S. Hrg. 109–585

HOUSING-RELATED PROGRAMS FOR THE POOR: CAN WE BE SURE THAT FEDERAL ASSISTANCE IS GETTING TO THOSE WHO NEED IT MOST?

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

SEPTEMBER 27, 2005

Printed for the use of the Committee on Homeland Security and Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

24–243 PDF WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

SUSAN M. COLLINS, Maine, *Chairman*

TED STEVENS, Alaska
GEORGE V. VOINOVICH, Ohio
NORM COLEMAN, Minnesota
TOM COBURN, Oklahoma
LINCOLN D. CHAFEE, Rhode Island
ROBERT F. BENNETT, Utah
PETE V. DOMENICI, New Mexico
JOHN W. WARNER, Virginia

JOSEPH I. LIEBERMAN, Connecticut
CARL LEVIN, Michigan
DANIEL K. AKAKA, Hawaii
THOMAS R. CARPER, Delaware
MARK DAYTON, Minnesota
FRANK LAUTENBERG, New Jersey
MARK PRYOR, Arkansas

MICHAEL D. BOPP, *Staff Director and Chief Counsel*
JOYCE A. RECHTSCHAFFEN, *Minority Staff Director and Chief Counsel*
TRINA DRIESSNACK TYRER, *Chief Clerk*

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY SUBCOMMITTEE

TOM COBURN, Oklahoma, *Chairman*

TED STEVENS, Alaska
GEORGE V. VOINOVICH, Ohio
LINCOLN D. CHAFEE, Rhode Island
ROBERT F. BENNETT, Utah
PETE V. DOMENICI, New Mexico
JOHN W. WARNER, Virginia

THOMAS CARPER, Delaware
CARL LEVIN, Michigan
DANIEL K. AKAKA, Hawaii
MARK DAYTON, Minnesota
FRANK LAUTENBERG, New Jersey

KATY FRENCH, *Staff Director*
SHEILA MURPHY, *Minority Staff Director*
JOHN KILVINGTON, *Minority Deputy Staff Director*
LIZ SCRANTON, *Chief Clerk*

CONTENTS

	Page
Opening statements:	
Senator Coburn	1
Senator Carper	3
Senator Lautenberg	8

WITNESSES

TUESDAY, SEPTEMBER 27, 2005

James M. Martin, Assistant Chief Financial Officer for Financial Management, U.S. Department of Housing and Urban Development	5
David G. Wood, Director, Financial Markets and Community Investment, U.S. Government Accountability Office	7
Josephine Bias Robinson, Director, Office of Community Services, Administration for Children and Families, U.S. Department of Health and Human Services	17
Jim Wells, Director, Natural Resources and Environment, U.S. Government Accountability Office	19

ALPHABETICAL LIST OF WITNESSES

Martin, James M.:	
Testimony	5
Prepared statement	30
Robinson, Josephine Bias:	
Testimony	17
Prepared statement	54
Wells, Jim:	
Testimony	19
Prepared statement	62
Wood, David G.:	
Testimony	7
Prepared statement	38

APPENDIX

Chart submitted by Senator Coburn	29
Questions and responses for the Record from:	
Mr. Martin	68
Mr. Wood	75
Ms. Robinson	80
Mr. Wells	85

HOUSING-RELATED PROGRAMS FOR THE POOR: CAN WE BE SURE THAT FEDERAL ASSISTANCE IS GETTING TO THOSE WHO NEED IT MOST?

TUESDAY, SEPTEMBER 27, 2005

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:30 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Tom Coburn, Chairman of the Subcommittee, presiding.

Present: Senators Coburn, Carper, and Lautenberg.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. The Committee will come to order.

Senator Carper will be here forthwith, and we will begin.

We like to be on time, so you can know what your time constraints are. Let me welcome each of you.

I am not going to read from a written script right now, but our purpose today is to make sure that the funds that we have to help people are doing exactly that, and they are doing it in a way that is done efficiently; that we are not missing some; that we are also not providing funds to people who don't meet the requirements of the programs.

We were all stunned by the carnage that Hurricane Katrina left in her wake. Now Hurricane Rita is going to put some more burden on all of us. Hundreds of thousands of people have been displaced. Many will remain so for months to come.

Federal housing assistance programs are going to be stretched to their limits to try to help everybody in need. The Congress will do its part. That is why the financial management of these programs matters.

I don't know, and I am not sure, staff can tell me—when was the last time an oversight hearing was held on one of these programs? When was the last time anybody here has testified at an oversight hearing on one of these programs? That answers the question.

Every penny that is misspent is a penny that could be helping families in distress. Every overpayment means somebody goes without help. Every underpayment means a family that doesn't get help—all the help that they could have gotten or deserved to have received.

Some have argued that these programs are too important, too valuable to the country, especially during the hurricane recovery to open up the books and start scrutinizing. I would think now is exactly the time to open up the books and scrutinize to make sure that we do what we intend to do through these programs.

Taxpayers have donated over a billion dollars to the recovery efforts thus far in terms of voluntary contributions. But they have also contributed by funding Federal agencies represented here today, who will be on the front lines of disaster assistance.

Real compassion demands that Congress and the Executive Branch guard that trust with integrity and humility, ensuring that every dollar is spent helping people and not being lost in the bureaucratic morass.

In fiscal year 2003, 75 percent of HUD's total expenditures went to assist low-income individuals afford decent rental housing. This figure totaled approximately $28 billion, reaching 5,000,000 low-income tenants.

HUD also paid an estimated $1.4 billion in improper payments in the year 2003. $896,000,000 of these were made in overpayments; $519,000,000, more importantly, were dollars that never went to the intended recipients.

What that means is that the net amount of taxpayer dollars lost was $377 million, enough to house 56,000 additional people—families—with rental assistance, in decent affordable housing.[1]

It is inexcusable that the Federal Government could have helped these individuals that are struggling, had HUD performed proper oversight of its voucher program. HUD's Section 8 program alone had an improper rate of 6.3 percent, twice the amount of the government-wide error rate of 3.9 percent.

HUD's low-income public housing programs, different from Section 8, had an error rate of 10.4 percent. That means that over 10 percent of the payments made by the program were wrong.

A 10 percent error rate for government payments is totally unacceptable. Of the 17 Federal agencies that are reporting improper payment information, the average government-wide rate for fiscal year 2004 was 3.9 percent. Compared to the private sector, even the private NGO sector, that rate is deplorable.

HUD's public housing numbers were at least double the government-wide rate or more.

One huge program at HUD, the Community Development Block Grant Program, isn't even reporting improper payments. So heaven only knows what we will find when these books are opened.

This is the same program that the Louisiana delegation is asking us to increase by $50 billion just for that one State.

If the rates of errors made in that program are anything like the rest of HUD, the taxpayers are going to get robbed if we increase funding by that amount.

The taxpayers deserve better.

---

[1] Chart appears in the Appendix on page 29.

The private sector has no tolerance for improper payments and rightly so. Any number above zero is considered an improper payment in any business, any organization, or any corporation.

I have made it a top priority to see, along with Senator Carper, that agencies are complying with this key mechanism, the Improper Payments Information Act, used to locate where payments made by Federal agencies are unjustified.

I would also reiterate that no agency—no agency—is exempt from the Federal law.

If I have to invite agencies to testify one by one, to tell us what they are doing to comply with the law, to institute fiscal integrity of payments, then that is what this Subcommittee will do.

I want to note that HUD is aware of this problem, and has taken necessary steps to fix it. That I am appreciative of, and I commend them for it. It is a necessary first step.

Today's hearing will also look at the financial integrity of the Low-Income Heating Energy Assistance Program. And I can't emphasize enough that this year, this is going to be one of the most important programs that this government has to help those people in need.

With natural gas prices up about 70 or 80 percent, fuel oil up 70 or 80 percent, it is going to be very important that the dollars go to the people in need, that we don't underpay because it is going to mean the difference between food, medicine, or warmth.

Hearings on improper payments don't seem glamorous, like other topics that Congress talks about, but if people go to jail for not paying their taxes, then there certainly ought to be something wrong if we don't pay out the way we are supposed to or overpay when we shouldn't.

I look forward to our hearing. I look forward to the status of the efforts that are underway to improve the improper payments at HUD and at LIHEAP. I think it is important to have financial integrity and transparency at ever level of our Federal Government. That is one of the things we are going to do. The purpose of an oversight hearing is to hold accountability. Here is what the law says. Here is what the programs are. And the purpose of this is to make sure that when we as taxpayers in this country reach out to help those of us that need help that we do it in an efficient way that helps the most people possible.

I want to thank each of our witnesses for being here today, and especially those who left a vacation to come and testify, I appreciate so much your coming, and I would now yield to my Ranking Member, the other "TC" on our Subcommittee, Senator Carper.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thank you, Mr. Chairman.

To our witnesses, welcome. Who came back from their vacation?

Mr. WOOD. Actually, it wasn't me. I am not sure who came back from the vacation.

Senator COBURN. Nobody. But somebody there right behind you. OK.

Senator CARPER. All right. Or whether you're back from a vacation or just here enjoying a beautiful fall day, welcome.

And I want to thank our Chairman for continuing our Subcommittee's look into the problem of improper payments.

Senator Coburn and I took over the leadership of this Subcommittee back in March, and I think we have learned a lot since that time about the state of our Federal Government's finances. One of the most disappointing things that I have learned—some of you may have known this; I didn't—that the amount of Federal agency overpayment had been quantified, and it was in the realm of almost $50 billion per year. Most of that is overpayment. Some was underpayments.

At a time when our Federal budget is in such dire shape, when it is being stretched so thin by war and now by multiple natural disasters, I think it is unacceptable, and I suspect most taxpayers believe the same: That it is unacceptable that tens of billions of our tax dollars would be wasted on error and fraud that might be completely preventable. And this error and fraud is happening across the Federal Government, not just in a handful of agencies and programs.

We are called on every day now to make tough decisions about how to fund important programs under a tight budget. Every dollar that goes to waste because we haven't done enough to prevent improper payments is a dollar that can't be spent on a worthy program that has real impacts and consequences in our communities. It is also a dollar that we are borrowing around the world.

I am pleased to see, then, that the program that we will be examining today have, for the most part, a pretty good track record on improper payments, or at least they are improving.

HUD's Rental Assistance programs have been under a financial microscope for some time now. And during that time, it appears that the Department has done a lot of work to get things right or closer to right. I believe we still have improper payments of about $1.4 billion, with a "B," according to numbers from fiscal 2003. And that is a lot of money. That is also about a 39 percent reduction from 3 years prior, when HUD really started working on this problem. And I believe this achievement, this reduction, surpasses the Department's improper payment reduction goal.

Then we have LIHEAP, which the Chairman has talked about. And LIHEAP has been deemed at low risk for improper payments in Department of Health and Human Services reports under the Improper Payment Information Act.

I believe the program received good scores under OMB's program assessment rating tool, when it was evaluated during the development of the President's fiscal year 2005 budget.

I don't believe many programs get good scores there, and that is especially grant programs.

And while there is definitely work to be done at HUD, and despite their good reviews, I am sure there are areas that could be improved at LIHEAP as well.

But I think that we are on the right track here.

And, Mr. Chairman, you may not agree entirely on this, but I think in some cases the biggest obstacle to getting rental and energy assistance to those who need it most has been insufficient funding for these programs, and not always, but sometimes that has been the problem.

And I want to thank you, my friend, for your commitment to this issue, and it is the right issue to be on. I am glad to be here sitting next to you as we do it, and I look forward to continue with you and our other colleagues who are going to be joining us on finding ways to eliminate spending mistakes that waste our scarce resources. Thank you.

Senator COBURN. Thank you, Senator Carper, our first panel is Jim Martin, Assistant Chief Financial Officer for Financial Management at the Department of Housing and Urban Development. He has worked there since February 2002 to eliminate HUD's high risk and material weakness issues, improve the content of HUD's annual performance and accountability report and review; and coordinates the Department's efforts to implement the President's management agenda.

Prior to that, Mr. Martin's work at HUD included implementation of the Federal Managers Financial Integrity Act in the Office of the Inspector General, and the development and implementation of the Multi-Family Housing Financial Assistance Subsystem to remotely monitor financial and compliance risk in a $53 billion portfolio.

David Wood has been at GAO since 1977, and serves as Director for Financial Markets and Community Investment. In his capacity, Mr. Wood is responsible for leading GAO audits and evaluations concerning a range of Federal housing and financial-related issues, policies, and programs.

Thank you, both, for being here. We will start off with 5 minutes. Your complete testimony will be made a part of the record. I would also remind any in the Administration we would love to have testimonies 48 hours beforehand. You were very cooperative in giving us outlines, but, again, we would love to have testimonies, so we can really do the job we want to do. And if you can meet with us on that in the future, we would very much appreciate it.

Mr. Martin, you are recognized for 5 minutes.

TESTIMONY OF JAMES M. MARTIN,[1] ASSISTANT CHIEF FINANCIAL OFFICER FOR FINANCIAL MANAGEMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. MARTIN. Thank you. Chairman Coburn, Ranking Member Carper, I want to thank you for the invitation to join you today to discuss the important topic of reducing improper rental housing assistance payments at the U.S. Department of Housing and Urban Development.

As you have mentioned, HUD's various rental assistance programs collectively represent our largest program area, with over $26 billion in total payments in fiscal year 2004.

These programs serve to house over 4.8 million low-income households and are administered locally, on HUD's behalf, by 4,100 public housing agencies and another 22,000 private multi-family housing property owners and their management agents.

Despite, the significant size and impact of these programs, staff reductions and competing priorities diminished HUD's oversight of these programs during the decades of the 1980s and 1990s.

[1] The prepared statement of Mr. Martin appears in the Appendix on page 30.

In 1996, the HUD Inspector General reported material weaknesses in the Department's internal controls over HUD's rental housing assistance payments, and in January 2001, the Government Accountability Office separately identified these programs on its list of high-risk Federal programs.

The magnitude of the problem came into focus late in the year 2000, when HUD's own Office of Policy Development and Research completed studies that showed that 60 percent of all housing subsidy determinations were done in error, contributing to an estimated $2 billion in net annual subsidy overpayments and $3.2 billion in gross annual improper subsidy payments from both subsidy determination errors and tenant underreporting of income, upon which the subsidies are based.

The significance of this problem warranted corrective actions through the President's Management Agenda, which was established in early 2001.

Under the President's Management Agenda, HUD established goals to address the underlying high risk and internal control deficiencies and to reduce by 50 percent by fiscal year 2005 the improper payment level.

The Rental Housing Integrity Improvement Project, or RHIIP Initiative, as it's referred to within HUD, was established as a HUD secretarial priority to take the corrective actions necessary to assure that the right benefits are paid to the right households.

Through the RHIIP Initiative, HUD and its housing industry partners at PHAs and multi-family housing properties have surpassed all interim improper payment reduction goals. Whereas, 60 percent of all subsidy determinations were found to be in error in 2000, that percent was reduced to 41 percent in fiscal year 2003 and further, to 34 percent, in 2004.

The impact on the reduction in the dollars paid has been even greater. Whereas, we had a $3.2 billion gross improper payment in 2000, that number dropped to $1.6 billion in 2003, and down to $1.2 billion in the most recent numbers available for fiscal year 2004.

That represents a total improper payment reduction of 62 percent over our 4-year effort.

These reductions resulted from HUD's extensive outreach on problem resolution with its housing industry partners and tenant advocacy groups, and through the provision of updated and improved program guidance and increased training, not only for the program administrators at PHAs and multi-family housing properties, but for HUD's monitoring staff.

HUD also increased its onsite program monitoring, technical assistance, and enforcement efforts at PHAs and with the multi-family property owners.

In January 2004, the Congress enacted HUD's proposal for statutory authority to work with the Department of Health and Human Services on a more effective computer matching capability for up front verification of household income to avoid improper payments.

HUD's new computer matching system with the HHS National Directory of New Hires database will be available for PHA program administrator use to begin fiscal year 2006. We believe this increased computer matching capability has the potential to avoid the majority of the remaining error in this program.

HUD's new goal is to reduce the total improper rental housing assistance payment level from its fiscal year 2004 rates of 6.5 percent of total program payments to less than 3 percent of total program payments by the end of fiscal year 2007.

Secretary Jackson, Deputy Secretary Bernardi, and the rest of HUD's leadership team are committed to taking the actions necessary to achieve this goal for the benefit of the American taxpayers and for the low-income households HUD serves.

Mr. Chairman, I hope I have been able to shed some light on HUD's corrective actions and progress towards eliminating improper rental housing assistance payments. Your Subcommittee's interest and oversight on this issue is appreciated and important. That concludes my testimony, and I stand ready to address any questions you may have.

Senator COBURN. Thank you very much, Mr. Martin. Mr. Wood.

TESTIMONY OF DAVID G. WOOD,[1] DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WOOD. Thank you, Mr. Chairman. I appreciate the opportunity to be here.

My statement today is based primarily on our February 2005 report concerning HUD's improper rent subsidy payments. That report was requested by the Chairman of the Subcommittee on Housing and Community Opportunity of the House Financial Services Committee.

Since 2001, GAO has designed HUD's rental assistance programs as high risk; that is, particularly vulnerable to fraud, waste, or abuse. In addition, as noted, the President's Management Agenda for fiscal year 2002 identified HUD's rental assistance as one of nine Federal program areas with severe management challenges.

HUD has identified three basic sources of errors that contribute to improper rent subsidy payments. The first. and likely the largest, is incorrect subsidy determinations made by program administrators, such as landlords or housing authorities.

Determining correct subsidy amounts can be challenging. For example, program administrators must assess each tenant's eligibility for 44 different income exclusions and deductions when determining how much the tenant can afford to pay.

As a result of program administrator errors, HUD paid an estimated $1.4 billion in gross improper subsidies in fiscal year 2003.

The second source of error is unreported tenant income. These errors occur when tenants do not report an income source, either their own or another household member's, to program administrators.

Such errors may be intentional or honest mistakes. HUD estimate that in fiscal year 2003, the Department paid $191 million in gross improper rent subsidies due to unreported tenant income. However, a small number of files formed the basis for that esti-

[1] The prepared statement of Mr. Wood appears in the Appendix on page 38.

mate, and, according to HUD, there were large variances in the amounts of income that tenants did not report.

Therefore, while we agree that the incidence of the errors was small, we believe the dollar estimate is not very meaningful.

Finally, the third source of error is incorrect billing. While the specific problems vary, in general, billing errors arise when the amount of rent subsidy determined by the program administrator differs from the amount ultimately billed to and paid by HUD.

The agency does not have a complete and reliable estimate of improper payments due to billing errors. HUD has estimated that billing errors in one program, Project-Based Section 8, amounted to approximately $100 million in fiscal year 2003.

However, again, the small sample size and the concentration of errors in a small number of properties means that that figure might be greatly overstated or understated.

HUD has begun a process to estimate billing error in its other major rental assistance programs.

On the basis of our findings, we made three recommendations to HUD. First, we recommended that the agency include an assessment of compliance with rent subsidy determination policies in it regular oversight of housing authorities.

Second, we recommended that HUD collect complete and consistent information from those monitoring efforts and use it to help focus corrective actions where they are needed.

HUD has taken steps to address these two recommendations. We also recommended that HUD study the potential impacts of simplifying the subsidy determination process. According to HUD officials, the complexity of existing policies makes it harder for program administrators to correctly determine rent subsidies.

However, simplifying the policies, which would likely require statutory changes by Congress, could affect the rental payments of many tenants, as well as the overall program costs.

HUD has not yet done a comprehensive study of simplification, and its likely effects on tenants.

Mr. Chairman, that concludes my prepared statement. I will be glad to answer any questions you have.

Senator COBURN. Thank you very much, Mr. Wood.

Senator Lautenberg, welcome. I would like to recognize you for 5 minutes for an opening statement.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. That is very kind, Mr. Chairman. And I apologize for my lateness, but I do want to say to you, Mr. Chairman, and to our friend, Senator Carper, as well that I have great respect for the things that you attempt to do in terms of curbing excessive expenditures.

And while we may differ on the approach, and we may differ on the value of the programs, the fact is that I think Senator Carper, who was a governor of a State, and you, with your experience, bring a particular view to the subject.

So I just wanted a moment to be able to say how important I think this review is and to say to those agencies that you are obviously have to sharpen your oversight; otherwise, what happens will be essentially throwing the baby out with the water, because there are some excellent programs here.

And to abandon the program in order to accomplish another goal, in my view, is not quite the way to do it.

And so I will forego taking any more of the time. Thank you very much.

Senator COBURN. Thank you. Well, I am just going to start with a couple of questions.

We are now at the end of 2005, why do we not have 2004 numbers on improper payments?

Mr. MARTIN. We just got 2004 numbers. And that is the gross improper payment level has been reduced to $1.2 billion.

Senator COBURN. And how much overpayment-underpayment on that number? Can you recall?

Mr. MARTIN. I think that is broken out in my detailed testimony here.

Senator COBURN. You all are obviously making great headway in trying to remedy this process, and Mr. Wood brought up the point about the simplification of the application process and the complexity of it. Where are you on that? Is HUD going to bring us something and say here are the things we think you need to change statutorily to make this easier? Don't we have a board? Put that up for us, so you just see the progress.

I want my fellow Senators to see—and please be critical of this—but as we look at this, this is where we see all the complexities—if you look at what all you have to go through to get housing, you can see where all the errors are coming from, or the potential for errors.

Here is what you have to go through for the rent subsidy determination process, and you look at all those steps through there. You can see, besides the 44 questions that have to be answered, here are all the potential errors on the way down that you can find the potential for somebody to make a mistake.

So are you all in the process, Mr. Martin, of sending some recommendations on changing first of all what is statutorily limiting you to change in terms of the 44 steps of the application process, but also in terms of how we go through eliminating the number of errors? The idea of checking with the employment information, check it with IRS information, in terms of income tax, all that is great. But unless we know what to change statutorily, we can't help you as much as we would probably like to help you.

Mr. MARTIN. First off, we have approached it from better controlling the programs that have been enacted, and the vast majority of the income exclusions, the deductions, are based in statute, so we don't have a lot of flexibility in that regard.

I know HUD has proposed a current proposal. The State and Local Housing Flexibility Act of 2005 is pending that would allow local public housing authorities flexibility in determining their own local rules on how they would apply this.

Certainly if you went to a flat rent subsidy and eliminated the income-based exclusions and deductions it greatly reduces the risk of error. But each of those exclusions and deductions has a constituency that benefits from them, that fought hard to get those, and that is up to the Congress.

Senator COBURN. So basically, you all haven't made a recommendation? The Administration has not made a formal recommendation to Congress on some things that could be changed that would help lower the error rate, statutorily?

Mr. MARTIN. At this point, I am not aware of anything, other than proposals to allow flexibility to local program administrators.

Senator COBURN. OK. In this recommendation that you say is in the—is it the Housing Flexibility Act?

Mr. MARTIN. Yes.

Senator COBURN. Wouldn't that make it a whole lot harder to audit if every housing agency had their own?

Mr. MARTIN. In essence, unless you get it as a block grant.

Senator COBURN. Yes.

Mr. MARTIN. It is up to them that we would monitor performance in terms of the number of households served and the average cost per household and put some incentives in that regard.

Senator COBURN. OK. Your goal for 2007 is less than 3 percent.

Mr. MARTIN. Correct.

Senator COBURN. How did you come up with that?

Mr. MARTIN. Looking at where we were and the things we had in place, we believe that the income-matching program is going to be the last big improvement we make to substantially reduce error; looking at what other programs, like food stamps, Medicare, and others have been able to do that have been at this issue of reducing improper payments much longer than we have and where they are at.

Senator COBURN. Yes.

Mr. MARTIN. And we think that is a realistic, achievable goal.

Senator COBURN. Food stamps is down to the same level you are, about 6.5 percent.

Mr. MARTIN. Right.

Senator COBURN. But they came from, I think, 17 percent, so they have moved.

Mr. MARTIN. Well, in terms of percent of total payments, our 2000 numbers were close to 17 percent of total payments made that year.

Senator COBURN. Yes. OK. That is correct.

Discuss with me the $100 million that you say are billings that you don't have real confidence of whether that is a low number or a high number. Explain how that happens.

Mr. WOOD. The reason for the uncertainty is just because it was a fairly small sample size.

Senator COBURN. So statistically, it is not significant?

Mr. WOOD. Right. Well, a large margin of error.

Senator COBURN. Right. And that margin of error is plus or minus what percent?

Mr. WOOD. We don't have the actual number. Sorry.

Senator COBURN. OK. All right.

Did GAO make any recommendations about the complexity of the subsidized housing application?

Mr. WOOD. We made one recommendation to HUD that they study the impacts—do a more comprehensive study of some simplification approaches.

Senator COBURN. OK. And what has been the response to HUD to that?

Mr. WOOD. So far, we are not aware of any comprehensive study that has been initiated.

Senator COBURN. OK. Is there any response to that recommendation by GAO?

Mr. MARTIN. I know we have studied numerous proposals for simplification.

Senator COBURN. OK. So go ahead. I am sorry.

Mr. MARTIN. And we have looked at the winners and the losers so to speak under various scenarios. I mean, if you were to go to a flat percentage of income, eliminating all exclusions and deductions, what impact would that have on families of young children who lose their daycare exemption? What impact would that have on elderly households that lose their medical deductions. I know that our policy development research staff have sliced and diced this information a number of different ways for our policy makers, and, as Mr. Wood has indicated, there are winners and losers under various scenarios. And it is a policy decision as to who you want to benefit.

Senator COBURN. Thank you, Mr. Martin. Senator Carper.

Senator CARPER. Thanks, Mr. Chairman.

A number of years ago, when I served in the U.S. House of Representatives, I recall working on an issue—I think it was called Tenant Income Verification—to try to make sure that when folks applied for assisted housing that there was an effort to make sure that the monies that they were reporting as earned were indeed correct.

I think it involved running the numbers that were submitted by the person applying for assisted housing against a database compiled by the Department of Labor and earnings submitted to the Department of Labor by employers.

And I have been out of the Congress for a while to be governor of Delaware for 8 years, but whatever happened to that approach?

Mr. MARTIN. In terms of HUD, we have had a history on that issue. We started out—we got statutory authority to do computer matching with Federal tax records. The problem with that was that it was old information when we got it, and it wasn't that useful, and it was on the back end of the program. It was basically chasing after incorrect benefits after the fact. And the lion's share of these people are still low-income people, and it just wasn't very productive.

So what we have tried to do is what we call an up-front verification process, and our public housing authorities have statutory authority to pursue that information directly with the States, because it is the State wage information that comes into the Federal data sources on a quarterly basis. And, that has taken time. We had pursued that because that is the only authority we had. And we got up to 30 States with agreements to do computer matching and share that information.

When Congress enacted our proposal to give us that same information that is available through HHS, this National Directory of New Hires database that was created for their Child Enforcement Program activity, and it is all the State wage data in one place, plus unemployment benefit information, plus monthly information from employers on all new hires, so it is a central, much more efficient source for us to use.

So that is the process we are opening in 2006 to our public housing authorities to use, and we think that is going to be a very effective process.

Senator CARPER. OK. Good.

I think earlier you said that you are just getting data for 2004?

Mr. MARTIN. Right.

Senator CARPER. And would you just go back and compare where you are when we started doing this comparison and tracking? Where you were in 2003 and where HUD was in 2004?

Mr. MARTIN. Our baseline was established in 2000, and that is when we estimated that 60 percent of subsidy determinations were in error and that equated to a $2 billion net overpayment problem, as well as a $3.2 billion gross improper payment problem, adding both the underpayments and the overpayments together. I mean there are households that don't get the full assistance that they are entitled to because of errors made in their determinations.

So that problem is focused on two out of the three billing components that Mr. Wood—error components that Mr. Wood alluded to. That is the determination errors and the tenant reporting of income problem. It didn't include the billing. Two thousand four is the first year we are going to have the full billing error. Our preliminary estimates it is about $300 million.

So that $3.2 billion gross problem that we identified in 2000 came down to $1.6 billion in 2003 and down to $1.2 billion in 2004. And you add the $300 million that we are going to have in the billings, so we are at a total problem of about $1.5 billion dollars right now. And in 2004, I think we had $26 billion in payments. So that is where we are running the 6.5 percent rate. And our goal is to reduce that to 3 percent by 2007.

Senator CARPER. What more do we do? I think there is value in what the Chairman and I are trying to do on behalf of the Subcommittee, and that is to hold oversight hearings, to invite in agencies who are not doing a very good job of complying with the law on overpayments or improper payments, but at the same time putting a spotlight on the agencies that are doing a good job, where there is actual improvement that is being made to see—one I believe in positive reinforcement. Second, our hope is to identify some best practices as well to hold out to other agencies who have their work cut out for them.

Aside from that oversight role that we are attempting to play, what further can this Subcommittee or Committee or the Senate do to further reduce the levels of improper payments at HUD?

Mr. MARTIN. We participate in the CFO Council's Subcommittee on Improper Payments. It is focused on implementing the Improper Payments Information Act you referred to. And I mean there is really disparate treatment in the statutory authorities various income-based programs have to do effective computer matching. So if there was some way of standardizing that across the government so that we all have access. It is kind of perverse that SSA keeps most of this data on behalf of the Federal Government, but they are not even allowed to use it for certain of their program purposes, because of the statutory barriers over concerns about the Privacy Act implications.

But we think that we can—we know that we can control our information in a secured manner for its business intended purpose, and it is the same information that our program administrators are processing in paper form. It is just that it is a lot more efficient and effective to deal with it on a large-scale automated process of computer matching, and it is going to reduce program cost, because, right now our program administrators have to verify that income with the employer. It also adds dignity to the beneficiaries, because now their employers don't have to be notified that they are getting Federal assistance, because we can remotely verify their income levels. So there are a lot of benefits to it. But not all agencies have it, because it is closely controlled by statute as to who gets it and who doesn't.

Senator CARPER. All right. Good. Thanks very much.

Senator COBURN. Let me just follow up for a second. Mr. Martin, how will the enterprise income verification system improve errors? Explain that to me. How is that going to improve the error rate, because I thought a lot of the error was at the program administrator level and at the determination level rather than at that level. Can you teach me that if you would?

Mr. MARTIN. Sure. Yes, a lot of the program administrator error is in processing income information. Like I said, they are required to go out and verify with the employers the income. Often times, we will go out and we will do a monitoring visit, and we will find that the employer has responded to their certification of income letter, and they haven't opened it up and used it. So that's an error on the program administrator, not on the tenant.

Conversely, you can't hold the program administrator responsible for not verifying an income source that the tenant didn't just divulge to them. That is where the computer matching will come into play, because then that precludes the opportunity for them to conceal income sources.

Senator COBURN. Is there a sanction in the law if you falsify records to enable yourself to obtain eligibility when, in fact, you are not eligible for it?

Mr. MARTIN. Yes.

Senator COBURN. And what is that?

Mr. MARTIN. Well, they have false statements—our application forms have the false statement warnings and penalties, and that is actually an area where our Inspector General has gotten much more involved. And we think they are having a very beneficial impact in sending a deterrent message to our tenant beneficiaries in that regard, going after the more egregious cases where tenants are failing to disclose their income sources.

Senator COBURN. As Senator Carper said, for the foreseeable future, we are going to be on a tight budget, with everything that is out there. And, I kind of look at that as one citizen stealing from another. If you are getting a benefit you are not really entitled to, and we don't have enough money to give those benefits to those who are entitled, it really says something about our society today. And I would just urge you to be aggressive in that.

Have you thought about requesting a formal study, like GAO recommended on the alternatives for determination simplification? Have you thought about asking for help to try to make this simpler?

Mr. MARTIN. Well, I think in our response to their draft report we responded that we felt we had done sufficient analysis of various options.

Again, it gets down to the policy call. There are going to be winners and losers. And who are you trying to benefit and to what extent? And, I am not sure what scenario you would study.

Senator COBURN. Well, for example, take this process. We can't simplify the process of an application for housing assistance in this country to where we eliminate how many—1, 2, 3, 4, 5, 6, 7, 8, 9—nine potential errors that we can't make that to where that is down to five potential errors? I mean just in terms of the process? There is not a way we can make that less cumbersome, less bureaucratic, to where there is less opportunity for error?

Mr. MARTIN. We think that the enterprise income verification system is going to simplify several steps there, because now when a tenant comes to recertify their benefits annually when the program administrator is sitting down with them at the table, they are going to have access to that computer information on all their income sources and their history. So they are not going to be able to conceal sources at that point, like they were in the past. And that negates some of these steps about verifying their income on outside——

Senator COBURN. Right.

Mr. MARTIN [continuing]. Going back and forth with the employer trying to get the information. And it even improved our error rate, because a lot of times they report an income source, and it wasn't what it appeared to be, because you have franchise owners and they say I work at McDonald's, but the employer name is a franchise holder.

Senator COBURN. Right.

Mr. MARTIN. Or we got to verify and computer match it, and it is an ADP payroll service or something. So there is, we think that this system has the potential to simplify the process as best we can within the current statutory structure of the programs.

Senator COBURN. OK. Well, I would just encourage that the message ought to go back to the Administration. Reform bills for Section 8, the ones that are going through the Senate have very few sponsors. And I think we need some leadership on some reform proposals, and everything we do up here, there are winners and losers.

I want to make sure the winners are the people that need us, and the losers are the people that don't need us. And I would just hope that you would—the Administration would come forward, in conjunction with some ideas, and say do we make this better? How do we make it do what it needs—and you all know the problem is taking the political heat to make the recommendations for what you do know. I mean that is what you have said. You didn't say it in my words, I said it for you.

But that is the real thing. Because there are winners and losers, you don't want to touch it in terms of making the recommendations.

But my hope is that the Administration would have some leadership because if we have three-quarters of a billion dollars every year that could be going to help people, or $250 million, a quarter of a billion dollars, that is not helping them, that is just as bad as any other thing we might do in terms of wasting money anywhere else in the Federal Government, except morally it is worse, because now we have people that are depending on us that we are not helping that we should.

And so I would just hope that you would do that. Any other questions? Senator Carper.

Senator CARPER. Just one more if I could.

The Chairman and I have been working with Senator Obama and others to try to make sure that the enormous sums of money that are being spent rather quickly down along the Gulf Coast to help folks that are victims of Hurricane Katrina and now Hurricane Rita. I want to make sure that the monies that are being spent are being spent properly, and I am just wondering—and I guess this is probably more for you, Mr. Martin, than for Mr. Wood—but with all the additional money that is going to go out the door from HUD, especially—as well as other agencies—but I think it is not unlikely that some of the money is going to be inappropriately spent, improperly spent.

And I guess what I would like to ask is have you all thought about that? Have you put any additional accounting or waste prevention safeguards into place? Are you thinking about that? Are you asking yourself that question?

How do you plan to balance the need to get aid out quickly with the need to make sure we get it right?

Senator COBURN. Good question.

Mr. MARTIN. Absolutely, I have thought about it, and planning on it. And I think that the lessons we have learned in reducing this problem have carried over into our new program implementation or our temporary program implementation in terms of the disaster relief efforts. The Office of Management and Budget has put a call out to all agencies involved in relief efforts in terms of developing adequate risk matrices and control matrices to plan how we are going to address these issues.

We are going to be using some of the tools that we've developed here to verify citizenship and other eligibility requirements; working with FEMA to try to use their data to match and determine up front that these are truly people that are affected by that disaster and need the benefit and are entitled to the benefit. So, yes, we are absolutely planning that.

Senator CARPER. All right. Thanks very much.

Senator COBURN. Mr. Wood, I have one follow-up. The Rental Integrity Monitoring Program, how would you assess HUD's progress on this front? How is HUD doing at making GAO's recommended improvements, and what is the most effective way to get at the improper payments problem?

Mr. WOOD. I think they are making good progress. The RIM reviews were a very good exercise, and I think HUD learned a lot.

We recommended that they institute something like that as part of their permanent monitoring, and, according to what information that we have gotten from them recently, they plan to do about 275 of those per year, and that will include 20 percent of the largest PHAs each year, and then a risk-based sample of about 5 percent of the others.

I just will speak to something you raised earlier about the simplification recommendation that we made. I think we would agree that the ability to verify income up front will help program administrators when they sit down and go through this process. But that alone doesn't change the fact that you still have to apply those 44 income exclusions and deductions.

So it is that process that needs to be or could be simplified that might help reduce the overall error rate. And that is what we were speaking to.

Senator COBURN. Is that statutory? In other words, does it require a change by Congress?

Mr. WOOD. Well, a number of the deductions and exclusions are statutory.

Senator COBURN. Are there things that HUD could change that don't require congressional approval that would simplify that?

Mr. WOOD. I believe some of them are in regulation as opposed to statute.

Senator COBURN. Would you be so kind as to make a recommendation to this Subcommittee of what those are? Not what the changes should be.

Mr. WOOD. Yes.

Senator COBURN. But the ones that are in regulation and not statute?

Mr. WOOD. I can follow up with that. I don't have it at my fingertips.

Senator COBURN. All right. I have no other questions.

We will be submitting some written questions to you that we would like to have back within about 2 weeks if we could, and then I plan on looking at this again in light of what Senator Carper said and the tremendous amount of monies that are going to go out for this associated with the Katrina relief, and so you can kind of count on 3 months being back here. Senator Carper won't mind coming when we are not in session, when he is just over in Delaware in January where we can take a peek at this and just make sure how things are going.

I think it is very important that you are on top of this going out.

Mr. MARTIN. Yes, sir.

Senator COBURN. Thank you both, very much.

Mr. WOOD. Thank you.

Senator COBURN. Our next panel is Josephine Bias Robinson, who was appointed Director of the Federal Office of Community Services, OCS, on March 15, 2005. In that capacity, she is responsible for overseeing 11 programs, including the LIHEAP Program.

I have had the great pleasure of knowing her for a couple of years. We both worked on the Presidential AIDS Commission, and she was the Director of that during my tenure as Co-Chairman. I want to welcome her. It is great to see her smiling face. A lot of times in Congress, we fail to have the personal connection with people who are serving in the government.

And when we get that personal connection, it really helps us know and see and flavor what we hear, and so I am thankful, and I look forward to trying to hear that and have that kind of relationship with other people in the Administration.

I also want to welcome Jim Wells. He is Director with the U.S. Government Accountability Office in the Natural Resources Environmental Team at GAO, and has served there since 1969.

He did come up here from his Florida vacation; got on the airplane this morning. He is going to go back this afternoon, and I can't thank you enough for doing that. And had I known that, I would have delayed this meeting even further.

So, once again, thank you. Both are recognized for 5 minutes, and I appreciate your being here. Ms. Robinson.

TESTIMONY OF JOSEPHINE BIAS ROBINSON,[1] DIRECTOR, OFFICE OF COMMUNITY SERVICES, ADMINISTRATION FOR CHILDREN AND FAMILIES, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Ms. ROBINSON. Good afternoon, Mr. Chairman and Members of the Subcommittee. I am Josephine Robinson. I am the Director of the Office of Community Services in the Administration for Children and Families within the Department of Health and Human Services. I appreciate the opportunity to appear before you today to talk about the Low-Income Home Energy Assistance Program (LIHEAP) which provides assistance to millions of low-income Americans in meeting the cost of home energy cooling and heating.

The Low-Income Home Energy Assistance Program, commonly known as LIHEAP, grew out of a series of emergency programs generated by the energy crises of the late 1970s.

Today, the LIHEAP Program ensures that low-income families and individuals have adequate home energy through a Federal-State partnership that provides States with the flexibility they need to design the best program approach to meet consumer needs.

This year, States received $1.9 billion in LIHEAP block grant funds. States also received $250 million in emergency contingency funds because of the much higher fuel prices this past winter.

Earlier this month, the Department released $27.25 million in contingency funds to Alabama, Florida, Louisiana, and Mississippi to help with the home energy crisis needs of households impacted by Hurricane Katrina.

States and other LIHEAP grantees have great capacity in applying LIHEAP funds to meet local needs. States are required to have agreements in place with energy vendors to permit payments on behalf of low-income households receiving LIHEAP benefits.

Payments are usually distributed in the form of a credit toward the household's energy bill, with the benefit applied automatically to the client's account.

This process ensures that the LIHEAP assistance is provided for the purpose intended, and only under rare circumstances does the State provide a household with a direct check or cash to pay their

[1] The prepared statement of Ms. Robinson appears in the Appendix on page 54.

home energy bills, such as when a client's home energy source is wood or propane.

In such cases, the State often issues a two-party check to the vendor.

The Administration is committed to ensuring that all Federal programs achieve their specific program objectives and performance outcomes. And, as such, the Office of Management and Budget has established the Program Assessment Rating Tool (PART), to evaluate program performance and take action to remedy deficiencies and achieve better results.

The LIHEAP Program underwent a PART assessment in preparation for the President's fiscal year 2005 budget. The PART assessment found that the LIHEAP Program has a clear mission targeted to a specific problem and need; yet, revealed a need to develop long-term efficiency measures in the LIHEAP Program.

In response to the PART findings, the President's fiscal year 2005 reauthorization request for LIHEAP included a provision to conduct and fund at $500,000 a feasibility study of a nationally representative evaluation of LIHEAP program operations.

It is our hope that Congress will act soon on the President's request to grant targeted authority for a LIHEAP feasibility study. Additionally, as part of the President's Management Agenda (PMA), Assistant Secretary Wade Horn has launched a major initiative at the Administration for Children and Families (ACF), dedicated to improve financial performance for all agency programs.

ACF's PMA Plan is structured to ensure that our Federal financial management systems produce accurate, timely, and useful information to support operating budget and policy decisions.

Similarly, since the passage of the Improper Payments Information Act of 2002 (IPIA), ACF has been working collaboratively with the officials at the Department and OMB to assess whether its programs are at-risk of improper payments.

As a result of conducting IPIA risk assessments of the LIHEAP Program for 2004 and 2005, ACF determined that the program was at low risk for improper payments.

This conclusion was based on financial management and Federal programmatic monitoring of grantees established by the Low-Income Home Energy Assistance Act, the lack of Government Accountability Office or Office of the Inspector General (OIG) findings of improper payments in recent year studies, and also the proper identification of questioned costs in A–133 audits for LIHEAP grantees. Based on our assessments, we believe that LIHEAP administering agencies have satisfactory systems in place to address Federal financial integrity issues.

However, the feasibility study requested by the Administration as part of reauthorization will allow the Department to institute a more thorough evaluation of the issue. We have also asked the Inspector General to review the current risk assessment model.

In conclusion, the Administration believes that LIHEAP is a program that works. During 2006, ACF will closely review the LIHEAP risk assessment model to ensure that LIHEAP is at low risk for improper payments.

We can all be very proud of how LIHEAP has worked to serve those most in need, including many hard-pressed working families, not unlike my own.

What I would like the Subcommittee to also know is that this program is not only professionally important to me in my role as the Director of the office, but personally important as well, having been a recipient of LIHEAP benefits as a child with my family. There were a number of occasions where my family was faced with eviction and LIHEAP benefits actually assisted my mom in meeting our needs so that we were not evicted. I have lived in 9 homes on Long Island, 6 of which I was evicted from; 3 of which I was saved from being evicted from because of LIHEAP benefits.

So there is a personal commitment to ensure that each and every family receives a LIHEAP benefit should they so deserve one so they don't have to face those situations.

I thank the Committee for their time.

Senator COBURN. Thank you. Mr. Wells.

TESTIMONY OF JIM WELLS, DIRECTOR,[1] NATURAL RESOURCES AND ENVIRONMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WELLS. Thank you, Mr. Chairman, and Senator Carper.

I, too, appreciate the opportunity to be here today enough to return from my vacation.

I have been doing oversight for 37 years with the Government Accountability Office, and I can tell you I really believe it is important, and I support your mission.

Our last look at the LIHEAP Program occurred in 2001, when we reviewed and reported on a subprogram that is a part of LIHEAP called the Reach Program, which awarded about $6 million in grants to fund demonstration projects to help reduce energy usage.

Although we were not tasked at that time by the Congress to look at the potential for improper payments, we did find payments that we believe were more related to social services and not specifically related to meeting home energy needs. For example, payments were for skill job development and paying for past due rent or mortgage payments as opposed to the heating and cooling type expenses that were spelled out in the authorizing legislation.

We took issue with HHS, not that the above payments were not needed, but as you said, Mr. Chairman, earlier, the intended recipients may not be getting the maximum benefit from a program like LIHEAP.

We did make recommendations and changes and suggestions on how they might want to develop performance goals that are more measurable and quantifiable. It is encouraging to hear in Josephine's statement today that HHS intends to relook at the LIHEAP Program to find out if it is, in fact, as good as it looks. This is very encouraging.

Regarding oversight and audit responsibilities, I would like to make two points, two quick points.

As you know, LIHEAP is about a $2 billion block grant program, and, as you heard today, LIHEAP offers a lot of flexibility to the

[1] The prepared statement of Mr. Wells appears in the Appendix on page 62.

States and the grantees to basically manage and oversee those programs as they see fit.

While the Federal Government establishes guidelines, overall guidelines, each grantee operates its own program and makes most of those decisions about how it is to operate.

My second point is that, although this sounds like the Federal Government has limited audit and fiscal controls, the LIHEAP Program is subject to review under the Single Audit Act. The Single Audit Act makes States and local governments primarily responsible for obtaining independent audits of the Federal programs, including payments made under LIHEAP.

As a result, HHS, sitting here today, has a principal oversight function to monitor, but not audit, LIHEAP payments. Monitoring to us looks like it includes assessing the quality of the audits that are being performed, reviewing the audit results, and ensuring that corrective actions are taken to respond to audit findings.

Perhaps in the follow-up questions, I would like to respond in terms of what our observations are on that task that is assigned to HHS.

Clearly, the grantees should return funds that are spent in ways that are contrary to the LIHEAP statute.

In our brief review, as we heard you would like us to talk about the LIHEAP Program, we quickly looked at about 40,000 single audit reports that were issued in 2004, and basically they showed relatively few specific LIHEAP-related audit findings; 26 out of the 300 that we could find with LIHEAP coding where audits were done looking specifically at LIHEAP provisions.

In some cases, the grantees were found to not meet accounting criteria for managing those Federal funds, both from LIHEAP and other Federal programs. So really it was difficult to determine whether this 26 number audit findings had any specific improper payments, LIHEAP payments, because of that.

We were able to identify only a certain, relatively small number of payments that were questioned in the audit reports, such as about $8,800 in what appeared to be incorrect or duplicate payments made by one grantee.

Another audit report questioned about $1,200 in payments because of inadequate procedures to prevent overpayments.

I do need to say that in addition the Single Audit Act, it is not the only oversight Federal responsibility. The Improper Payments Information Act of 2002, Mr. Chairman, as you referred to earlier, requires that Federal agencies identify those programs that may be susceptible to significant improper payments.

Agencies are required to estimate the annual amount of improper payments and basically tell the Congress. HHS has conducted risk assessments earlier and have identified specific programs, with specific risk.

Although HHS has identified seven of its programs as high risk, LIHEAP was not among them.

We are not aware of any more comprehensive information that exists on improper payments within the LIHEAP Program other than the few examples we discussed above. But that doesn't necessarily mean that they are not there.

Mr. Chairman, the Congress has to date shown interest in having GAO evaluate how the money gets out to the grantees, and not how well it has been used.

Given GAO's mission and statement of accountability, integrity, and reliability, we agree with you how important it is that Federal agencies get it right when they are awarding such large sums, and the LIHEAP Program is a $2 billion grant program.

That concludes my short prepared remarks. I will be glad to answer any questions you may have. Thank you.

Senator COBURN. Let me see if I understand what you are saying. It may be that LIHEAP is at low-risk for improper payments, but the basis under which that assessment was made, there are no data out there that would confirm that you could audit that and say that is necessarily a good assessment of it being low risk. Is that what you are saying?

Mr. WELLS. I am not prepared today to offer the conclusion about the success of that program. We have not been asked to audit the model. I understand HHS has agreed that they are going to revisit and look at the model that it used that predicted the low success. And, therefore, it would have less improper payments and did not meet the criteria to be put on its high-risk list.

We have not looked at that.

Senator COBURN. But basically, there has not been a good audit of the grantees in terms of the distribution of LIHEAP funds because it has been felt that there is not a problem there?

Mr. WELLS. That is my understanding.

Senator COBURN. OK. All right.

Now, you had some observations that you wanted to make in regards to LIHEAP.

Mr. WELLS. I did. Mr. Chairman, when you asked us to come up and talk about improper payments, one of the first things we do as auditors is to make initial inquiries to the agency, and we looked at the oversight responsibilities of the Federal agencies and determined that there were requirements for the Single Audit Act and the Improper Payments Act. And we asked some questions of the programmatic folks there at HHS, and it was an observation that we didn't get real quick responses about what they knew about the Single Audit Act.

There didn't appear to be a lot of information quickly at their fingertips about how well or if they were monitoring the Single Audit—monitoring the audit results.

There were some questions that we raised that perhaps they are not quite on top of things in terms of using the Single Audit Act findings that may have been generated in these 40 some thousand audits that have been required.

So these were just early indicators to us that holding a hearing like this probably serves notice to the agency that they need to look at their responsibilities in terms of oversight.

So that would be my additional observation just based on not having audited the program recently.

Senator COBURN. Well, first of all, my staff's experience mirrors that experience as well.

I would note that the author of the Single Audit Act sits on this panel, Senator Carper, and I know he has an interest in it, and the motivation for doing that was accountability, and, as you can see, each one of our hearings is based on transparency.

And, Ms. Robinson, what is your feeling about putting your hands down on the administration of LIHEAP in terms of here is what you have seen; here is what is filtered up? What do your people tell you?

Ms. ROBINSON. One of the challenges that I have is just grasping, if you will, the complexity of this issue with respect to who has the controls within the office. We are a program office, and we have an Office of Administration, which does the actual auditing and working cooperatively with them to determine where, in fact, in the process we work with each other, and we determine where and how quickly information is coming in and how quickly information is dispensed to me as a program official; this is one of the areas that I am working very hard to ensure occurs.

I am 6 months into the job, and I have announced we definitely moved forward in determining and ensuring that we are doing effective monitoring and actual follow up.

Each of the audits that come in, after they have been processed within our Office of Administration are reviewed by our Office of Inspector General; reviewed again by our Office of Administration; forwarded to me with respect to the findings, whether they are monetary or non-monetary, and I am given advice as to where and how I should transmit those findings.

Once the findings are signed off and sent back, then we have the responsibility in the Program Office to ensure that the findings are secondarily communicated. The principal responsibility is with the audit resolution office. But there is a secondary responsibility in my program office which I have to take direct responsibility with my staff. And there is a new found commitment to ensuring that we are working cooperatively with the States and we are in constant communication with them.

It also means that we are doing additional training and discussion with them. We issue guidance to the States when we have new information or rules, and to achieve transparency; to ensuring that we are communicating the rules effectively; that we are underscoring what corrective actions are being taken; that we are following up; and that we are on top of things.

Senator COBURN. Right.

Ms. ROBINSON. Because there is an atmosphere of that not being the case with our limited resource and staff.

Senator COBURN. Right. And there is no question you all are subject to the Improper Payments Audit Act.

Ms. ROBINSON. Yes.

Senator COBURN. OK. Senator Carper, and then I will come back.

Senator CARPER. Thanks. My wife jokes—I think she is joking from time to time. She says I don't want to be married to the Senator that no one has ever heard of; and from a little State on the East Coast, and I always say to her, honey, for a brief spell of time and at least in every state auditor's office in America, my name was a household word.

It was a fleeting moment, back in the 1980s, when we worked on the Single Audit Act, and it is nice to hear—actually it's kind of interesting because we talk about this, which a number of us

Democrats and Republicans worked on in the Congress in the late 1980s, and also the low-income tenant income verification stuff we were talking about earlier.

And I never expected to hear both of these come up today, but I have kind of had a little trip down memory lane, thanks to our witnesses.

I want to thank you, both, for coming today, but I especially want to thank Mr. Wells for coming back from Florida to be with us and interrupt your vacation. You are good to do that.

Ms Robinson, I understand you have been on the job for what 6 months?

Ms. ROBINSON. Six months.

Senator CARPER. And you once served in another capacity here with our Chairman?

Ms. ROBINSON. Yes, I had the absolute pleasure of serving with the Chairman.

Senator CARPER. All right. I know that pleasure. And I think I would like——

Senator COBURN. I worked for her.

Ms. ROBINSON. We worked together.

Senator CARPER. I will let you two work this out. Chain of command not later.

I would like to talk about what I think are three components of LIHEAP. One is heating. Another is cooling. And a third is weatherization. And would you just talk about each of those and how they sort of fit together please?

Ms. ROBINSON. Certainly. The program was set up to deal with the energy crisis, and so it was primarily a heating program. The cooling components are added based on the States' determination of what their own respective needs are. We have to remember that the States design their respective programs, and determine whether or not there is a cooling component. In addition, weatherization is a component of the program as so determined by the State.

Each of the States then makes an assessment as to how they are going to determine their eligibility with respect to their poverty rates, and each of the programs are to complement each other with respect to weatherization and any educational awareness that goes on within the program, because you don't want is this to be singularly an assistance program that is not going about the education of consumers. I think a more important aspect of providing aid to families is also educating them about their energy usage and resources within their homes to improve the conditions in their homes. That is part of the lesson learned in my own family. The weatherization component is important to provide insulation and to teach about proper energy use.

So all of those programs cooperatively work within the State to ensure that overall energy needs of a family are met.

Senator CARPER. Yes. Give us some idea, if you can, of how much money is being allocated for LIHEAP during this current fiscal year, which is about to conclude.

Ms. ROBINSON. The total appropriation, was $1.9 billion for LIHEAP in fiscal year 2005. Of that, you have the appropriation for the block grant, which is allocated to the States based on a set formula.

There is an additional component of that $1.9 billion that is set aside as part of a leveraging pot, which is approximately $27 million of that $1.9 billion. Of that $27 million, 25 percent is the REACH Program that Mr. Wells was talking about, which is the Residential Energy Assistance Challenge Program.

And so that is where the education and additional awareness is incorporated into the program. So it is, again, a total appropriation of $1.9 billion, with the pieces of leveraging and REACH incorporated therein.

Senator CARPER. Yes. What I am trying to get to is $1.9 billion appropriated in 2005? How much again for weatherization?

Ms. ROBINSON. I don't know the specific——

Senator CARPER. Just roughly.

Ms. ROBINSON. I will have to provide that information to you at another time. I don't know it off the top of my head.

INFORMATION SUPPLIED FOR THE RECORD

States can choose to use up to 15 percent of their LIHEAP block grant funds (25 percent with a waiver from HHS) for low-cost residential weatherization or energy-related home repair. For FY 2004, 45 States obligated $220,927,883 (11.3 percent) in available LIHEAP funds for weatherization. Seventeen of the States reached the funds cap of 15 percent.

Senator CARPER. OK. All of us, particularly those who live in the northern part of our country, are probably thinking about our energy bills for the winter.

And I know some of our colleagues are—I think it is Senator Snow, maybe Senator Reed from Rhode Island have been circulating letters I think to send to the appropriators for the Appropriations Subcommittee asking that some additional monies be provided for LIHEAP in 2006.

I think the argument is bolstered for those monies to the extent that we can ensure our colleagues and others that the money is being appropriated and properly spent.

And to the extent that we can do that, all the better.

I am one who believes that there is great value in energy conservation and weather proofing our homes, and it is all well and good that we give people money, as your family benefitted from on several occasions as you were describing in order to help keep them in their homes and from being literally displaced.

There is also great value I think in providing folks with the wherewithal to reduce long-term——

Ms. ROBINSON. Right.

Senator CARPER [continuing]. Their energy bills, heating bills, and cooling bills. And I would be interested to know how much of the need that we are actually meeting through this program?

Ms. ROBINSON. Certainly. That is what the REACH Program, in part, is about; it is actually educating consumers about the reduction and overall awareness of energy use.

It is a competitive program and not all of the States will receive funds from the REACH Program, because they make the determination if they would like to participate in that discretionary component of the LIHEAP Program. There is approximately $6 million that is allocated across applicant States. Not very many States participate in it, but it is, in fact, to deal with the educational awareness and decrease in energy usage among low-income families.

So there is a small component in that. The larger component is encompassed within the LIHEAP Program in general. Any time you apply for assistance through the LIHEAP Program, energy usage information is made available to you.

I had the pleasure of participating in the District of Columbia's Energy Fair that they held recently a little over a week ago. They brought together all of the utility companies within the District of Columbia. In the District, Washington Gas provides your heat and PEPCO provides your electricity; and, therefore your cooling.

But they also had Verizon and other partners there, and what they did in that venue was, as people were applying for LIHEAP benefits, they were actually educating them as well about other options available to them—insulation, energy, budget programs that are at the gas company. All of those things are usually components of the overall LIHEAP Program. I think it speaks to your question with respect to overall awareness, because you don't want LIHEAP to singularly be an aid program. You want a larger educational awareness going to reduce energy consumption.

Senator CARPER. All right. Thanks so much.

Ms. ROBINSON. Thank you.

Senator COBURN. Ms. Robinson, in the fiscal year 2003, the Single Audit Act has 28 management decisions that will have to be made, and I notice that there are 10 missing that aren't even addressed on that, and I am not going to go into that other than to say we are going to invite you back and just get a commitment from you that all 28 will be complied with in terms of the Single Audit Act, in terms of those management decisions.

Ms. ROBINSON. You will have that commitment. I have already talked with the staff, and we are determining a timetable. We should have those resolved by January 2006.

Senator COBURN. OK. I want to talk a little bit about the REACH Program, and feel free, either one of you, to jump in here.

Is that a program that was authorized by statute?

Ms. ROBINSON. Yes.

Senator COBURN. OK. And that was in 1996?

Ms. ROBINSON. In 1996.

Senator COBURN. And can you explain the relationship between the REACH Program and LIHEAP. I think you have already done that.

Has it been successful in doing what it is supposed to do—the REACH Program?

Ms. ROBINSON. I think that is one of the questions that was encompassed within the 2001 GAO report. I would like to note that that assessment in 2001 was 5 years after the program's initiation, so there is some degree of learning, if you will, of how to manage that program at the time. We have discussed with States some of the findings of the 2001 report that they have been fully educated with respect to what is an allowable cost and activity within that program.

Senator COBURN. Within the PART assessment program, the program has to have defined specific goals.

Ms. ROBINSON. Yes.

Senator COBURN. What are the defined specific goals of—you don't have to answer that, but they are there, I presume?

Ms. ROBINSON. We have developed performance measures and performance outcomes as part of the overall LIHEAP program and REACH is encompassed in that process.

Senator COBURN. Why would REACH not have been one of the programs that failed the PART assessment analysis? If it has no defined goals that are written out, why would it not have——

Ms. ROBINSON. I think it does have defined goals within what the program is structured to be. I can—if you give me a moment——

Senator COBURN. OK.

Ms. ROBINSON. There are no separate goals for REACH. Under the statute, REACH grantees must have an independent evaluation of their projects. We are working on evaluating how REACH operates and how we can best use these evaluations.

Senator COBURN. So we are 9 years out, and we are just now developing performance measures?

Ms. ROBINSON. I think they have learned, and they have incorporated, and we have not yet gone back formally to do the evaluation.

Senator COBURN. Are there other Federal programs that do some of the same things that the REACH Program does?

Ms. ROBINSON. I don't think so.

Senator COBURN. I think there are. Mr. Wells.

Mr. WELLS. Just this year, we released a report where we looked at all the Federal agencies that had energy-related expenditures, of 18 Federal agencies, over $10 billion worth of energy expenditures. The Department of Energy has a weatherization program. I believe funding this year was around $224 million a year, a grant program that helps teach people how to weatherize a facility—building—to help contain heat or cooling to make it more efficient and use less energy.

Senator COBURN. So actually in our analysis, looking at what the GAO has done and what my staff has found, there is somewhere between 15 and 20 different Federal agencies that do the same thing as the REACH Program. What I am going to do is I am going to ask GAO to come back and look at that again, and make a comparison. This has nothing to do with the intentions.

I haven't found a Federal program since I have been here that doesn't have a well-intended purpose. What I have found is tons of Federal programs whose intended purpose is the same as some other intended purpose somewhere else and one doesn't know what the other one is doing.

Mr. Wells, does the GAO believe that money is lost in the REACH program?

Mr. WELLS. No, sir. We don't have evidence to support money has been lost in the program. When we looked at the program, wherever our auditors went, there always appeared to be a far greater need for assistance than what the limited funding provided could provide.

Even as we talked about the payments that were given out in the REACH Program to assist in rent assistance, I mean it did, in fact, help, and it was needed, but it didn't necessarily relate to the specific goals of that particular program.

But I do not have any instances where money was actually wasted that I am aware of, nor did I see anything in the Single Audit Act that would indicate that money was wasted.

Senator COBURN. OK. But the point being that this program has parameters and goals; that it may be reaching beyond or other programs have that will—so we have duplications, but not necessarily delivery to those people who are needing it? I mean, if, in fact, there are 16 other programs out there that do similar things to REACH, my question is do we need to beef up REACH and cut the money over here or why do we do that? Why do we have 16 programs?

Mr. WELLS. I would certainly hope that if there are 16 programs, which I do not know if there are 16 programs doing exactly the same thing, but I would hope that it is a coordinated effort and there are not duplications and wasted expenditures.

Senator COBURN. OK. That is one of the things that we are going to ask you all to find out.

Mr. WELLS. That is our job.

Senator COBURN. Any other comments for us? I have several. I have pages of questions here that I am not going to put you through that we want to know in terms of follow up. I think it is very important, Josephine, that this next winter is going to be the toughest winter the people in need who are depending on us in this country are going to have. Not only is it forecast to be a harsh winter, but with natural gas at eleven dollars and sixty something cents a thousand BTUs and heating oil at an all-time high, making sure the money gets to the people who need it, and the money doesn't go to the people that don't—and so I have implicit trust in your management. I just want to make sure it gets carried all the way down; and I am sure we are going to appropriate more money for this program. But we are going to have to find it by taking it from somewhere else. And maybe it is from some of the wasted money that is not going out for housing, but we are going to find it.

I appreciate each of you being here. We will have a submitted list of questions, if you would please respond.

I have one other observation, one of the things that we want to avoid doing is putting a ceiling on people. And, as we were listening to the HUD testimony, one of our problems with Medicaid today is that we don't have a transition program. We have a cutoff on eligibility, and so what we do is we are ceiling people in so that they can't go anywhere, because they have got to keep their Medicaid.

And I am worried that we are about to do that in housing and now with energy assistance if you don't meet the requirements, you are going to have to limit your income so you can maintain this.

We need the help to figure out how to take the ceilings off so that people can continue to prosper and grow and take advantage of opportunities, but not have it go from help to nothing. And I would hope that in light of this program, especially LIHEAP, that we are not doing that, and, if we are, I would love to hear back from your how we can change that program to where we transition people as they up their incomes so that they don't lose the benefit, so we stimulate their seeking of opportunities. I think too often we put a ceiling on people and say if you want to keep this, you can't go above a certain income level. And so I would love that recommendation coming from you as well.

Ms. ROBINSON. Well, I think you would be pleased to note that States do actually have some flexibility in determining the eligibility of individuals, and it is not singularly based on the poverty level of the respective State.

Senator COBURN. Right.

Ms. ROBINSON. It also has something to do with the energy burden in the house with respect to what their bills are. Some of the States take a larger look at the households and what the households are spending as a whole with respect to their current needs and their energy needs.

Senator COBURN. So there is a transitioning mechanism?

Ms. ROBINSON. I think there is, sir.

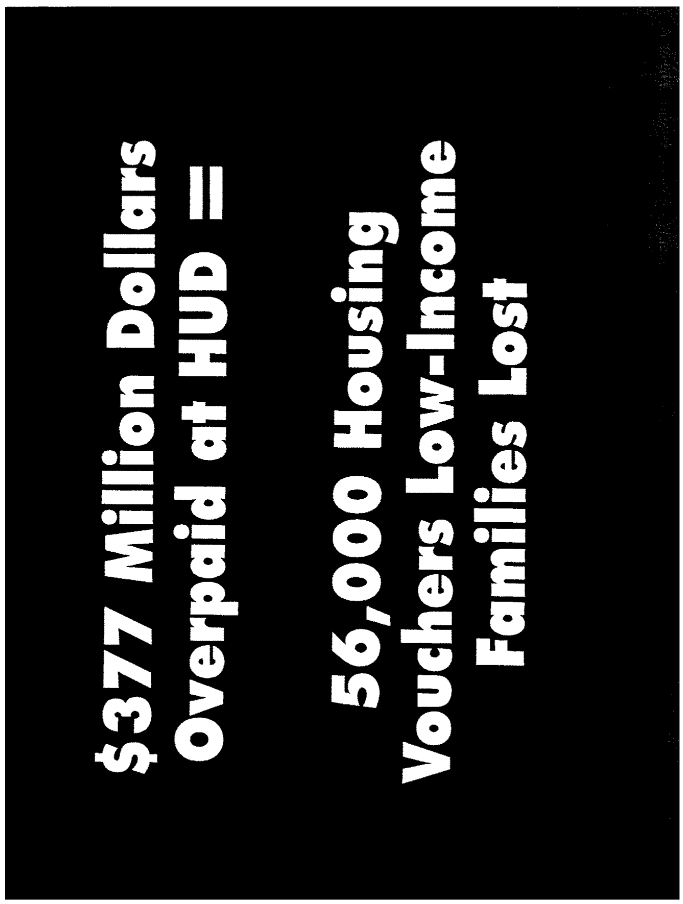
Senator COBURN. Great. All right. Thank you all, very much.

The hearing is adjourned.

Ms. ROBINSON. Thank you.

[Whereupon, at 3:55 p.m., the Subcommittee was adjourned.]

APPENDIX


$377 Million Dollars
Overpaid at HUD =
56,000 Housing
Vouchers Low-Income
Families Lost

Statement of James M. Martin
Assistant Chief Financial Officer for Financial Management
U.S. Department of Housing and Urban Development

Before the
Subcommittee on Federal Financial Management,
Government Information and International Security

Committee on Homeland Security and Government Affairs

United States Senate

September 27, 2005

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 (RHIIP) 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 RHIIP effort is to assure that *"the right benefits are paid for the right households."* A RHIIP 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 RHIIP 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 RHIIP 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.

RHIIP 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. RHIIP 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 RHIIP goals and action plans with its third party program administrator partners and tenant advocacy groups to gain their necessary support in achieving RHIIP 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.

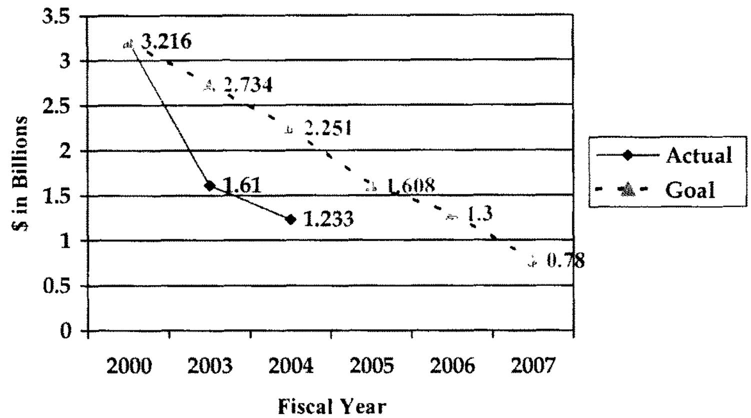
In FY 2004, HUD developed and began implementation of the Enterprise Income Verification System to share social security benefit data and wage and unemployment compensation data from computer matching agreements with the Social Security Administration and individual states, respectively, for upfront 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.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at 2:30 p.m. EDT
Tuesday, September 27, 2005

HUD RENTAL ASSISTANCE

Progress and Challenges in Measuring and Reducing Improper Rent Subsidies

Statement of David G. Wood, Director
Financial Markets and Community Investment

GAO
Accountability * Integrity * Reliability

GAO-05-1027T

September 27, 2005

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-05-1027T, a testimony before the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

HUD RENTAL ASSISTANCE

Progress and Challenges in Measuring and Reducing Improper Rent Subsidies

Why GAO Did This Study

In fiscal year 2003, the Department of Housing and Urban Development (HUD) paid about $28 billion to help some 5 million low-income tenants afford decent rental housing. HUD has three major programs: the Housing Choice Voucher (voucher) and public housing programs, administered by public housing agencies, and project-based Section 8, administered by private property owners. As they are every year, some payments were too high or too low, for several reasons. To assess the magnitude and reasons for these errors, HUD established the Rental Housing Integrity Improvement Project (RHIIP). This testimony, based on a report issued in February 2005, discusses the sources and magnitude of improper rent subsidy payments HUD has identified and the steps HUD is taking to address them.

What GAO Recommends

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

www.gao.gov/cgi-bin/getrpt?GAO-05-1027T

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

What GAO Found

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

HUD has initiated several efforts under RHIIP to address improper subsidies in its public housing, voucher, and project-based Section 8 programs. Specifically, HUD has (1) stepped up monitoring of program administrators, (2) improved verification of tenants' incomes, and (3) provided guidance and training on program requirements to HUD staff and program administrators. These actions have strengthened HUD's oversight of the programs, despite some implementation problems and remaining challenges. For example, for the voucher and public housing programs, HUD field office staff completed about 1,100 Rental Integrity Monitoring reviews—that is, on-site assessments of public housing agencies' compliance with policies for determining rent subsidies—between 2002 and 2004. However, problems with a database containing information on these reviews prevented HUD from analyzing the results.

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

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss our work on improper subsidy payments in the Department of Housing and Urban Development's (HUD) rental assistance programs: Housing Choice Voucher (voucher), public housing, and project-based Section 8. Payments made under these programs, which help keep rents affordable for about 5 million low-income tenants, account for the majority of HUD's expenditures. For example, in fiscal year 2003, these payments accounted for about $28 billion, or almost 75 percent of the department's total expenditures. HUD's payments cover the difference between a unit's monthly rental cost—or, for public housing, the operating cost—and the tenant's payment, which is generally equal to 30 percent of the tenant's adjusted monthly income. I will refer to these payments as rent subsidies. Public housing agencies (PHA) administer the voucher and public housing programs, and private property owners administer the project-based Section 8 programs. These program administrators are responsible for ensuring that tenants meet HUD's eligibility criteria and for accurately calculating rent subsidies.

Each year HUD makes improper payments—that is, payments that are too high or too low—under these programs primarily because it cannot ensure that rent subsidies are determined correctly. Because of their vulnerability to waste, fraud, and abuse, GAO has designated HUD's rental assistance programs as high risk since early 2001.[1] In addition, the President's Management Agenda for Fiscal Year 2002 identified HUD's rental assistance programs as one of nine program areas that have severe management challenges and that are in need of immediate reform.[2] In response to these assessments, HUD established the Rental Housing Integrity Improvement Project (RHIIP) in 2001 to increase accountability and reduce improper subsidy payments.

My statement today is based on our February 2005 report to the Subcommittee on Housing and Community Opportunity, House Committee on Financial Services, which requested that we examine HUD's

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

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

efforts to measure and reduce improper rent subsidy payments.[3] Specifically, my statement discusses (1) the sources and magnitude of improper payments that HUD has identified; (2) the actions HUD is taking under RHIIP to reduce improper payments in the voucher, public housing, and project-based Section 8 programs; and (3) the status and potential impact of HUD's efforts to reduce the risk of improper payments by simplifying the process for determining rent subsidies. In preparing the report, we obtained and analyzed data on improper payments that HUD collected for fiscal years 2000 and 2003. We also interviewed officials from HUD's headquarters and field offices, PHAs, and contract administrators; examined laws, regulations, policies, and guidance related to subsidy determinations; and reviewed relevant HUD reports and studies.[4]

In summary:

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

- HUD has initiated several efforts under RHIIP to address improper subsidies in its public housing, voucher, and project-based Section 8 programs. Specifically, HUD has (1) stepped up its monitoring of program administrators, (2) improved verification of tenants' incomes, and (3) provided additional guidance and training on program requirements to HUD staff and program administrators. These actions have strengthened HUD's oversight of the programs, despite some implementation problems

[3]GAO, *HUD Rental Assistance: Progress and Challenges in Measuring and Reducing Improper Rent Subsidies*, GAO-05-224 (Washington D.C.: Feb. 18, 2005).

[4]For HUD's project-based Section 8 programs, contract administrators—which include private contractors and HUD field offices—are responsible for overseeing individual Section 8 properties and ensuring that the properties are in compliance with HUD's policies.

and remaining challenges. For example, for the voucher and public housing programs, HUD field office staff completed about 1,100 Rental Integrity Monitoring (RIM) reviews—that is, on-site assessments of PHAs' compliance with policies for determining rent subsidies—between 2002 and 2004. However, problems with a database containing information on RIM reviews prevented HUD from analyzing the results of the reviews.

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

On the basis of our findings, we recommended that HUD:

- make regular monitoring of PHAs' compliance with its policies for determining rent subsidies a permanent part of its oversight activities,
- collect complete and consistent information from these monitoring efforts and use it to help focus corrective actions where needed, and
- study the potential impact of alternative strategies for simplifying program policies on tenant rental payments and program costs.

HUD has taken steps to address the first two recommendations but, as noted, has not done begun a formal study of simplification and its likely effects.

Background

HUD's voucher, public housing, and project-based assistance programs share the common mission of making housing affordable to low-income households. The subsidies these programs provide are not an entitlement, and the number of low-income households eligible for assistance exceeds the number of subsidized units or vouchers that are available. These programs are administered differently and vary in the number of households they assist and the amount of funding they receive.

The voucher program, which approximately 2,500 PHAs administer on HUD's behalf, is HUD's largest rental assistance program. The program, authorized under Section 8 of the United States Housing Act of 1937, as amended, provides housing vouchers that eligible individuals and families can use to rent houses or apartments in the private housing market from property owners participating in the program. In fiscal year 2003, the program assisted about 2 million households (42 percent of all HUD-assisted households) and had outlays of about $13 billion. In general, only households with very low incomes—less than or equal to 50 percent of area median income—are eligible for vouchers.

Under the public housing program authorized by the United States Housing Act of 1937, as amended, HUD has subsidized the development, operation, and modernization of government-owned properties, which are currently managed by some 3,300 PHAs. In fiscal year 2003, HUD's public housing program assisted 1.2 million households (one-quarter of all households receiving housing assistance) and had outlays of about $7 billion.[5] To be eligible for public housing, a household must be low income—that is, have an income that is less than or equal to 80 percent of area median income.

Under a variety of project-based Section 8 programs authorized by the Housing and Community Development Act of 1974, as amended, HUD subsidizes rents at certain multifamily housing developments, which had often received construction subsidies from other HUD programs, with rental assistance payments disbursed under multiyear contracts. Property owners and managers for about 22,000 subsidized properties currently participate in these programs. In fiscal year 2003, HUD's project-based programs assisted 1.6 million households (one-third of all HUD-assisted households) and had outlays of roughly $8 billion. In general, only households with low incomes are eligible for HUD project-based Section 8 assistance.

HUD's oversight of the program administrators varies, depending on the program. For vouchers and public housing, HUD field offices provide oversight of PHAs that administer the programs. Field office staff conduct on-site reviews and analysis of PHAs' operations. For HUD's Section 8 project-based programs, contract administrators—which include both private contractors and HUD field offices—are responsible for overseeing and ensuring that Section 8 properties are in compliance with HUD's policies.

[5]This figure includes both operating and capital subsidies.

HUD created RHIIP in the spring of 2001 to assess the magnitude of and reasons for improper payments in its rental housing assistance programs. RHIIP was set up as a direct result of HUD's analysis of data it collected on improper subsidy payments in fiscal year 2000. The analysis, which HUD issued in a June 2001 report, focused on subsidy errors made by program administrators but did not attempt to determine if the tenants had supplied accurate and complete income information.[6] In 2002, HUD completed a separate evaluation to determine the magnitude of rental assistance errors caused by unreported tenant income. The study matched tenants' reported incomes with income data from the Internal Revenue Service and the Social Security Administration.

RHIIP's goal is to reduce the incidence and dollar amount of improper rent subsidies by 50 percent in fiscal year 2005 compared with fiscal year 2000, with interim goals of a 15 percent reduction by fiscal year 2003 and a 30 percent reduction by fiscal year 2004. To meet this goal, HUD has initiated several program-specific and overarching efforts.

HUD Has Identified the Sources of Payment Errors but Lacks Complete and Reliable Estimates for Each One

HUD has identified three basic sources of errors that have resulted in improper rent subsidy payments and has conducted separate studies for each of these sources to assess the magnitude of the problem and the progress that has been made in meeting RHIIP's goal of reducing improper subsidies. However, these studies have not provided reliable estimates of the amount of improper subsidies from each source.

Errors during the Subsidy Determination Process Can Result in Improper Subsidy Payments

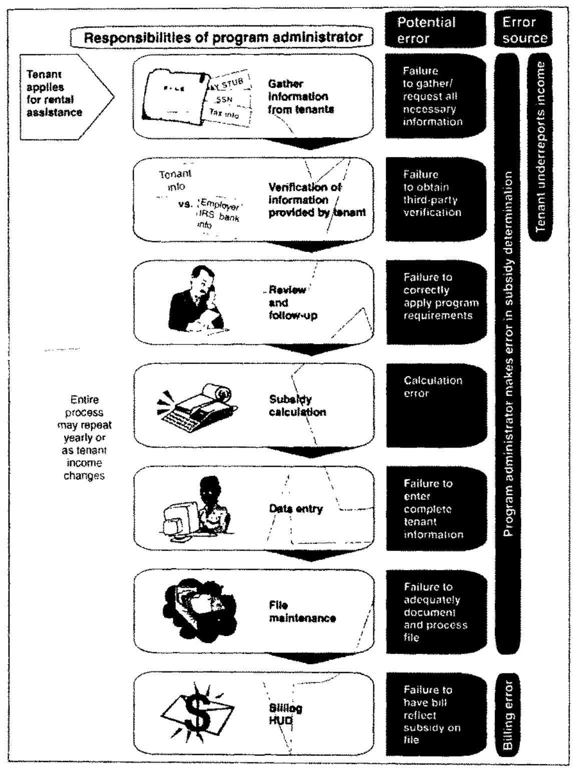
As part of RHIIP, HUD identified three basic sources of errors that resulted in improper rent subsidy payments: (1) program administrator errors, (2) unreported tenant income, and (3) billing errors. Program administrator errors are the broadest category of errors because, as figure 1 shows, they can affect nearly all of the critical dimensions of the process for determining rent subsidies. In performing their work, program administrators may incorrectly determine rent subsidies by, for example, making calculation and transcription errors or by misapplying income exclusions and deductions required by HUD policies.

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

Errors that result from unreported tenant income occur when tenants do not report an income source, either their own or another household member's, to program administrators. These errors generally occur early in the process when the tenant first submits income information to program administrators (see fig. 1). Although some tenants may not disclose all income sources in order to qualify for assistance and to increase the rent subsidies they receive, tenants may also fail to report income sources unintentionally if program administrators provide unclear instructions about the sources of income they must disclose.

Finally, billing errors occur at the very end of the process (see fig. 1). The procedures program administrators use to bill HUD for subsidy payments vary for each of the three rental assistance programs, and, as a result, the specific types of mistakes that lead to billing errors can also vary. However, in general, billing errors arise when discrepancies exist between the amount of rent subsidy the program administrator determines and the amount billed to and paid by HUD. Billing errors can also include accounting discrepancies between amounts paid by HUD and a property's bank statements and accounting records.

Figure 1: Rent Subsidy Determination Process



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

HUD Has Reliable Estimates of Improper Payments Due Only to Program Administrator Errors

To determine the amounts of improper rent subsidies resulting from program administrator errors, HUD collected data on more than 2,400 randomly selected households participating in the voucher, public housing, and project-based Section 8 programs for fiscal years 2000 and 2003. Our analysis of the documentation and data collected indicated that these studies provided a reasonably accurate estimate of subsidy determination errors made by program administrators. Data from the fiscal year 2003 study show that the department paid an estimated $1.4 billion in gross improper rent subsidies (representing $896 million in overpayments and $519 million in underpayments) as a result of program administrator errors in fiscal year 2003—a 39 percent decrease from fiscal year 2000.[7] The voucher program accounted for about one-half of the total reduction, while public housing and project-based Section 8 each accounted for roughly one-quarter. Because the overpayments exceeded the underpayments, HUD was not able to use an estimated $377 million of its funding to assist needy low-income households. On the basis of the average national subsidy cost of a voucher in 2003—about $6,720, including administrative costs—we estimated that HUD could have provided an additional 56,000 households nationwide with vouchers in fiscal year 2003, nearly the same number of households that currently receive vouchers in the Los Angeles, California, area.

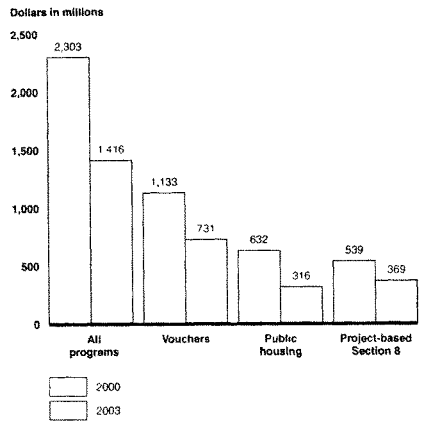
Each of the rental assistance programs experienced substantial reductions in gross program administrator error between fiscal years 2000 and 2003—50 percent for public housing, 35 percent for vouchers, and 32 percent for project-based Section 8 (see fig. 2). These reductions exceeded HUD's interim RHIIP goal of reducing improper rent subsidies by 15 percent by fiscal year 2003 for this source of error.[8] Many of the initiatives under RHIIP were too recent to have had any direct impact on the reductions. However, HUD officials stated that its communications with program administrators about the importance of addressing improper rent subsidies and program administrators' anticipation of increased monitoring by HUD had probably led to voluntary improvements in internal control activities and likely contributed to these reductions.

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

[8]RHIIP's quantitative goal for reducing improper rent subsidies also applies to the other sources of errors.

Future estimates of improper subsidies may show whether further reductions can be made and sustained as the RHIIP initiative matures.

Figure 2: Estimated Gross Improper Rent Subsidies Due to Program Administrator Error, Fiscal Years 2000 and 2003



Source: GAO

For the other two sources of errors—unreported tenant income and billing errors—HUD did not produce complete or reliable estimates for all three programs for fiscal years 2000 and 2003. HUD estimated that the department paid $191 million in fiscal year 2003 in gross improper rent subsidies due to unreported tenant income. However, the small number of files that formed the basis for the estimate and the large variances in the amounts of income tenants did not report resulted in a margin of error so large that the estimate is not meaningful. As a result, the actual amount of improper rent subsidies for this source of error could be as low as zero or many times higher than HUD's estimate. Despite problems with the estimate, HUD reported that gross improper rent subsidies due to unreported income decreased by 80 percent from fiscal years 2000 to 2003. However, we believe that any comparison between the two estimates is not valid because of the limitations of the fiscal year 2003 estimate and significant differences in the methodology used for each year.

HUD also did not produce a complete and reliable estimate of the amount of billing error in fiscal year 2000 for any of the three programs. For fiscal year 2003, HUD has begun to implement a methodology for estimating billing error for vouchers and public housing. For project-based Section 8, HUD estimated approximately $100 million in billing errors for fiscal year 2003, although the small sample size and the concentration of errors in a small number of properties resulted in a large margin of error.

HUD Has Taken Steps to Reduce Improper Subsidies in All Three Programs, but Challenges Remain

HUD has undertaken three separate efforts under RHIIP to address improper rent subsidies for its public housing, voucher, and project-based Section 8 programs. Specifically, HUD is (1) stepped up its monitoring of program administrators, (2) improving verification of tenants' incomes, and (3) providing HUD staff and program administrators with guidance and training to help them understand program requirements. Despite some implementation problems and remaining challenges, these actions have strengthened HUD's oversight of the programs.

To increase monitoring of program administrators, HUD has taken the following actions:

- For the voucher and public housing programs, HUD field office staff completed about 1,100 RIM reviews—that is, on-site assessments of PHAs' compliance with policies for determining rent subsidies—between 2002 and 2004. According to HUD officials, these reviews were the first comprehensive reviews of PHAs' tenant information files in more than 20 years. While important, the reviews were hampered by implementation problems. For example, officials from most of the HUD field offices we met with said that they did not have enough staff to conduct all of their reviews within the required time frames and still fulfill their other oversight responsibilities. As a result of resource constraints, some field offices had to use staff with little or no experience in monitoring PHAs for RIM reviews; issued their RIM review reports late; or postponed other monitoring activities such as inspections of troubled properties. Additionally, problems with a database containing information on RIM reviews prevented HUD from analyzing the results of the reviews to assess improvements in PHAs' calculations of tenant subsidies and provide technical assistance to PHAs.
- For the project-based Section 8 programs, HUD plans to rely on performance-based contract administrators (PBCA) to monitor property

owners' compliance with HUD's policies for determining rent subsidies.[9] For the past several years, HUD has been transferring responsibility for overseeing property owners to PBCAs from other types of contract administrators, including HUD field offices. As of October 2004, HUD's project-based Section 8 programs consisted of about 21,900 properties, and HUD had transferred contracts for about 11,800 of these properties to PBCAs. HUD requires PBCAs to perform extensive annual reviews of properties' operations, including reviewing owners' rent subsidy calculations. To ensure that PBCAs meet HUD's performance standards, HUD has developed a comprehensive oversight program. However, because HUD has often not provided adequate oversight of contractors—a factor that in 2003 led us to designate acquisitions management as one of HUD's major management challenges—implementing these oversight measures could pose challenges to HUD.[10]

In our February 2005 report, we recommended that HUD make regular monitoring of PHAs' compliance with HUD's policies for determining rent subsidies a permanent part of its oversight activities. We also recommended that HUD collect complete and consistent information from these monitoring efforts. In August 2005, HUD officials told us that they planned to conduct 275 RIM reviews each year starting in 2006, and that they were developing software to better track the results of RIM reviews.

To improve verification of tenants' incomes, HUD has done the following:

- For the voucher and public housing programs, HUD has implemented an Internet-based income verification system that allows PHAs to compare income information they receive from tenants with income information employers report to government agencies. According to HUD officials, the system is intended not only to help PHAs detect unreported income, but also to provide them with a more convenient and accurate way to verify tenant-reported information. HUD obtained the data currently in the system through agreements with state wage and income collection agencies. HUD is replacing these data with data from a single source—the National Directory of New Hires—and intends to make it available to all PHAs by the end of this month. Congress passed legislation in 2004 that grants HUD the authority to request and obtain data from this directory—a

[9]PBCAs receive an incentive fee if they perform above a minimum quality level as determined by HUD, and their fees are reduced if they perform below this level.

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

database containing quarterly federal and state wage data, quarterly unemployment data, and monthly new hire data reported by employers to state agencies and compiled by the Department of Health and Human Services.[11]

- For project-based Section 8 programs, HUD plans to implement a similar Internet-based system for property owners after it addresses data security concerns. When Congress granted HUD access to the National Directory of New Hires database, it required that HUD demonstrate to the Department of Health and Human Services that all necessary steps had been taken to prevent the inappropriate disclosure of information from the database before property owners were given access. To alleviate concerns about releasing sensitive information to private property owners, HUD is initially making the data available only to PHAs to confirm that the system is secure. If the Department of Health and Human Services is satisfied with HUD's security precautions, HUD plans to make the information available to property owners by the end of fiscal year 2006. Once the system is implemented, property owners will be able to access earned income data from a secure Web site.

To improve HUD staff and program administrators' understanding of the complex requirements for determining rent subsidies, HUD has taken the following steps:

- For vouchers and public housing, HUD has provided training and guidance to PHAs on various topics, such as how to calculate subsidies, improve quality control procedures, and comply with income verification requirements. The training addresses program basics, including how to interview prospective tenants and verify tenant income information. HUD also has provided guidance to PHAs on developing policies and procedures that would prevent future subsidy calculation errors and provided technical assistance to PHAs that were deemed high risk on the basis of their performance in RIM reviews. Finally, HUD has updated or developed guidance for PHAs on how to correctly calculate rent subsidies.

- For project-based Section 8 programs, HUD has improved its guidance and training for property owners, contract administrators, and HUD field staff. For example, in 2003, HUD revised its handbook for project-based Section 8 programs, which sets forth the requirements and procedures that property owners must follow in administering these programs, including

[11]Consolidated Appropriations Act, 2004, Pub. L. No. 108-199, Jan. 23, 2004.

determining rent subsides. Also in 2003, HUD issued a new monitoring guide to help contract administrators improve their oversight of property owners' subsidy determinations. HUD accompanied these efforts with training for property owners, contract administrators, and HUD field offices on the updated handbook and new monitoring guide.

HUD Has Considered Simplifying Policies for Determining Rent Subsidies but Has Not Done a Formal Review of the Potential Effects

As one of its efforts under RHIIP and as mandated by *The President's Management Agenda for Fiscal Year 2002*, HUD has considered various approaches—statutory, regulatory, and administrative—to streamlining and simplifying its policies for determining rent subsidies. According to HUD, the complexity of the existing policies contributes to errors in determining subsidies. For example, program administrators currently must determine tenants' eligibility for 44 different income exclusions and deductions in order to calculate rent payments and subsidies. The purpose of some of these income exclusions and deductions is to provide additional relief to certain tenants, such as elderly and disabled households with large medical expenses, by reducing the amount they contribute toward rent. Other income exclusions are designed to counteract potential work disincentives—for example, tenants' rental payments are raised as their income increases.

The process for determining rent subsidies is further complicated by the difficulty some program administrators may have in understanding and implementing HUD's program requirements. According to multiple field office staff, program administrators, and industry groups we met with, staff responsible for calculating rent subsidies are often poorly paid and have large caseloads and limited education. These factors can contribute to the misapplication of program policies and to subsequent errors in subsidy calculations. In addition, these same groups commented that these types of positions have a high turnover rate, and, as a result, it is difficult for program administrators to retain knowledgeable and experienced staff.

HUD has considered several approaches to simplifying rent subsidy policies, including:

- an income-based approach that would establish tenants' rents as a percentage of their income, possibly with a limited number of exclusions and deductions or none at all;
- a tiered flat-rent system that would establish tenants' rents for several income bands and eliminate the need to readjust rents because of income changes, provided the changes were within the band; and

- a mixed approach that would give program administrators various rent structures to choose from, including income-based and tiered flat rents.

Adopting any simplification approach represents a change from current policies. Because most of HUD's policies have a basis in statute, major changes are likely to require congressional action. Under any simplification approach, many tenants' rental payments could be affected, with some tenants paying higher rents and others paying lower rents. For example, elderly and disabled households, as well as large families, that currently benefit the most from HUD's exclusions and deductions would be hit hardest by the elimination of current income adjustments. In addition, the transition to simplified policies could create confusion among program administrators and tenants in the short term. Depending on the magnitude of program changes, program administrators—the approximately 22,000 property owners and 3,000 PHAs across the country—would have to retrain staff, update written procedures and administrative plans, and make potentially costly modifications to their software applications. Program administrators would also have to undertake outreach efforts to explain the changes to tenants.

HUD staff have conducted a preliminary analysis of the impact of some simplification approaches on tenants' rental payments and program costs. However, the department has not conducted a formal study on the impact of policy changes to inform policymakers on this issue. To ensure that policymakers have sufficient information with which to consider potential simplification approaches, our February 2005 report recommended that HUD study the possible impact of alternative strategies for simplifying program policies on subsidy errors, tenant rental payments, program administrators' workload, and program costs.

In its fiscal year 2006 budget submission, HUD proposed, among other things, to simplify program requirements for the voucher program and provide PHAs with greater administrative flexibility. The proposal recommends a mixed approached and allows PHAs to choose from several alternative rent structures, including income-based and tiered flat rents.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions at this time.

TESTIMONY OF

JOSEPHINE BIAS ROBINSON

DIRECTOR

OFFICE OF COMMUNITY SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES

DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEFORE THE

SUBCOMMITTEE ON

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION

AND INTERNATIONAL SECURITY

COMMITTEE ON

HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

SEPTEMBER 27, 2005

Good afternoon, Mr. Chairman and members of the Committee. I am Josephine Robinson, Director of the Office of Community Services in the Administration for Children and Families within the Department of Health and Human Services. I appreciate the opportunity to appear before you today to talk about the Low Income Home Energy Assistance Program, which provides assistance to millions of low-income Americans in meeting the costs of home energy heating and cooling.

The Low Income Home Energy Assistance Program -- known as LIHEAP -- grew out of a series of emergency programs generated by the energy crises of the late 1970s. Today, it continues to help ensure that low-income families and individuals have adequate home energy through a Federal-State partnership that provides States with the flexibility they need to design the best program approach to meet consumer needs.

As such, LIHEAP continues to fulfill its dual responsibility to provide ongoing assistance where it is most needed and to respond to emergency situations such as extreme weather conditions, supply disruptions, price spikes and relief for crises like Hurricane Katrina. For the past several years, almost 5 million households per year received LIHEAP assistance to help them get through the winter months. The program also provides cooling assistance to about 400,000 households, and weatherization assistance to about 90,000 more.

The receipt of a LIHEAP benefit not only means a warm home (or sometimes a cool one), but also often means the difference between a family staying in their home or having to move, with all the disruption that can entail. Indeed, having to move because there is no heat can mean loss of a job, change in a school for the children, or loss of a child care arrangement. Likewise, a LIHEAP benefit can help make it possible for the elderly to stay in their homes, for families on welfare to continue to move toward self-sufficiency, and for working parents to avoid having to seek other forms of public assistance.

LIHEAP provides critical assistance to low-income households affected by energy emergencies. This year, States received $1.9 billion in LIHEAP block grant funds. States also received $250 million in emergency contingency funds because of the much higher fuel prices this past winter. Earlier this month, the Department released $27.25 million in contingency funds to Alabama, Florida, Louisiana and Mississippi to help with the home energy crisis needs of households impacted by Hurricane Katrina.

LIHEAP funds are allocated to States based on a statutory formula established when the program began. More specifically, funds are distributed based on low-income population, home energy expenditures by low-income households, and weather conditions substantially weighted towards cold weather. In addition, State and federally recognized tribes may request direct funding from the Department of Health and Human Services, and about 140 tribes and tribal organizations do so. Smaller amounts go to the territories.

States and other LIHEAP grantees have great flexibility in applying LIHEAP funds to meet local needs. We are impressed time and again by the resourcefulness of State and local agencies in using LIHEAP funds to provide meaningful help to families facing a home energy crisis. These workers on the front lines generally resolve or avert the crisis by telephoning the energy vendor, who maintains or restores service based on an assurance that a LIHEAP benefit is to be paid.

Under LIHEAP, States are required to have agreements in place with energy vendors to permit payments on behalf of low-income households receiving LIHEAP benefits. Payments are usually distributed in the form of a credit toward the household's energy bill, with the benefit applied automatically to the client's account. This process ensures that the LIHEAP assistance is provided for the purpose intended. Only under rare circumstances does a State provide a household with a direct check or cash to pay their home energy bills, such as when a client's home energy source is wood or propane. In such cases, the State often issues a two-party check to the vendor.

LIHEAP grantees may set their income eligibility level as low as 110 percent of the poverty level, or as high as the greater of 150 percent of the poverty level or 60 percent of the State median income. In Fiscal Year (FY) 2005, the eligibility levels based on the poverty level equaled income levels for a family of four ranging from $20,735 to $28,275. Sixty percent of State median income for a family of four in FY 2005 ranged from $28,530 in West Virginia, to $49,444 in New Jersey.

Moreover, legislative changes in 1994 made it possible for grantees to look less at absolute income levels and more at need. In setting eligibility levels, States may, for example, give priority to households that pay a large percentage of their income for home energy or that include members who have the greatest energy need because of age or health. We encourage States to target their programs to these more vulnerable low-income individuals in their communities. In the March 2004 Census Bureau Current Population Survey, data show that 35 percent of households receiving LIHEAP heating assistance had at least one person 60 years old or older; 47 percent had at least one person with a disability; and 22 percent included at least one child 5 years old or younger.

Performance Measures

The Administration is committed to ensuring that all Federal programs achieve their specific program objectives and performance outcomes. As such, the Office of Management and Budget (OMB) has implemented an assessment tool called the Program Assessment Rating Tool, or PART, to evaluate program performance, determine the causes for strong or weak performance, and take action to remedy deficiencies and achieve better results.

A PART assessment of the LIHEAP program was conducted as part of the development of the FY 2005 President's Budget. The assessment showed that the LIHEAP program has a clear mission and addresses a specific problem and need. The assessment also revealed that there was a need to develop both long-term and efficiency measures in the

LIHEAP program. As a result, the President's reauthorization request for LIHEAP included a provision to conduct and fund, at $500,000, a feasibility study of a nationally representative evaluation of LIHEAP program operations. It is our hope that Congress will soon act on the President's request to reauthorize the LIHEAP program.

To respond to the government-wide reforms identified in the President's Management Agenda (PMA), Assistant Secretary Wade Horn has launched a major initiative at the Administration for Children and Families dedicated to improved financial performance of all agency programs. ACF's PMA plan is structured to ensure that our Federal financial management systems produce accurate, timely, and useful information to support operating, budget, and policy decisions; and address and reduce erroneous payments in agency programs. Similarly, ACF's improper payments initiative focuses on our efforts to identify and reduce improper payments in agency programs.

With the passage of the Improper Payments Information Act of 2002 (IPIA), ACF has been working collaboratively with officials at the Department and OMB to assess whether its programs are at risk of improper payments. This key initiative is central to ensuring that we are good stewards of our taxpayer dollars. ACF takes pride in its early leadership within the Department on identifying and developing strategies to both report and minimize improper payments under its programs determined to be at significant risk.

In the LIHEAP program, enhanced Federal financial management strategies include

- Annual LIHEAP grantee surveys on sources and uses of funds;
- Annual independent audits under the Single Audit Act (A-133s);

- Periodic monitoring (both Federal and State);
- Review of LIHEAP State Plans including, Plan assurances and certifications; and
- Payment Management System internal controls.

As a result of conducting IPIA Risk Assessments of the LIHEAP program for fiscal years 2004 and 2005, ACF determined that the program was at "low" risk for improper payments. This conclusion was based on:

- Existing financial management and programmatic data controls placed upon the grantees by the Low Income Home Energy Assistance Act;
- The effectiveness of other controls in place for program administration and monitoring;
- The lack of Government Accountability Office (GAO) or Office of the Inspector General (OIG) findings of improper payments in recent year studies; and
- The proper identification of questioned costs in A-133 audits for LIHEAP grantees.

Based on our assessments, we believe that LIHEAP administering agencies have satisfactory systems in place to address Federal financial integrity issues. However, the feasibility study requested by the Administration as part of reauthorization will allow the Department to institute a more thorough evaluation of this issue as part of our efforts to ensure optimum program accountability and operational efficiency. Further, we have asked our Office of Inspector General to review the current risk assessment model.

Conclusion

In conclusion, the Administration believes that LIHEAP is a program that works. During 2006 ACF will closely review the LIHEAP risk assessment model to ensure that LIHEAP is at "low" risk for improper payments. Through normal funding mechanisms, the Low Income Home Energy Assistance Program helps millions of America's most needy families maintain a healthy temperature in their homes. With the flexibility of the emergency contingency process, this program also is able to respond to crisis situations such as the Hurricane Katrina disaster, as well as to supply disruptions, price spikes or extreme weather conditions.

We can all be proud of the way LIHEAP has worked to serve those most in need, including many hard-pressed working families. We, at the Department of Health and Human Services, Administration for Children and Families, are committed to improving performance of Federal programs, and we are committed to maintaining proper stewardship of Federal tax dollars. I look forward to working with the Subcommittee to ensure that best practices are employed in administering this critical program.

Thank you. I would be happy to answer your questions.

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at 2:30 p.m. EDT
Tuesday, September 27, 2005

RESIDENTIAL ENERGY

Oversight of Low-Income Home Energy Assistance Program Payments

Statement of Jim Wells, Director
Natural Resources and Environment

GAO
Accountability * Integrity * Reliability

GAO-05-1039T

September 27, 2005

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-05-1039T, testimony before the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

RESIDENTIAL ENERGY

Oversight of Low-Income Home Energy Assistance Program Payments

Why GAO Did This Study

The Department of Health and Human Services' (HHS) Low-Income Home Energy Assistance Program (LIHEAP) is a block grant program with recent annual funding of about $2 billion that provides fuel payment assistance and payments for home energy efficiency improvements for low-income households. As energy prices continue to rise, this assistance is growing more important to mitigate the impact of higher prices on low-income households. HHS awards LIHEAP funds by formula to all 50 states and the District of Columbia, federally or state-recognized Indian tribes and tribal organizations, and territories. These grantees then provide energy assistance payments to low-income households. Within LIHEAP, the Residential Energy Assistance Challenge Option (REACH) program funds demonstration projects to help low-income families reduce their energy usage. GAO was asked to provide information on (1) HHS's oversight of LIHEAP payments made by grantees and (2) GAO's 2001 review of LIHEAP's REACH program.

What GAO Recommends

This testimony does not make any recommendations.

www gao gov/cgi-bin/getrpt?GAO-05-1039T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or wellsj@gao gov.

What GAO Found

HHS relies on individual grantees—the states, tribal organizations, and territories—to oversee the LIHEAP program. Because the Single Audit Act made state and local governments primarily responsible for obtaining independent audits of funds they receive from federal programs, HHS's principal oversight function is to monitor, not audit, LIHEAP payments made by grantees. Monitoring includes assessing the quality of single audits conducted under the act, reviewing audit results, and ensuring that corrective actions are taken to resolve audit findings. GAO's brief review of relevant 2004 Single Audit Act reports showed that the only LIHEAP costs that were specifically questioned involved relatively small sums—for example, one report cited incorrect or duplicate payments totaling $8,864. Another audit report questioned $1,285 in LIHEAP payments because of inadequate procedures to prevent overpayments.

GAO's 2001 review of the REACH program found several projects that included social services that were not directly related to meeting home energy needs. For example, six projects included job skill or employment development services, and one project provided funds to help clients pay past-due rent or mortgage payments. In addition, the report stated that REACH did not have performance goals that were objective and quantifiable. As a result, GAO did not believe HHS could effectively evaluate the program's overall performance. The report also noted that such goals would provide a clearer basis for selecting individual projects to fund. GAO recommended that HHS develop performance goals for REACH that were objective, measurable, and quantifiable. While HHS agreed with this recommendation, GAO has been unable to identify any actions taken to implement this recommendation. According to HHS, the agency continues to work on the development of long-term performance measures for LIHEAP.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss the Department of Health and Human Services' (HHS) Low-Income Home Energy Assistance Program (LIHEAP) and our observations on oversight methods for determining the sources and magnitude of possible improper payments. As you know, LIHEAP is a block grant program established in 1981 that funds fuel payment assistance and home energy efficiency improvements for low-income households. With recent annual funding of about $2 billion, LIHEAP seeks to increase the health and prosperity of communities and tribes by helping low-income households—particularly those with the lowest income, which pay a high proportion of household income for home energy—meet their immediate home energy needs. As energy prices continue to rise, this assistance is growing more important to mitigate the impact of higher prices on low-income households. HHS awards LIHEAP grant funds by formula to all 50 states and the District of Columbia, federally or state-recognized Indian tribes and tribal organizations, and insular areas (American Samoa, the Commonwealth of Puerto Rico, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands). These grantees provide payments to households to help them meet their energy needs. According to HHS, in fiscal year 2004, approximately 4.6 million households received heating assistance; 308,000 households received cooling aid; 1.1 million received winter/year-round crisis aid; 92,000 received summer crisis aid; and 112,000 received weatherization assistance. Households may receive more than one kind of LIHEAP assistance.

Within LIHEAP, the Congress established the Residential Energy Assistance Challenge Option (REACH) program, which provides grants that fund demonstration projects to test various approaches to help low-income families reduce their energy usage and become more self-sufficient in meeting their home energy needs. In a sense, the REACH program serves as a "laboratory" for identifying better ways to ensure that low-income families can afford home heating and cooling. With annual average funding of about $6 million—less than 1 percent, on average, of the total annual funding for LIHEAP—REACH had provided 112 grants totaling $55 million by the end of fiscal year 2004. Individual grants ranged in amount from $50,000 to $1.6 million.

My statement today discusses (1) HHS's oversight of LIHEAP payments made by grantees and (2) our 2001 review of LIHEAP's REACH program. To address LIHEAP payment oversight, we gathered information on the payment oversight process and conducted a brief review of 2004 Single

Audit Act reports that addressed LIHEAP. Specifically, we queried the Single Audit Database from the Federal Audit Clearinghouse to identify 2004 Single Audit Act reports that addressed LIHEAP. We then examined those reports that had findings to determine the nature of the findings as they related to LIHEAP. Our discussion of the REACH program is based on our 2001 report, which we conducted in accordance with generally accepted government auditing standards.[1] We did not update our 2001 report on the REACH program.

LIHEAP Payment Oversight

As a block grant program, LIHEAP offers much flexibility to states and other grantees to manage and oversee their energy assistance programs in the way that they feel best serves their low-income populations. While the federal government establishes overall guidelines, each grantee operates its own program, taking applications, establishing eligibility, and making decisions on the kinds of assistance payments it will offer. HHS accepts the grantee's interpretation of the LIHEAP statute unless HHS finds it to be "clearly erroneous."

LIHEAP payments are subject to review under the Single Audit Act. The Single Audit Act made state and local governments primarily responsible for obtaining independent audits of federal programs, including payments made under LIHEAP. As a result, HHS's principal oversight function is to monitor, not audit, LIHEAP payments made by grantees. Monitoring includes assessing the quality of single audits conducted under the act, reviewing audit results, and ensuring that corrective actions are taken to resolve audit findings. Through the audit or other federal review processes, grantees must return funds when spent in ways contrary to the LIHEAP statute. Our brief review of 2004 Single Audit Act reports addressing LIHEAP showed relatively few specific LIHEAP-related audit findings. In some cases, grantees were found to have not met accounting criteria for managing federal funds they were awarded—both from LIHEAP and other programs—so it was difficult to distinguish any specific improper LIHEAP payments. For example, one grantee lacked adequate documentation to support costs it charged to manage its federal funds. We were able to identify only certain relatively small LIHEAP payments questioned in the audit reports, such as $8,864 in what appear to have been incorrect or duplicate payments made by one grantee. Another audit

[1]GAO, *Residential Energy Assistance: Effectiveness of Demonstration Program as Yet Undetermined*, GAO-01-723 (Washington, D.C.: August 17, 2001).

report questioned $1,285 in LIHEAP payments because of inadequate procedures to prevent overpayments.

In addition to the Single Audit Act, the Improper Payments Information Act of 2002 requires federal agencies to review their programs and identify those that may be susceptible to significant improper payments. Agencies are required to estimate the annual amount of improper payments and submit those estimates to the Congress; when improper payments are estimated to exceed $10 million, those estimates must be accompanied by a report of actions being taken to reduce such payments. As part of this process, HHS has conducted risk assessments identifying specific program risks and assessing related controls. Although HHS identified seven of its programs as high-risk, LIHEAP was not among them. We are not aware of any more comprehensive information on the appropriateness of payments made by LIHEAP grantees other than the few examples discussed above.

REACH Program

While we have not reviewed overall LIHEAP compliance, at the request of the Senate Committee on Health, Education, Labor and Pensions and the House Committee on Education and Workforce, in 2001 we did review and report on REACH—a small part of the overall program. We found that many REACH projects involved energy-related repairs to homes and budget counseling, and three state REACH projects were developing consumer cooperatives to purchase electricity or bulk fuels, such as heating oil. However, some REACH projects made payments for social services not directly related to meeting home energy needs. For example, six projects made payments for job skill or employment development services, and one project provided funds to help clients pay past-due rent or mortgage payments.

The legislation authorizing REACH identified three performance goals for individual REACH projects: reduce energy costs of participating households, increase the regularity of home energy bill payments, and increase energy suppliers' contributions to reduce eligible households' energy burden. Despite these broad purposes for the program, in 2001 HHS had not developed performance goals that were objective and quantifiable. Consequently, we did not believe HHS could effectively evaluate the program's overall performance and report to the Congress on what was accomplished for the resources expended. We also noted that developing such goals would provide a clearer basis for selecting individual projects to fund. Our report recommended that HHS develop program performance goals for REACH that were objective, measurable, and quantifiable. HHS agreed with the recommendation and planned to develop performance goals for REACH as part of the agency's Government Performance and Results Act (GPRA) plan. However, the most recent FY 2005 Performance Plan did not include goals for the REACH program under LIHEAP. We have been unable to identify any actions taken to implement this recommendation. According to HHS officials, they have continued to examine this issue and work on the continuing improvement and development of long-term performance measures for the overall LIHEAP program.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions that you or other Members of the Subcommittee may have at this time.

Contacts

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. For further information about this testimony, please contact Jim Wells at (202) 512-3841 or Wellsj@gao.gov.

HUD Response to Questions from the Hearing on September 27th 2005 entitled, "Housing-Related Programs for the Poor: Can We Be Sure That Federal Assistance Is Getting to Those Who Need It Most?"

Questions for the Record: Jim Martin, Assistant Chief Financial Officer for Financial Management, U.S. Department of Housing and Urban Development

1. In your oral testimony, you said that"...staff reductions and competing priorities diminished HUD's oversight of these [rental assistance] programs during the decades of the 1980s and 1990s."

> Are you implying that the resources given to HUD in the 1980s and 1990s were insufficient to meet the oversight needs of the rental assistance programs?

The history of HUD's resource management deficiencies has been independently documented by sources such as the HUD Office of Inspector General (OIG), the Government Accountability Office (GAO), and Congressionally chartered studies by the National Academy of Public Administration. For example, on page 4 of the OIG's March 1992 Semiannual Report to the Congress the OIG reports that:

> ***"HUD staffing levels have dropped from approximately 17,000 in 1982 to just over 13,000 in 1992. As part of the effort to reduce the size of HUD, work measurement type processes were largely abandoned as a means of systematically establishing resource needs. In their place, a top down budget process dictated steadily declining resource levels with little or no relationship to actual program needs....Questions on the adequacy of HUD's staffing levels remain unanswered. Given the current overall budget constraints, it is probable that HUD staffing levels will be cut in fiscal year 1993. In our opinion, even existing staff levels are inadequate to effectively monitor HUD's wide range of complex programs without a significant improvement in its financial and information management systems. Such systems would allow management to better target HUD resources through effective use of risk based management and accountability monitoring techniques."***

Since 1992, HUD has made systemic improvements to enhance its risk based management and accountability monitoring techniques, and did develop and implement a Resource Estimation and Allocation Process (REAP) for estimating staffing needs. However, despite REAP estimates of a staffing need of over 10,000 staff to adequately perform existing program and administrative functions, the budget process has continued to reduce HUD staffing to its current level of less than 9,000. While less staff generally equates to less oversight, HUD continues to focus on ways to improve automated remote monitoring capabilities as a means for better risk based

targeting of its limited oversight resources. In fact, HUD's FY 2006 Management Plan continues to emphasize Rental Housing Integrity Improvement Project (RHIIP) monitoring activity and other key performance indicators for the rental housing assistance programs.

2. Has the National Directory of New Hires database been completed for public housing administrators' use to verify household income?

   Yes, HUD's system for computer matching with the National Directory of New Hires database – the Enterprise Income Verification (EIV) System – was completed and made available for public housing administrators' use, as scheduled, in October 2005.

3. Can you please list specific proposals or alternatives for rent determination simplification that HUD or the Administration has provided for the Congress' consideration?

   The Department continues to promote the State and Local Housing Flexibility Act of 2005 (SLHFA). This new program would replace the Housing Choice Voucher Program with a Flexible Voucher Program to improve the delivery of HUD's rental and homeownership subsidies for low-income families in a fiscally responsible manner. Enactment would better ensure cost efficiency and effectiveness for the long-term sustainability of HUD's tenant-based voucher program. The objectives of the proposed Flexible Voucher Program are to:

   - **Simplify program requirements and provide public housing agencies (PHAs) with greater administrative flexibility to meet local needs and the overall program objective of assisting low-income families to find suitable temporary housing.**
   - **Maximize effective utilization of funds and increase ability to assist additional low-income families by converting from a unit-based system to a dollar-based system.**
   - **Increase focus on results as opposed to bureaucratic processes.**

4. To what extent does HUD's Flexible Voucher proposal address the problem of improper rental assistance payments?

   If the Flexible Voucher proposal were implemented, to what extent would HUD's activities under RHIIP continue?

   Under SLHFA, PHAs would receive a fixed dollar amount proportional to their current voucher funding, but would have the freedom to adjust the program to the unique and changing needs of their community. This includes the ability to set their own rents based on local market conditions rather than having HUD predict and set rents for every market in the nation.

PHAs would also have the ability to simplify and design tenant rent policies that will provide incentives for work. The Flexible Voucher Program would simplify the Federally mandated program requirements and avoid the "one size fits all" program design by providing local and state PHAs with greater administrative flexibility to meet the overall program objective of providing temporary and transitional housing assistance for low-income families to select suitable private market housing of their choice. Instead of spending an inordinate amount of time attempting to comply with a myriad of complicated (and sometimes contradictory) Federal rules and objectives, PHAs would be able to streamline the subsidy design and implement local policies to meet the local housing needs of low-income families.

Section 106 of SLHFA states that the "Secretary shall establish performance standards and a performance assessment system for public housing agencies receiving grants under this title to maximize the benefits of that assistance." HUD would continue to provide PHAs with tenant income-matching data to correctly verify income-based subsidies. HUD also anticipates requiring PHAs to implement local Quality Assurance Plans with their administrative fees to better assure they are properly adhering to locally determined program rules to reduce the risk of improper payments. HUD would monitor the effectiveness of those local Quality Assurance Plans through its cyclical on-site and remote monitoring reviews, and would increase its focus on program performance results.

5. Please explain why the Community Development Block Program has failed to report improper payments under both OMB's Circular A-11 (since 2001); and failed to comply with the Improper Payments Information Act (since 2002). Have you conducted a risk assessment of the program? If so, what did it reveal? If not, *why* not?

HUD believes it is fully compliant with the Improper Payments Information Act of 2002 (IPIA) and has acted in good faith to implement OMB's original Section 57 requirements under Circular A-11 and subsequent IPIA guidance. Prior to enactment of the IPIA, OMB Circular A-11, Section 57, provided a listing of federal programs that agencies were requested to evaluate for erroneous payments. The original OMB Section 57 listing for HUD included two program areas: the Low Income Public Housing Program and the Community Development Block Grant (CDBG) Program. HUD's assessment of the improper payment risk in those programs resulted in the following actions:

1. **HUD acknowledged there was an improper payment problem in the Low-Income Public Housing Program and requested that OMB's Section 57 list be expanded to include HUD's other two major rental housing assistance programs —the Housing Choice Voucher Program and the Section 8 and Other Project-Based Assistance**

Programs— where there also was a high risk of improper payments. In 2000, the Department used statistical sampling to establish a baseline measure of the extent of improper rental housing assistance payments due to program administrator error and tenant underreporting of income. A comprehensive corrective action plan was developed and initiated to reduce improper payments in those programs, and HUD continues to set, measure and meet goals for reducing improper payments in those program areas, which represent over fifty percent of HUD's total annual payments.

2. **HUD assessed the improper payment risk in the CDBG Program and advised OMB that there was no evidence of a significant improper payment problem that warranted further action. The assessment of CDBG considered the results of HUD's program monitoring, independent public accountant audits of grantees under the Single Audit Act, Office of Inspector General audits, and the fact that the Government Accountability Office (GAO) had just removed the CDBG Program from its high risk programs list in January 2001.**

Upon passage of the IPIA in 2002, the Section 57 list was replaced by agency efforts to implement the IPIA in accordance with OMB's implementing guidance in OMB Memorandum No. M-03-13. That guidance requires agencies to annually assess all programs and activities they administer and to identify those that may be susceptible to significant improper payments. Where the risk of improper payments is assessed as potentially significant, agencies are required to estimate the annual amount of improper payments and report the estimates along with plans to reduce improper payments to the President and the Congress. In accordance with OMB's IPIA implementation guidance, HUD completed its first annual improper payment risk assessment during FY 2004, based on the $52.9 billion in total payment activity the prior year (FY 2003). The firm of PricewaterhouseCoopers (PWC) was contracted to assist in both the conduct of the risk assessment and the follow-on statistical sampling and error estimation on HUD grant programs identified as potentially at risk of a significant improper payment rate. Based on HUD's risk assessment, over $30 billion in payments -- in the rental housing assistance programs, 5 major discretionary grant programs, and the single family and multifamily housing mortgage insurance property management functions -- were determined to be potentially at-risk of a significant improper payment level, subject to statistical sample testing and estimation of an improper payment amount. The at-risk programs selected for statistical sampling represented over 56 percent of HUD's total annual payment activity.

The first two annual IPIA risk assessments of the CDBG Program concluded that it was not potentially at risk of a significant improper payment rate, considering the nature of the program recipients, the quality of internal and

external payment processing and monitoring controls, and other factors. Thus, HUD did not perform statistical sampling on the program. However, one of the potentially at risk programs that was tested, the HOME Investment Partnerships Program, has a similar participant base to the CDBG Program. The HOME Program's improper payment level was found to be below the threshold established by the IPIA. That served to further support HUD's original contention that improper payments are not a significant problem in the CDBG Program. OMB has accepted the results of HUD's annual risk assessments under the IPIA.

Nevertheless, HUD issued a revised *Community Planning and Development Monitoring Handbook, No. 6509.2 REV-5*, on September 30, 2005. This Handbook is being used by HUD field staff to monitor the CDBG and other programs. The Handbook is designed to provide monitoring procedures that address a program's vulnerability to fraud, waste, abuse and mismanagement. In this regard, there are Exhibits specifically designed to evaluate a grantee's financial management. HUD monitors about 20 percent of its CDBG grantees each year.

Carper Questions for Mr. Martin, HUD

1. I believe the estimated improper payments in HUD' s rental assistance program are about $1.4 billion. Do you know if the estimate might be even lower now? Do you know what the estimate is per beneficiary?

   HUD's FY 2005 Performance and Accountability Report (PAR), dated November 15, 2005, reported $1.467 billion in estimated annual gross improper rental housing assistance payments, representing 5.6 percent of the $26.069 billion in total rental assistance paid in FY 2004. HUD's estimates of improper payments are based on separate annual studies of the previous year's activity, and the results of the next update of the estimates will not be known until October 2006. Corrective actions taken by HUD and its business partners have reduced the estimates of improper payments by over 60 percent in the four year period 2000 through 2004. While further reductions in the pending estimates for FY 2005 may occur, more significant reductions are anticipated in FY 2006 and FY 2007, commensurate with the implementation of the Enterprise Income Verification (EIV) System for PHA use in FY 2006, and for assisted private owner use in FY 2007.

   In terms of error estimates per beneficiary, or assisted household, the most recent estimates for FY 2004 show that 16 percent of all assisted households are under-subsidized by an average of $37 a month or $444 per year and 18 percent of all assisted households are over-subsidized by an average of $72 per month or $864 per year. HUD provides rental assistance to about 4.8 million households a year.

2. One of the suggestions GAO has made for further reducing improper payments in HUD's rental assistance programs is to simplify the way subsidy amounts are determined. Most of your reported improper payments occur, I understand, because of incorrect subsidy determinations. I'm interested in learning more, however, about what impact some of these simplification proposals would have on beneficiaries.

   It's been suggested that we reduce or eliminate the number of income deductions and exclusions that some beneficiaries receive. What kinds of beneficiaries are helped by these deductions and exclusions? How would these individuals be impacted if we were to pare them back?

   HUD's various rental housing assistance programs have as many as 44 different statutory or regulatory income exclusions and deductions that factor into correctly determining a household's rent and subsidy amounts. The leading factors that contribute to an error in the amount of household's rent and subsidy are the treatment of income exclusions or deductions for: Earned Income; Other Income; Pensions; Asset Income; Public Assistance; Child Care Allowances; Medical Allowances; Dependent Allowances; Disability Allowances; and Elderly/Disabled Allowances. Many of the exclusions and deductions were established to target greater assistance to more vulnerable or needy low-income households, such as the disabled, elderly, or families with children that are trying to transition from welfare to work. Elimination of these exclusions and deductions does not necessarily mean a reduction in assistance to these targeted populations. Instead, PHAs would determine the distribution of their housing dollars under SLHFA. They could continue to provide additional subsidies to targeted populations based on a rent system that they devise. For example, a combination flat rent and income based rent system could take care of elderly and disabled tenants differently from working families.

3. I know it's also been suggested that, in order to reduce the number of times HUD employees must amend beneficiaries' subsidy amount, we could take steps to sever the relationship between incomes and subsidies under what I believe is called a "flat rent" system under which all beneficiaries in a given income range would get the same subsidy amount. How would this reduce errors? Isn't one of the drawbacks to this kind of system that a beneficiary with a lower income might get not enough of a subsidy but another with a higher income might get more than they need? If so, do you think that's an efficient use of HUD resources?

   A flat rent system would eliminate statutory and regulatory income exclusions and deductions, and consequently reduce the risk of error simply by reducing the opportunity to commit errors. However, it is important to note that no PHA would be limited to merely a flat rent system under the proposed SLHFA reforms, if it did not meet their needs. A PHA could

institute flat rents for some members of their population and an income-based rent with their own definition of "income" for other members. There is no simple answer to which system would most effectively meet the needs of a single community. Under a "tiered-income" system, such as the bands of income referenced in the question, local PHAs could define the income tiers that represent their communities with the aim of tailoring income-based rents to their targeted populations. Allowing PHAs greater flexibility to design systems that better serve their specific populations is the aim of rent simplification. While this may require technical assistance to many PHAs, we have seen many innovative rent structures emerge from local PHAs under the Moving To Work (MTW) program. It is that process that SLHFA attempts to capture.

Hearing on September 27th 2005 entitled, "Housing-Related Programs for the Poor: Can We Be Sure That Federal Assistance Is Getting to Those Who Need It Most?"

Questions for the Record: Dave Wood, Director, Financial Markets and Community Investment, U.S. Government Accountability Office

1. As you stated in your oral testimony, "According to HUD officials, the complexity of existing policies makes it harder for program administrators to correctly determine rent subsidies. However, simplifying the policies, which would likely require statutory changes by Congress, could effect the rental payments of many tenants, as well as the overall program costs."

> *Can you provide a list of GAO's recommendations of exclusions and deductions that could be changed through regulation and exclusions and deductions that would need to be changed statutorily?*

Response: As discussed in our February 2005 report (*HUD Rental Assistance: Progress and Challenges in Measuring and Reducing Improper Rent Subsidies*, GAO 05-224), administrators of HUD's rental housing assistance programs must assess tenants' eligibility for 44 different income deductions (6) and exclusions (38). Although we did not recommend changes to these requirements through regulatory or congressional actions, our report noted that HUD officials, program administrators, and industry groups we interviewed frequently cited the complexity of these requirements as a major obstacle to reducing improper rent subsidies. All six of the deductions are based on statute. In contrast, 23 of the 38 exclusions are based on statute, while the remaining 15 are not. Attachment 1 lists the 44 income deductions and exclusions and indicates which are based in statute and which are not.

2. Do you have any specific recommendations with regard to the scope and parameter for a comprehensive study by HUD to consider various rent determination simplification options and their likely effect on tenants?

> *Who should commission this study? Should Congress request it?*

Response: Our 2005 report recommended that HUD study the likely impact of different approaches for policy simplification on assisted households and program performance. Such a study should consider the impact of simplification on subsidy errors, tenant rental payments, program administrators' workload, and program costs. In addition, the study should describe how the agency will help tenants transition from the old to the new program policies. HUD has extensive information in its administrative databases on assisted households, program administrators, and costs that could be used to conduct this evaluation. Further, HUD is responsible for remaining abreast of certain programmatic changes that have occurred through the annual appropriations process, as well as proposed legislation, that could affect the scope of any study to ensure that its results are relevant. HUD should make its study(ies) available to policymakers so that they have sufficient information with which to consider other potential approaches.

Attachment 1

Note: Exclusions and deductions that are not based on statute are highlighted with ***bold and italic.***

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

1. The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.

2. Payments to volunteers under the Domestic Volunteers Services Act of 1973.

3. Payments received under the Alaska Native Claims Settlement Act.

4. Income derived from certain submarginal land of the United States that is held in trust for certain Indian tribes.

5. Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance program.

6. Payments received under programs funded under the Job Training Partnership Act/Workforce Investment Act of 1998.

7. Income derived from the disposition of funds to the Grand River Band of Ottawa Indians.

8. The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the U.S. Claims Court, the interests of individual Indian in trust or restricted lands, including the first $2,000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands.

9. Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under federal work-study programs or under the Bureau of Indian Affairs student assistance programs.

10. Payments received from programs funded under Title V of the Older Americans Act of 1985.

11. Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in *In Re Agent*–product liability litigation.

12. Payments received under the Maine Indian Claims Settlement Act of 1980.

13. The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990.

14. Earned income tax credit refund payments received on or after January 1, 1991.

15. Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation.

16. Allowances, earnings, and payments to AmeriCorps participants under the National and Community Service Act of 1990.

17. Any allowance paid under the provisions of 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran.

18. Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of a crime against the applicant under the Victims of Crime Act.

19. Allowances, earnings, and payments to individuals participating in programs under the Workforce Investment Act of 1998.

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

20. Income from employment of children (including foster children) under the age of 18 years.

21. Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).

22. Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses.

23. Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.

25. The full amount of student financial assistance paid directly to the student or to the educational institution;

24. Income of a live-in aide.

26. The special pay to a family member serving in the armed forces who is exposed to hostile fire.

27. Amounts received under training programs funded by HUD.

28. Amounts received by a person with a disability that are disregarded for a limited time for purposes of supplemental security income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency.

29. Amounts received by a participant in other publicly assisted programs that are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and that are made solely to allow participation in a specific program.

30. Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed $200 per month) received by a resident for performing a service for the program administrator, on a part-time basis, that enhance the quality of life in the development.

31. Incremental earnings and benefits resulting to any family member from participating in qualifying state or local employment training programs and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives and are excluded only for the period during which the family member participates in the employment training program.

32. Temporary, nonrecurring, or sporadic income (including gifts).

33. Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.

34. Earnings in excess of $480 for each full-time student 18 years or older (excluding head of household and spouse).

35. Adoption assistance payments in excess of $480 per adopted child.

36. Deferred periodic amounts from supplemental security income and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.

37. Amounts received by the family in the form of refunds or rebates under state or local law for property taxes paid on the dwelling unit.

38. Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

<u>Deductions cited in 24 C.F.R. 5.611 are as follows:</u>

39. $480 for each dependent.

40. $400 for any elderly family or disabled family.

41. The sum of the following, to the extent the sum exceeds 3 percent of annual income:

> a. unreimbursed medical expenses of an elderly family or disabled family;
>
> b. unreimbursed reasonable attendant care and auxiliary apparatus expenses for each member of the family who is a person with disabilities, to the extent necessary to enable any member of the family (including the member who is a person with disabilities) to be employed.

42. Any reasonable child care expenses necessary to enable a member of the family to be employed or to further his or her education.

43. Program administrators may adopt additional deductions from annual income. These deductions must be set forth in the written policies of the program administrator.

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

44. The disallowance policy provides special treatment to families whose earned income increased as a result of (1) employment of a family member who was previously unemployed for one or more years and (2) participation of a family member in a family self-sufficiency or other job training program. In addition, families who received assistance through the Temporary Assistance for Needy Family program and their earned income increased within the previous 6 months can also qualify for the disallowance. In addition, unlike the public housing program, the voucher program also requires that the disallowance be restricted to household members with disabilities. Families that qualify under these provisions are not subject to increases in their rental contributions due to higher income from employment or job training for a 12-month period (full exclusion period). The rent may be increased during the following 12-month period (phase-in period) but the increase may not be greater than 50 percent of the amount of the full rent increase that would be otherwise applicable. After completion of both the full exclusion and phase-in periods, tenant rent increases by the full amount (fig. 9). Tenants can claim the disallowance over nonconsecutive months if their employment status changes, but HUD imposes a lifetime limit of 48 months starting on the date of the initial exclusion.

Questions and Responses for the Record from
Josephine Bias Robinson, Director,
Office of Community Services,
Administration for Children and Families,
U.S. Department of Health and Human Services

Question 1.
In your oral testimony, you committed to making management decisions on the 10 outstanding Single Audit Act findings for fiscal year 2003 by January 2006. Have you completed the management decisions on those 10 outstanding findings? Please provide documentation of each of those decisions.

Answer
I am pleased to report the successful resolution of all of the audit issues identified from Fiscal Years 2003-2004 by the Office of the Inspector General (OIG) on State management of the Low Income Home Energy Assistance Program (LIHEAP). Please see the chart below for a list of those resolved audits.

Status of Audit Findings Identified under the Low Income Home Energy Assistance Program Fiscal Years 2003-2004				
Number	*Entity*	*Fiscal Year*	*Audit Number*	*Date of Resolution*
1	Rhode Island	03	01-05-80801	02/13/2006
2	Vermont	03	01-05-81147	02/16/2006
3	Connecticut	03	01-04-78952	02/13/2006
4	New Jersey	03	02-05-79748	12/21/05
5	Powhatan Renape Tribe Rancecas, NJ	03	02-05-82129	02/13/2006
6	Delaware	04	03-05-82168	02/13/2006
7	Delaware	03	03-04-78953	02/15/2006
8	North Carolina	04	04-05-81862	02/16/2006
9	Illinois	04	05-05-80077	02/16/2006
10	Oklahoma	03	06-04-79154	02/16/2006
11	Texas	04	06-05-82165	02/10/2006
12	North Dakota	04	08-05-82164	02/16/2006
13	South Dakota	04	08-05-82278	02/16/2006
14	Utah	04	08-05-81918	02/16/2006
15	Wyoming	03	08-04-78863	11/21/2005
16	California	04	09-05-82160	02/13/2006
17	California	03	09-04-78950	02/13/2006
18	Washington	03	10-05-79128	02/13/2006

Question 2.
In your oral testimony, you explained that ACF was in the process of developing efficiency measures and performance outcomes as part of the overall LIHEAP program and the REACH program. Have you come up with specific measures and performance outcomes for both the REACH and LIHEAP programs overall? Please provide the specific goals, objectives and performance measures for REACH and the overall LIHEAP program.

Answer
We have developed national measures and outcomes that address the performance of the LIHEAP program, including the REACH program. The primary program goal is tied to the statute which mandates that LIHEAP assistance targets households with elderly or disabled individuals and young children, and those households with a high proportion of the family's income used for home energy expenses.

LIHEAP Program Goal: Target LIHEAP assistance to those eligible households having the highest health risks due to insufficient home heating or cooling.

Performance Objectives:

1. Target LIHEAP assistance to income eligible households having at least one person 60 years or older.

2. Target LIHEAP assistance to LIHEAP eligible households having at least one child 5 years or younger.

3. Increase the availability of LIHEAP assistance through efficient use of LIHEAP administrative funds.

Performance Measures:

Recipiency targeting index – quantifies the extent to which a target group household is receiving LIHEAP assistance. The index is computed by comparing the percent of LIHEAP recipient households that are members of a target group with the percent of all LIHEAP income eligible households that are members of the target group. An index score above 100 indicates that LIHEAP is serving a target group of households at a higher rate than all LIHEAP income eligible households that are members of the target group.

Efficiency measure – establishes the ratio of LIHEAP households assisted per $100 of LIHEAP administrative costs.

Question 3.
I know that LIHEAP is considered at low risk for improper payments under the criteria in the Improper Payments Information Act. Take some time, if you could, to explain the process you go through to make that determination. What kind of standards do you set for States and other grant recipients for accounting and internal controls?

Answer:
The Department of Health and Human Services (HHS), in consultation with the Office of Management and Budget (OMB), developed a comprehensive Improper Payments Information Act (IPIA) Risk Assessment model that is used to evaluate all HHS programs. The HHS model draws heavily from the 2002 General Accounting Office (GAO) Report, "Internal Control Management and Evaluation Tool." To ensure that HHS risk conclusions were adequately supported, subsequent to the 2004 assessment, a contractor with experience in risk analysis was asked to evaluate the Department's evaluation strategy. Based on the advice of this review, HHS modified the risk assessment tool in 2005 to make the review more quantifiable.

In the application of the risk assessment analysis, HHS scores programs using weighted measures based upon the extent to which the program may attain program accountability related to the structure and administration of the program. The measures examine such aspects as the degree to which Federal and State disbursements under the program are subject to payment controls; whether there are efficiency requirements and assurances built into the governing statute; and the complexity of the grant's distribution requirements to the population served.

The LIHEAP program benefited from enhanced Federal financial management strategies for all ACF programs that the Administration for Children and Families (ACF) initiated following the passage of the IPIA in 2002. By 2004 and 2005, in the LIHEAP program we had instituted:

- Improved Payment Management System internal controls;
- Annual review of LIHEAP grantee surveys on sources and uses of funds;
- Annual review of the independent audits under the Single Audit Act (A-133s);
- Periodic desk audits monitoring both Federal and State activities; and
- Annual review of LIHEAP State Plans to certify that States are adhering to the legislatively-mandated assurances on program requirements.

We were pleased that in our evaluations, LIHEAP was deemed at "low" risk for improper payments. The program rating was based on:

- Financial management and programmatic data controls placed upon the grantees by the Low Income Home Energy Assistance Act;
- The effectiveness of program administration and monitoring controls;
- The lack of significant findings by Government Accountability Office (GAO) or Office of the Inspector General (OIG) in investigations of improper LIHEAP payments in recent year studies; and
- The proper identification of questioned or disallowed costs through existing programmatic and monitoring controls in A-133 audits for LIHEAP grantees.

Question 4.

You mentioned in your testimony that you've asked your Inspector General to take a look at your improper payments risk assessment process. Is there some concern that you're missing something? What will this IG review entail?

Answer
HHS asked the OIG to examine a few of the Department's risk assessment tools in FY 2005, and the LIHEAP assessment was included among those reviewed. In FY 2005, seven ACF programs, including LIHEAP, were assessed for their susceptibility for improper payments, and all seven were determined to be at low risk for improper payments. Similarly, the Office of Management and Budget (OMB) reviewed the FY 2005 risk assessments and provided comments, and asked ACF to re-examine the components of potential program-specific risks.

Based on the recommendations received, HHS has made several changes to its FY 2006 risk assessment model, and ACF is considering revisions to our reviews for 2006 based on the OMB comments and the OIG recommendations to ensure that we are using the most accurate tools to evaluate program accountability and operational efficiency.

Question 5.

There's a debate every year in the Senate about whether or not the amount we're appropriating for LIHEAP is enough. I suspect we'll have an even more heated debate this year with the impact the hurricanes have had on fuel prices. I'm among those who've gone on record saying that we should be spending more on LIHEAP. What I want to ask you, then, is whether you think you have the resources necessary to continue doing the oversight and monitoring you need to do to make sure that LIHEAP resources are only going where they're suppose to go?

Answer
Under the LIHEAP statute, $300,000 is available each year for evaluation, training and technical assistance. Under the existing authority, Federal LIHEAP program staff make site visits to selected States each year, and conduct desk audits of the States' plans and operations. In both on-site reviews and desk audits, staff analyze the financial, administrative and program operations of the States' programs to certify that States are in compliance with the LIHEAP statute and regulations.

Question 6.
I understand that there's some delay in your review of the audits performed by grant recipients. Is this because of a lack of resources or is there some other cause?

Answer
The Office of Management and Budget (OMB) in Circular A-133 requires Federal agencies to resolve problems identified in audits with the affected grantee within six months of the agency's notification. What we have found, however, is that we are not always able to establish a suitable corrective action plan with the grantee to resolve the problem identified or determine the validity of the problem cited within the six-month timeframe.

Many of the problems identified in the audits are complex – often involving administrative deficiencies and questioned expenditures. As you know, grantees (States, tribes and territories) in the LIHEAP program use either the State's auditor, or retain a non-State Certified Public Accountant firm, to conduct their audits. In many cases, we require validation of the problem identified by the auditor by our staff. Once validated, we require that grantees submit a corrective action plan where they both identify how the deficiency will be corrected, and the procedures to be put in place to prevent recurrence of the problem.

We make every effort to work with the grantees to ensure that the problems identified in the audits are accurate, and if accurate, that the problem is resolved in a timely and effective manner.

Hearing September 27th 2005 entitled, "Housing-Related Programs for the Poor: Can We Be Sure That Federal Assistance Is Getting to Those Who Need It Most?"

Questions for the Record: Jim Wells, Director, Natural Resources and Environment, U.S. Government Accountability Office

1) In your oral testimony, you explained that there may be up to 20 other federal programs that serve purposes similar to those in the REACH program. Please provide the Subcommittee with a list of potentially duplicative federal programs, including their original purpose, and where they are housed in the federal government.

2) GAO has not studied the LIHEAP program since 2001, when it looked specifically at the REACH program and identified that it lacked clearly defined goals and performance measures. What specific areas of the LIHEAP program does GAO believes are worthy of further inquiry, and why?

Answers to LIHEAP questions

1) Mr. Chairman, we do not know how many programs may in fact have duplicate type energy assistance. In some recent audit work, we looked at energy expenditures across the Federal agencies and learned that the federal government conducts over 150 energy-related program activities that include the REACH program under LIHEAP. However, the two primary programs that provide low-income energy consumer assistance are the LIHEAP program under HHS and the Department of Energy's (DOE) weatherization program. The purpose of the weatherization program is to provide funds to make dwellings more fuel efficient in the long terms for low-income households. These programs are implemented in all 50 states, the District of Columbia, by Indian tribes and organizations and U.S. territories.

2) Mr. Chairman, specific areas of the LIHEAP program that may be worthy of further inquiry are:

a) The extent to which states use LIHEAP funding for crisis assistance versus weatherization. The use of weatherization funding may provide a one-time expenditure that, over the long-term, provides a reduction in energy use at a lower cost than short-term, yearly assistance.

b) The potential benefit of forward funding of LIHEAP in helping states take advantage of price stabilization programs that may cushion the effects of larger price increases that adversely impact low-income households.

c) Under the Improper Payments Information Act of 2002, how did HHS conduct its risk assessment for LIHEAP to determine it was not a high risk program? Such an assessment would provide assurance that LIHEAP is being implemented in a manner that minimizes improper payments.