

Quality Control for Rental Assistance Subsidy Determinations

Executive Summary to the Draft Final Report for FY 2011

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EXECUTIVE SUMMARY

The Department of Housing and Urban Development (HUD) Quality Control for Rental Assistance Subsidy Determinations studies (HUDQC) provide national estimates of the extent, severity, costs, and sources of rent errors in tenant subsidies for the PIH-administered Public Housing, PIH-administered 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) programs. These programs account for nearly all of HUD's current housing assistance outlays administered by the Offices of Housing and Public and Indian Housing, as well as the large majority of units assisted by HUD. This study was designed to measure the extent of administrator income and rent determination error by housing providers. This study does not involve an audit of individual PHAs or projects; nor does it monitor the implementation of housing programs. Its focus is on identifying households where an error was made when calculating the amount of the household's rent; and providing nationally representative findings related to those errors.

The errors we evaluated in this study affect the rent contributions tenants should have been charged. The findings presented in this report are a result of data collected from February 2012 through May 2012 for actions taken by Public Housing Authority (PHA) and project staff during Federal fiscal year (FY) 2011 (October 2010 through September 2011). These findings show that 75 percent of households nationally paid the correct amount of rent in FY 2011. In thirteen percent of the cases, households paid too much and in an additional 12 percent of the cases the households paid too little.

HUD's rental housing assistance programs are administered on HUD's behalf by third-party program administrators, including PHAs, public and private project owners, and contracted management agents. In the programs examined, eligible tenants are generally required to pay 30 percent of their adjusted income toward 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 what rent they should pay. Existing tenants are required to recertify this information annually and also, in some circumstances, when there are significant changes in

household income or composition. Applicant or tenant failure to correctly report income may result in HUD's over- or underpayment of housing assistance. The failure of the responsible program administrator to correctly interview the tenant or process and calculate the tenant's rental assistance may also result in HUD's over- or underpayment of housing assistance.

In 2000, HUD began to establish a baseline error measurement to cover the three major types of rental housing assistance payment errors: (1) program administrator income and rent determination error, (2) intentional tenant misreporting of income (The Income Match Study), and (3) errors in program administrator billings for assistance payments. Ten studies have been conducted to identify program administrator income and rent determination error. In addition to the 2000 study, studies were conducted in FYs 2003 through 2011. The study referenced in this report covers FY 2011, and is being used to update the FY 2010 measurement of errors in program administrator income and rent determinations. The tenant data collected for this study were also used to provide the sample for the Income Match Study to measure the extent of intentionally unreported tenant income. The findings from this Income Match study will be published as a separate report. The balance of this report relates solely to program administrator income and rent determination error.

For purposes of this study, "error" is defined as any rent calculation or eligibility determination that differs from what would have occurred if the PHA or other program administrator had followed all HUD income certification and rent calculation requirements during the income certification or annual recertification conducted in FY 2011. When appropriate, study findings are compared with findings from the previous studies.

Financial Impact of Identifying Rent Error. Reduction in the rent error associated with the programs included in this study does not mean there will be an overall savings in the costs associated with administering these programs. Given there are large numbers of eligible households on waiting lists, if a household leaves the program because it is no longer eligible for a subsidy, another household will take its place. The replacement household may be entitled to a smaller or a larger subsidy than the household that left the program. Therefore, the most direct benefit of identifying households with rent error is making sure those

households who are eligible for the program are receiving the correct subsidy, rather than reducing the amount of funds needed to administer the programs. The most appropriate use of this study is as a tool for strengthening HUD's procedures for ensuring administrative compliance with regulations. The recommendations presented in this report may require greater resources to provide HUD, PHAs, and owners with the written policy guidelines, training, standardized forms, and ongoing monitoring needed to assure the programs are administered correctly. HUD's objective of providing the right subsidies to the right families is a worthy one that this study can support.

A. Methodology

HUD Requirements and Study Standards. Using the *Code of Federal Regulations* and official HUD handbooks and notices, all HUD requirements relevant to the determination of rent were consolidated into a set of HUD requirements. Nationally recognized experts were involved in establishing and reviewing the standards used in this study.

The Sample. A nationally representative sample of 600 projects in the United States and Puerto Rico was selected for this study. These projects were selected from the universe of the three program types covered by the study:

- Public Housing
- PHA-administered Section 8 (Vouchers and Moderate Rehabilitation)
- Owner-administered Section 8, Section 202 PRAC, Section 811 PRAC, Section 202/162 PAC.

A random sample of four households was selected for most projects, but more tenants were selected from unusually large projects. The final study data set includes responses from 2,404 households.

The Data Collection Process. The data collection effort included creating and automating more than 35 data collection instruments, contacting and obtaining information from PHA/owner staff, hiring and training 58 field interviewers, and selecting the project and tenant sample. Field interviewers obtained data from tenant files, and interviewed tenants using computer-assisted personal interviewing software developed for this study. The automated data collection process included built-in consistency and edit checks that

prompted interviewers to probe inconsistent and anomalous responses. Collected data were electronically transferred daily to ICF headquarters for review. Requested third-party verifications related to income, assets and expenses were also processed at ICF headquarters.

Calculation of Rent Error. A quality control (QC) rent was calculated for each household in the sample using the information reported by the PHA/project, household, Social Security match, and third-party verification. Rent error was calculated by subtracting the QC rent from the actual tenant rent (the rent from HUD Forms 50058 or 50059 that had been calculated by the project staff). A discrepancy of \$5 or less between the actual and QC rent was not counted as an error. This \$5 differential was used to eliminate rounding differences and minor calculation discrepancies that have little effect on program-wide subsidy errors.

B. Major Rent Error Findings

National Rent Error Estimates. The analysis of the FY 2011 tenant files, tenant interview, and income verification data indicates that¹—

- Seventy-five percent of all households paid the correct amount of rent within \$5 (62 percent paid exactly the right amount)
- Twelve percent of all households paid in excess of \$5 less than they should have (with an average error of \$72 per month)
- Thirteen percent of all households paid in excess of \$5 more than they should (with an average error of \$35 per month).

Rent Error Estimates by Program Type. The rate of rent underpayments was highest, at 15 percent, in the PHA-administered Section 8 program followed by the Public Housing program with 11 percent error, and the Owner-administered program with 9 percent error. The PHA-administered Section 8 program also had the highest overpayment rate of 16 percent followed by Public Housing at 10 percent and the Owner-administered program at 10 percent. Exhibit ES-1 summarizes this information.

¹ Totals may not add up exactly to 100% due to rounding.

Exhibit ES-1
Frequency of Rent Error by Program Type

| Program | Rent Underpayment (Subsidy Overpayment) | Rent Overpayment (Subsidy Underpayment) |
|----------------------------|---|---|
| Public Housing | 11% | 10% |
| PHA-Administered Section 8 | 15% | 16% |
| Owner-Administered | 9% | 10% |
| Total | 12% | 13% |

Dollar Error Effect of Rent Errors. All summary error estimates represent the summation of net case-level errors. That is, a case is determined to have a net overpayment error, no error, or a net underpayment error. Major findings were²—

- **Rent underpayments of approximately \$468.6 million annually (up from \$362 million in FY 2010).** For tenants who paid less monthly rent than they should pay (12%), the average monthly underpayment was \$72. For purposes of generalization, total underpayment errors spread across all households (including those with no error and overpayment error) produces a program-wide average monthly underpayment error of \$9 (\$108 annually). Multiplying and weighting the \$108 by the approximately 4.3 million units represented by the study sample results in an overall annual underpayment dollar error of approximately \$468.6 million per year.
- **Rent overpayments of approximately \$229.3 million annually (down from \$288 million in FY 2010).** For tenants who paid more monthly rent than they should pay (13%), the average monthly overpayment was \$35. When this error is spread across all households, it produces an average monthly overpayment of \$4 (\$48 annually). Multiplying and weighting the \$48 by the approximately 4.3 million assisted housing units represented by the study sample results in an overall annual overpayment dollar error of approximately \$229.3 million per year.

² National annual totals in the text and exhibits are calculated using exact values and weighted. While household level numbers are presented below, using them to calculate national annual totals will result in different amounts due to both rounding and weighting. Similarly, the source tables in Appendix C are rounded to the nearest integer for formatting purposes.

- **Aggregate net rent error of \$239.3 million annually.** When combined, the average gross rent error per case is \$13 (\$9 + \$4). Over- and underpayment errors partly offset each other. The net overall average monthly rent error is -\$5 (-\$9 + \$4). HUD subsidies for Public Housing and PHA-administered Section 8 programs equal the allowed expense level or payment standard minus the tenant rent, which means that rent errors have a dollar-for-dollar correspondence with subsidy payment errors, except in the Public Housing program in years in which it is not fully funded (in which case, errors have slightly less than a dollar-for-dollar effect). The study found that the net subsidy cost of the under- and overpayments was approximately \$239.3 million per year (\$468.6 million–\$229.3 million).

Subsidy over- and underpayment dollars are summarized in Exhibit ES-2. This information responds to study Objective 1 (identify the various types of errors and error rates and related estimated variances).

Exhibit ES-2
Subsidy Dollar Error

| Type of Dollar Error | Subsidy Overpayment | Subsidy Underpayment |
|---|--------------------------------|--------------------------------|
| Average Monthly Per Tenant Error for Households with Errors | \$72 (12% of cases) | \$35 (13% of cases) |
| Average Monthly Per Tenant Error across All Households | \$9 | \$4 |
| Total Annual Program Errors ³ | \$468.6 million | \$229.3 million |
| Total Annual Errors—95% Confidence Interval | \$366.7-\$570.5 million | \$150.4-\$308.2 million |

Exhibit ES-3 provides estimates of program administrator error by program type. These data respond to study Objectives 3 (estimate national-level net costs for total errors and major error types), 8 (provide information on the extent to which errors are concentrated in projects and programs), and 11 (estimate total positive and negative errors in terms of HUD subsidies).

³ Estimates should be viewed in conjunction with 95% confidence intervals. Based on the sample, estimates may vary from year to year. Slight variations in estimates may not be statistically significant.

Exhibit ES-3
Estimates of Error in Program Administrator Income and Rent Determinations (in \$1,000's)

| | Subsidy Overpayments | Subsidy Underpayments | Net Erroneous Payments | Gross Erroneous Payments |
|--------------------------------|-------------------------|--------------------------|---------------------------|-----------------------------|
| Public Housing | \$105,455 | \$37,552 | \$67,903 | \$143,007 |
| PHA-Administered Section 8 | \$287,001 | \$148,754 | \$138,247 | \$435,755 |
| <i>Total PHA-Administered</i> | <i>\$392,456</i> | <i>\$186,306</i> | <i>\$206,151</i> | <i>\$578,762</i> |
| Owner-Administered | \$76,179 | \$42,989 | \$33,191 | \$119,168 |
| Total | \$468,636 | \$229,294 | \$239,341 | \$697,930 |
| 95% Confidence Interval | ±\$101,911 | ±\$78,924 | ±\$146,181 | ±\$108,907 |

Comparison with Prior Studies. Nine prior studies (2000 baseline and the FYs 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010) estimated erroneous payments attributed to program administrator rent calculation and processing errors, using the same methodology, sampling procedures, and sample sizes as this FY 2011 study. The 2000 “Quality Control for Rental Assistance Subsidy Determinations” study was published as a final report in June 2001. The FY 2003 final report—Quality Control for Rental Assistance Subsidies Determinations—was completed in August 2004. The FY 2004, 2005, 2006, 2007, 2008, and 2009 final reports were completed in July 2005, October 2006, October 2007, October 2008, October 2009, October 2010, and September 2011 respectfully. While the FY 2003 and FY 2004 studies demonstrated significant reductions in erroneous payments attributed to program administrator income and rent determinations, the FY 2005 findings indicated a smaller reduction in the gross dollars in erroneous payments that did not represent a statistically significant decrease from FY 2004.

The FY 2006 study indicated a small increase in the gross dollars in erroneous payments which also did not represent a statistically significant difference. The FY 2007 study once again indicated a decrease in gross dollars in erroneous payments with significant reductions in PHA-administered programs.

Comparing the FY 2011 findings to the FY 2010 findings, the only statistically significant difference was the decline in gross erroneous payments in the Owner-administered program. There was no significant overall change from FY 2010 to FY 2011. Increases in dollar error may be due to an increase in the population, and not due to an increase in error.⁴ When comparing dollar error from year to year, it is advised to compare average dollar error, which is not impacted by changes in population. In addition, estimates may vary slightly from year to year based on the sample. Exhibit ES-4 presents a comparison of the gross erroneous payments for the QC studies from 2000 to FY 2011. Figure ES-1 graphically shows the progression of gross erroneous payments over time.

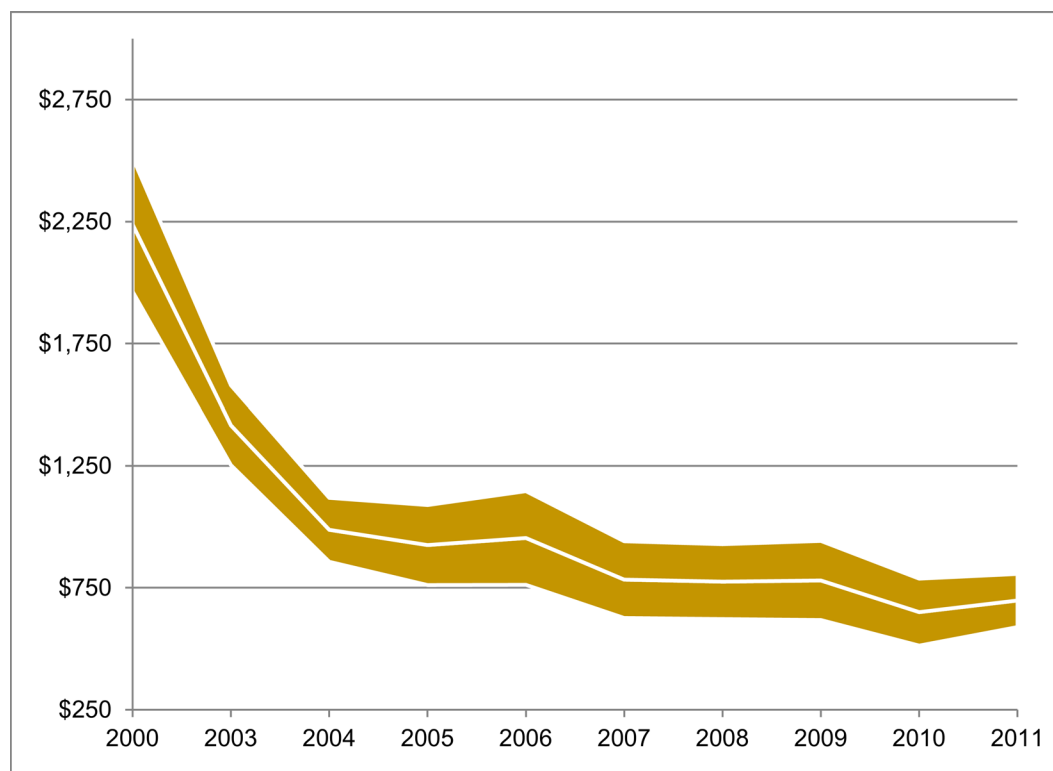
⁴ In FY 2011, the population totals were updated based on the FY 2011 frame. The new population totals exclude Move-to-Work PHAs and increased from around 4.1 million assisted housing units to around 4.3 million. Please refer to Appendix B for more detail regarding this change.

Exhibit ES-4
Comparative 2000 through FY 2011 Gross Erroneous Payments*

| Gross Erroneous Payments (in \$1,000's) | Administration Type | | | | Total |
|--|---------------------|----------------------------|------------------------|--------------------|------------------------------|
| | Public Housing | PHA-Administered Section 8 | Total PHA-Administered | Owner-Administered | |
| FY 2011 | \$143,007 | \$435,755 | \$578,762 | \$119,168 | \$697,930 ±\$108,907 |
| FY 2010 | \$141,033 | \$341,515 | \$482,548 | \$167,719 | \$650,266 ±\$137,235 |
| FY 2009 | \$130,268 | \$440,288 | \$570,556 | \$209,455 | \$780,011 ±\$162,116 |
| FY 2008 | \$183,305 | \$400,248 | \$583,553 | \$191,723 | \$775,276 ±\$153,447 |
| FY 2007 | \$149,364 | \$435,012 | \$584,376 | \$199,104 | \$783,480 ±\$157,292 |
| FY 2006 | \$172,824 | \$520,020 | \$692,844 | \$261,324 | \$954,168 ±\$192,000 |
| FY 2005 | \$220,464 | \$456,240 | \$676,704 | \$248,580 | \$925,232^ ±\$164,000 |
| FY 2004 | \$242,076 | \$521,220 | \$763,292 | \$224,460 | \$987,744^ (±\$131,000) |
| FY 2003 | \$316,116 | \$730,956 | \$1,047,072 | \$368,796 | \$1,415,844^ (±\$163,000) |
| 2000 | \$602,556 | \$1,096,524 | \$1,699,092 | \$539,160 | \$2,238,252^ (±\$275,000) |
| Percent Reduction from 2000 to FY 2011 | 76.27% | 60.26% | 65.94% | 77.90% | 68.82% |

* Gross Rent Error is the sum of the absolute value of positive and negative rent error. ^ Numbers may not add exactly due to rounding.

Figure ES-1
Comparative 2000 Through FY 2011 Gross Erroneous Payments over Time



C. Sources of Errors

Rent errors are often a result of a mix of different types of errors. In addition to dollar errors, this study also examined administrative and component errors. For purposes of this study, administrative errors are analyzed separately from specific component errors. Administrative errors are errors that result from administrative mistakes. They consist of—

- Consistency errors—errors in logical conformity between elements within the 50058 or 50059 Forms
- Calculation errors—arithmetic errors within subsections of the 50058 or 50059 Forms
- Transcription errors—errors in transferring information from documentation in the tenant file to the 50058 or 50059 Forms
- Failure to conduct a recertification in a timely manner
- Failure to verify information.

Component errors are related to the income and expense components used to calculate rent. The income components are employment income, Social Security benefits and pensions, public assistance, other income, and asset income. The expense/allowance components are elderly/disabled allowance, dependent allowance, medical allowance, child care allowance, and disability allowance. Component errors often occur when project staff do not conduct a thorough tenant interview or do not verify the information obtained during the interview. However, component error may also occur when the tenant supplies incorrect information, either intentionally or unintentionally. The discussion below responds to study Objectives 2 (identify the dollar costs of the various types of errors), and 6 (determine the apparent cause of significant rent errors).

Consistency and Transcription Errors. The two most common administrative errors are transcription and consistency errors. The HUD PIC and TRACS data systems check the rent calculations on Forms 50058 and 50059. For tenants for whom data are submitted (and corrected if required); these systems virtually eliminate rent determination calculation errors for the items included on the forms. However, not all cases are reported and some cases returned to program sponsors for correction are ignored or are changed in HUD systems but not actually implemented.

Overdue Recertifications. HUD requires that every household be recertified annually. About 1 percent of households had overdue recertifications in FY 2011, which was about the same as in FY 2010.

Verification Errors. Recognizing the issues associated with verifying tenant information, HUD program staff have taken steps to clarify, and to some extent simplify, verification guidelines. PIH Notice 2010-19 dated May 2010, and Housing Notice H 2010-10 dated July 2010 provide new procedures for obtaining and using verification. FY 2011 was the first fiscal year where the new HUD verification guidelines applied. The new guidelines were implemented by HUD at the end of the previous FY 2010. It was expected that these new guidelines would result in reduced errors in the future, and the number of cases in error has decreased from FY 2010.

Obtaining income verification is often difficult. Even when repeated requests are made, employers sometimes do not respond to requests for verification, or they require payment. Some program sponsors do a much better job than others in achieving third-party compliance with written verification. The QC study shows that it is reasonable to expect all program sponsors to have as high a success rate as the current high performers. The study also shows that there is significant room for improvement in using the verification data obtained.

Component Errors. Incorrect income and allowance amounts were by far the most significant sources of error in determining rents, while about three percent of households with rent errors did not have an income or expense component error. Earned income (32%), pensions (16%), other income (16%) and medical allowances (15%) continued to have the greatest percentage of households in error. The following exhibit shows the frequency of the most serious component errors and the average dollar amount for each type. The percentage of households represents the households with any rent component error where the specified rent component was responsible for the largest error. The Average Dollar Amount represents the average dollar amount for the specified rent component for households where the specified component was responsible for the largest error. For comparison purposes, findings from FY 2010 are provided in parentheses. Note that while the percentage of households with component errors has increased for some components such as other income and public assistance, the average dollar amount of component error has decreased for these components.

Exhibit ES-5
Rent Components Responsible for the Largest Dollar Error for Households with Rent Error

| Rent Component | Percentage of Households | Annual Average Dollar Amount |
|-------------------------|--------------------------|------------------------------|
| Earned Income | 32% (27%) | \$3,877 (\$3,162) |
| Pensions | 16% (17%) | \$2,923 (\$2,021) |
| Other Income | 16% (17%) | \$3,118 (\$2,173) |
| Public Assistance | 8% (7%) | \$1,096 (\$1,915) |
| Asset Income | 2% (2%) | \$613 (\$2,535) |
| Medical Allowance | 15% (22%) | \$832 (\$1,308) |
| Child Care Allowance | 3% (3%) | \$2,237 (\$1,263) |
| Dependent Allowance | 3% (4%) | \$580 (\$517) |
| Elderly Allowance | 2% (2%) | \$400 (\$400) |
| No Rent Component Error | 3% (<1%) | \$0 |
| Total | 100% | \$2,692 (\$2,067)* |

*The sum of the dollars associated with the largest component in error divided by the number of households with that error.
 Note: FY 2010 findings are provided in parentheses. The cell size for elderly/disabled allowance is small, thus estimates may not be reliable.

D. Additional Findings

Eligibility of Newly Certified Households. A separate analysis of newly certified households (13%) was conducted to determine if these households were eligible for HUD housing assistance. Eighty-nine percent of these households met all the eligibility criteria compared to 95 percent in FY 2010. All certified households in the sample were income-eligible on the basis of the QC income determination.

One percent of the newly certified households failed to document Social Security numbers for one or more family members and 9 percent lacked the signed consent forms needed to authorize verification of income and assets (for each member of the household at least 18 years of age). All households had the signed declaration forms or evidence accepted as proof of citizenship. These findings respond to study Objective 9 (estimate the percentage of newly certified tenants who were incorrectly determined eligible for program admission).

Occupancy Standards. Study Objective 7 asks for the extent to which households are over- or under-housed relative to HUD's occupancy standards. Fourteen percent of all households occupied a unit with too many or too few bedrooms in FY 2011,

according to the guidelines used for this study. Historically, the percent of households in units with the correct number of bedrooms according to study guidelines are—

- FY 2004—88 percent
- FY 2005—87 percent
- FY 2006—86 percent
- FY 2007—85 percent
- FY 2008—87 percent
- FY 2009—86 percent
- FY 2010—85 percent
- FY 2011—86 percent.

Rent Reasonableness. Study Objective 10 asks for the extent to which PHA-administered Section 8 Voucher rent comparability (reasonableness) determinations are found in the tenant file, and the method used to support the determinations. Ninety-four percent of new admission files contained rent reasonableness documents, as did 78 percent of the files for households for which data were collected for an annual recertification. However, the absence of documentation does not necessarily indicate a determination was not completed; only that it was not properly documented. Information was also collected at the PHA level to understand the method used to determine rent reasonableness. About 99 percent of the PHAs in the study used unit-to-unit rent comparison, unit-to-market rent comparison, or a point system when determining if the rent was reasonable. For the remaining 1 percent there was either no information available, the PHA used some other method of determining rent reasonableness, or the units were subject to rent control.

Utility Allowances. For PHA-administered Section 8 Voucher households, the utility allowances found on the 50058 Forms were compared to the utility allowance worksheets found in the tenant file, and to the utility allowance values calculated using the utility allowance schedules provided by the PHAs. For the first comparison, 89 percent of the utility allowance values matched. For the second comparison, 92 percent of the values matched. However, the fact that the values did not match does not necessarily mean the utility allowance found on the 50058 Form was incorrect.

Payment Standards. A special analysis was conducted to determine if the correct payment standards were used for PHA-administered Section 8 Voucher households. The payment standard found on the 50058 Form was compared to the payment standard schedules provided by the PHA, and to the Fair Market Rent (FMR) for the appropriate geographical area. For the first comparison, 81 percent of the payment

standards matched. For the second comparison, 95 percent of the payment standards found on the 50058 Form fell within the 90 to 110 percent FMR band. As with the utility allowance analysis, the information needed to conduct the analysis was not always available. Therefore, the fact that the payment standards did not match does not necessarily mean the incorrect payment standard was used when calculating the amount of the tenant rent.

50058/50059 Form Rent Calculation Error. The tenant rent was calculated using only data on the 50058/50059 Forms to determine the relationship between errors detected using the 50058/50059 Forms and total rent errors found in the study (in response to study Objective 4). When using only the 50058/50059 Form data to calculate rent, errors were found in 7 percent of the households. This is clearly different than the QC error calculation where errors were found in 25 percent of the households. In addition, error was found in both the 50058/50059 Form and QC calculation in only 2 percent of the households.

PIC/TRACS Comparison. The 2,404 households in the study were matched to the PIC/TRACS databases to respond to study Objective 14. Ninety-seven percent of the Owner-administered households were found in TRACS and 96 percent of households were found in PIC. The average net and gross dollars in error was higher for households where PIC/TRACS data were absent.

Automated Rent Calculation Systems. Study Objective 12 asks whether error rates in projects that use an automated rent calculation system differ from errors in those that do not. We did not find a difference between PHA/projects that use automated rent calculation systems and those that do not. This is not surprising because nearly all PHA/projects use an automated rent calculation system.

Tenant Characteristics, and Project Characteristics and Practices. In response to study Objective 8 (provide information on the extent to which errors are concentrated in projects and programs), data were collected from PHA/project staff via a structured survey. Multivariate analyses will be conducted to explore whether project characteristics or practices contributed to administrative or rent errors and will be provided in an addendum to this report.

E. HUD Initiatives: 2000–2011

In response to the findings and recommendations of the 2000 Assisted Housing Quality Control Study, HUD initiated a series of aggressive actions to address the causes of erroneous assistance payments, including extensive onsite monitoring. Actions taken by HUD included—

- A Rental Housing Integrity Improvement Program (RHIIIP) committee headed by the Office of the Chief Financial Officer with representatives from the other affected Offices was formed to coordinate and monitor corrective actions. The committee meets to review progress, and identify and resolve impediments to progress in reducing errors.
- 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. For Public Housing, the issuance of a Public Housing Occupancy Guidebook represented the first such effort in more than 20 years, and provided a defined methodology for calculating a number of complex requirements (e.g., the Earned Income Disallowance).
- The Offices of Housing and Public and Indian Housing substantially increased training efforts, and have held a number of national and regional training sessions. This contrasts with a less activist role in the 1980s and 1990s.
- The Offices of Housing and Public and Indian Housing initiated comprehensive, large-scale, and onsite occupancy and management reviews, which also represented a major procedural change from the previous two decades for most HUD offices—
 - The Office of Housing primarily used new agreements with Contract Administrators, which are usually State agencies, to perform this function. Contract Administrators provide technical support in adhering to HUD program requirements and routinely perform detailed monitoring on agency compliance.

- The Office of Public and Indian Housing initiated a system of Rental Integrity Monitoring (RIM) reviews to detect and reduce errors in income and rent calculations at targeted PHAs, reduce rent under- and/or overpayments by residents, and ensure that HUD's limited housing resources were being used to serve eligible families in a fair and equitable manner as intended by Congress.
- HUD initiated a legislative change that gives it access to the Department of Health and Human Service's National Directory of New Hires (NDNH) income and wage database for income matching purposes. It uses these data to compare tenant-reported income with state wage data to better ensure that the right subsidy payments are made to the right households in accordance with program statutory and regulatory requirements. This legislation was passed in late 2003 and required implementation of agreements and data systems. HUD also negotiated agreements with some states to obtain access to the same information. Access to the NDNH database is available through the Enterprise Income Verification (EIV) System.
- The Offices of Housing and Public and Indian Housing initiated a computer matching program with the Social Security Administration (SSA) that provides SSA data for tenants receiving assisted housing. SSA electronically provides HUD with benefit information on all active household members who have disclosed a valid social security number. HUD makes this information available to administrators of the Public Housing and Section 8 programs through the EIV system. This information allows PHAs to validate social security numbers and SSA benefits quickly and efficiently.
- In 2010, HUD issued the *Implementation of Refinement of Income and Rent Rule*, which mandated the use of the EIV system (discussed in the previous two bullets) as a third-party source to verify tenant employment and income information during mandatory recertification of family composition and income. The use of EIV minimizes the need for traditional third-party verification forms. To make the EIV system as effective as possible, the rule was also revised to require all applicants and participants to disclose a social security number, no longer exempting children under the age of six.

HUD's performance goals, which were developed in consultation with the Office of Management and Budget, called for reducing the 2000 benchmark assisted housing error levels by 50 percent by the end of 2005. The study of program administrator error for FY 2005 showed that HUD exceeded this goal, and has since further decreased error. It should be noted, however, that the reduction of errors and improper payments is unlikely to have an equivalent effect on budget outlays. HUD's experience indicates that its program integrity improvement efforts are likely to result in some higher income tenants leaving assisted housing and being replaced with lower income tenants requiring increased outlays. Nevertheless, HUD's goal remains to ensure that the right benefits go to the right people.

F. Recommendations

The progress when comparing the 2000 findings to the FY 2011 results is impressive. In fact from FY 2010 to FY 2011 alone there was a statistically significant rise in the percentage of assisted households who are paying the correct rent (67 to 75 percent). However, the gross erroneous payments remain essentially unchanged from FY 2010. On the basis of the current study's results, the following approaches to further reduce program administrator income and rent determination error rates are recommended:

- HUD should continue its plans to use the Department of Health and Human Service's New Hires income matching database. However, access to the New Hires income matching database by itself will not result in a reduction in error. PHA/project staff must use this information to assist them in resolving discrepancies between reported information in the New Hires income matching database and tenant reported information.
- HUD should continue expanding support of the occupancy function and conducting outreach campaigns to PHAs and owners informing them of the Department's occupancy-related resources.
- HUD should continue to provide PHAs and owners with the forms, training, and other tools required to determine rent correctly and to assist them in resolving discrepancies. Changes in policy should be reported to PHAs and owners in a timely fashion with the guidance, and local training wherever possible, needed to implement those changes in an accurate manner. HUD should consider creating a handbook that

combines or cross references the rules and regulations for all rental assistance programs administered by HUD. The Earned Income Disregard is one example of a difficult rule where PHA/owners would benefit from clearer guidelines and training materials.

- HUD should continue to implement and expand the scope and depth of its on-site monitoring program by utilizing experienced, knowledgeable HUD staff, or competent contract staff. And PHAs and owners should be held accountable for implementing HUD regulations and calculating rent accurately.
- Federal laws, regulations, and HUD requirements should be simplified to the extent possible.
- HUD should consider implementing policy that allows reexaminations, for selected populations, to be completed less often than annually.

In addition, the quality control studies could be modified to supplement the findings from this study and identify options for reducing error in the future. The following are possible methods to achieve this goal:

- Consider conducting a remote data collection with national estimates and a larger number of households per project, where PHA/projects mail copies of the tenant file to study headquarters. Eliminating a field data collection would eliminate the need to travel, and the costs associated with travel, allowing for a stratified sample that would increase the precision of the national estimates, as well as potentially provide better project-level information.
- Collect more information regarding PHA/project policies and practices. Each PHA establishes its own policies, procedures, and forms for collecting the information that is ultimately used to calculate tenant rent. The differentiation in these practices may have some (possibly major) impact on the rent error, yet the analysis of the project practices and characteristics collected in the Project Staff Questionnaire designed for this study do not demonstrate the expected impact. Focus groups and cognitive interviewing could be used to identify additional PHA/project level factors that may impact error. This additional information could be used to revise the Project Staff Questionnaire to include questions focused on the specific practices expected to influence errors.
- Gather information to document the outcome of the HUD quality control studies. Overall, the HUDQC studies indicate that both the percent of errors and dollars associated with those errors have decreased in the last eight years. However, there is no information on changes in tenant behavior related to the identification and reduction of error. To really understand the overall impact of the quality control studies on subsidy funding, additional information is needed regarding both the tenants receiving the subsidies and the PHA/projects administering the housing benefits.
- Expand contractor access to verification obtained through Social Security Administration and National Directory of New Hires data. Despite increasing rates of third-party verification, a large proportion of tenant income and expenses are not being verified. This is especially important given the study results indicate a significant relationship between third-party verification of certain types of income and rent errors. Expanded access to Federal databases would allow the contractor to investigate discrepancies between information on the 50058/50059 Form and the tenant file.
- Continue to investigate PIC/TRACS data for sampling and other purposes. Ideally PIC/TRACS data would be used to select the quality control sample, and provide the actual data used by the PHA/project staff when calculating rent (in place of abstracting 50058/50059 Form data from the tenant file). However, to do this the data must be available for the specific period of time covered by the study.
- Continue the HUD quality control studies as a regular, ongoing effort to monitor and manage HUD rent determination processes. Ongoing evaluation of the subsidy programs administered by HUD is essential to the management of those programs. Although the primary goal of these studies is to measure rent errors, the studies also give HUD the opportunity to learn more about alternatives to reducing rent errors, and better management of current and changing conditions at PHAs/projects.



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