both the QC and the NDNH data.

- NDNH benefits were not considered to be new. Unemployment compensation benefits identified through the NDNH match were not received during the appropriate time period.

- NDNH benefits were considered to be a potential new source of income. Unemployment compensation benefits were a potential source of new income.

Exhibit 4 summarizes how households were categorized by program type.

Exhibit 4
Categorization of Unemployment Compensation for Each Household by Program Type

Categories	PIH-administered		Owner-administered		Total	
	Number	Percent	Number	Percent	Number	Percent
NDNH and QC benefits were the same	51	18%	11	16%	62	18%
NDNH Benefits were not considered to be new	194	70%	46	66%	240	69%
NDNH benefits were considered to be a potential new source of income	33	12%	13	18%	46	13%
TOTAL	**278**	**100%**	**70**	**100%**	**348**	**100%**

For the 46 households where the NDNH identified benefits were considered to be a potential new source of income, 46 third-party verification requests were sent to the appropriate agencies identified in NDNH data as administering the benefits. Nineteen or 41 percent were returned with benefits data. For an additional 18 or 39 percent, a response was provided stating that a fee or notarization was needed. After reviewing the information obtained through the NDNH match and all the verification received from the third-parties, it was determined that there were seven households with new sources of earned income.

E. Summary of Income Match Analysis

Exhibit 5 provides a summary of case dispositions for the households included in the FY 2009 HUDQC sample. This exhibit represents findings after the four step process has been completed.

Exhibit 5
Income Match Case Dispositions

Case Disposition	PIH-administered		Owner-administered	Total
	Public Housing	**Section 8 Vouchers**		
QC Household Sample	804	800	800	2,404
QC Households Reporting Earnings or Unemployment Compensation	308	362	166	836
Households with NDNH Identified Income Sources Unmatched with QC Study Sources				
Earned Income	73	94	54	221
Unemployment Compensation	12	21	13	46
QC Households with Countable Unreported Income				
Earned Income	29	15	10	54
Unemployment Compensation	1	3	3	7
Total Countable Unreported Income that Affected Subsidy Determinations for QC Households	30	18	13	61

Exhibit 6 provides a summary of weighted and unweighted subsidy discrepancies associated with the 54 households where *new earned income* sources were identified.

Exhibit 6
Summary of Subsidy Cost Estimates for Earned Income

Program Type	Unweighted Values	Nationally Weighted Values
	Cases w/ Unreported Income	Cases w/ Unreported Income
PIH-administered - Public Housing		
Households in Error	29	35,000
Unreported Income	$345,840	$409,298,000
Subsidy Cost	$65,724	$80,394,000
PIH-administered - Section 8 Vouchers		
Households in Error	15	36,000
Unreported Income	$227,724	$533,158,000
Subsidy Cost	$46,488	$108,992,000
Owner-administered		
Households in Error	10	15,000
Unreported Income	$202,920	$343,428,000
Subsidy Cost	$51,912	$84,779,000
Total		
Household in Error	54	86,000
Unreported Income	$776,484	$1,285,884,000
Subsidy Cost	$164,124	$274,165,000

Exhibit 7 provides a summary of weighted and unweighted subsidy discrepancies associated with the 7 households where *new unemployment compensation benefits* were identified.

Exhibit 7
Summary of Subsidy Cost Estimates for Unemployment Compensation

Program Type	Unweighted Values Cases w/ Unreported Income	Nationally Weighted Values Cases w/ Unreported Income
PIH-administered - Public Housing		
Households in Error	1	1,000
Unreported Income	$13,520	$14,464,000
Subsidy Cost	$4,056	$4,339,000
PIH-administered - Section 8 Vouchers		
Households in Error	3	6,000
Unreported Income	$23,340	$41,570,000
Subsidy Cost	$7,008	$12,485,000
Owner-administered		
Households in Error	3	5,000
Unreported Income	$22,520	$38,545,000
Subsidy Cost	$6,744	$11,547,000
Total		
Households in Error	7	12,000
Unreported Income	$59,380	$94,579,000
Subsidy Cost	$17,808	$28,371,000

Exhibit 8 provides a summary of weighted and unweighted subsidy costs associated with the 61[3] households where new income sources were identified. The discrepancies are presented by program type; however, these numbers are provided for informational purposes and are not statistically reliable due to the low incidence of error. Furthermore, program subsidy cost errors are less than expected based on the dollar reporting errors. This occurs because four of the households with discrepancies were flat rent cases. The total subsidy error associated with the income from the NDNH data is estimated to be $302.5 million.

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[3] The 61 households in error include (54 households with new earned income, and 7 households with new unemployment benefits.)

Exhibit 8
Summary of Subsidy Cost Estimates for both Earned Income
and Unemployment Compensation

Program Type	Unweighted Values Cases w/ Unreported Income	Nationally Weighted Values Cases w/ Unreported Income
Earned Income		
PIH-administered - Public Housing		
Households in Error	29	35,000
Unreported Income	$345,840	$409,298,000
Subsidy Cost	$65,724	$80,394,000
PIH-administered - Section 8 – Vouchers		
Households in Error	15	36,000
Unreported Income	$227,724	$533,158,000
Subsidy Cost	$46,488	$108,992,000
Owner-administered		
Households in Error	10	15,000
Unreported Income	$202,920	$343,428,000
Subsidy Cost	$51,912	$84,779,000
Unemployment Compensation		
PIH-administered - Section 8 – Public Housing		
Households in Error	1	1,000
Unreported Income	$13,520	$14,464,000
Subsidy Cost	$4,056	$4,339,000
PIH-administered - Section 8 – Vouchers		
Households in Error	3	6,000
Unreported Income	$23,340	$41,570,000
Subsidy Cost	$7,008	$12,485,000
Owner-administered		
Households in Error	3	5,000
Unreported Income	$22,520	$38,545,000
Subsidy Cost	$6,744	$11,547,000
Total		
Households in Error	61	98,000
Unreported Income	$835,864	$1,380,463,000
Subsidy Cost	$181,932	$302,536,000

F. Comparison of FY 2008 Findings to FY 2009

Exhibit 9 below provides a comparison of the nationally weighted findings from the FY 2008 Income Match task with the FY 2009 findings. As the exhibit indicates, the subsidy costs associated with unreported sources of income decreased from $416.5 million in FY 2008 to $302.5 million in FY 2009. The decrease subsidy cost could be attributed to the increase in use of EIV which assists in the identification of employers and income for tenants.

Exhibit 9
Comparison of FY 2008 and FY 2009 Findings Using Nationally Weighted Values

Program Type	FY 2008 Cases w/ Unreported Income	FY 2009 Cases w/ Unreported Income
Earned Income		
PIH-administered - Public Housing		
Households in Error	24,000	35,000
Unreported Income	$318,736,000	$409,298,000
Subsidy Cost	$45,769,000	$80,394,000
PIH-administered - Section 8 – Vouchers		
Households in Error	61,000	36,000
Unreported Income	$838,643,000	$533,158,000
Subsidy Cost	$222,913,000	$108,992,000
Owner-administered		
Households in Error	32,000	15,000
Unreported Income	$479,701,000	$343,428,000
Subsidy Cost	$132,922,000	$84,779,000
Unemployment Compensation		
PIH-administered – Public Housing		
Households in Error	NA	1,000
Unreported Income		$14,464,000
Subsidy Cost		$4,339,000
PIH-administered - Section 8 – Vouchers		
Households in Error	7,000	6,000
Unreported Income	$32,092,000	$41,570,000
Subsidy Cost	$9,644,000	$12,485,000
Owner-administered		
Households in Error	3,000	5,000
Unreported Income	$17,431,000	$38,545,000
Subsidy Cost	$5,221,000	$11,547,000
Total		
Households in Error	127,000	98,000
Unreported Income	$1,686,603,000	$1,380,463,000
Subsidy Cost	$416,469,000	$302,536,000

Exhibit 10 compares FY 2008 to FY 2009 for the number of *households* with potential new sources of income, number of *employers* to whom third-party requests were sent, and number of *employers* from whom third-party verification was received.

Exhibit 10
Comparison of FY 2008 and FY 2009
Summary of Potential New Sources of Income and Verification Requests

	FY2008			FY 2009		
	Owner-Admin	PIH-Admin	Total	Owner-Admin	PIH-Admin	Total
Total Households with Potential New Sources of Income	62	168	230 (10% of QC households)	54	167	221 (9% of QC households)
Employers to whom Third-Party Requests Were Sent*	72	208	280	68	208	276
Employers Where Third-Party Verification Was Received*	55	171	226 (81% return rate)	58	176	234 (85% return rate)

*Some households have multiple potential sources of new income from the NDNH data.