



Testimony

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

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HUD RENTAL ASSISTANCE

Progress and Challenges in Measuring and Reducing Improper Rent Subsidies

Statement of David G. Wood, Director
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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

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 (RHIP). 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 RHIP.

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.

HUD RENTAL ASSISTANCE

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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 RHIP 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

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

²Office 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

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

⁴For 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 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.

⁵This figure includes both operating and capital subsidies.

HUD created RHIP in the spring of 2001 to assess the magnitude of and reasons for improper payments in its rental housing assistance programs. RHIP 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.

RHIP'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 RHIP'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

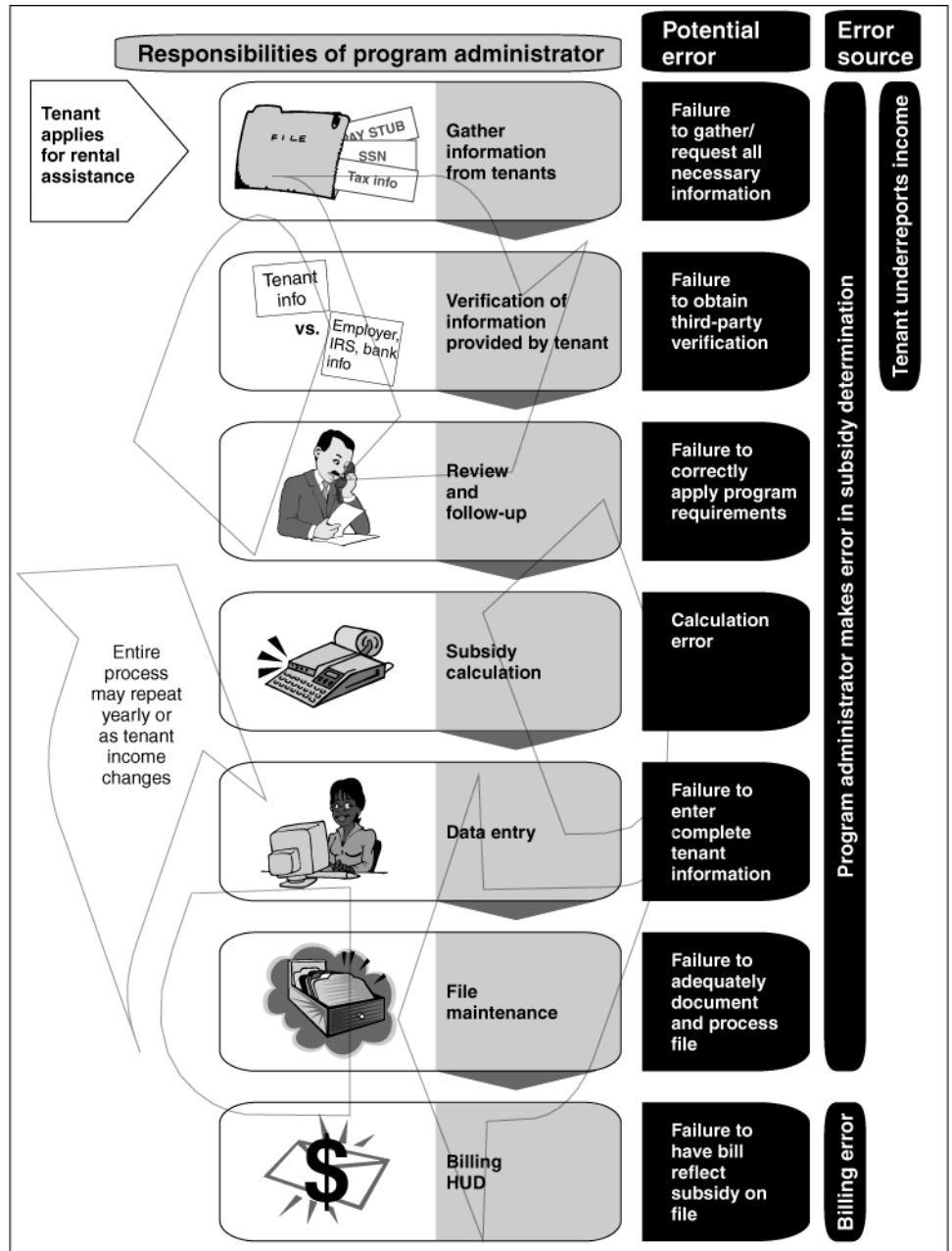
As part of RHIP, HUD identified three basic sources of errors that resulted in improper rent subsidy payments: (1) program administrator errors, (2) unreported tenant income, and (3) billing errors. Program administrator errors are the broadest category of errors because, as figure 1 shows, they can 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.

⁶Department 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.

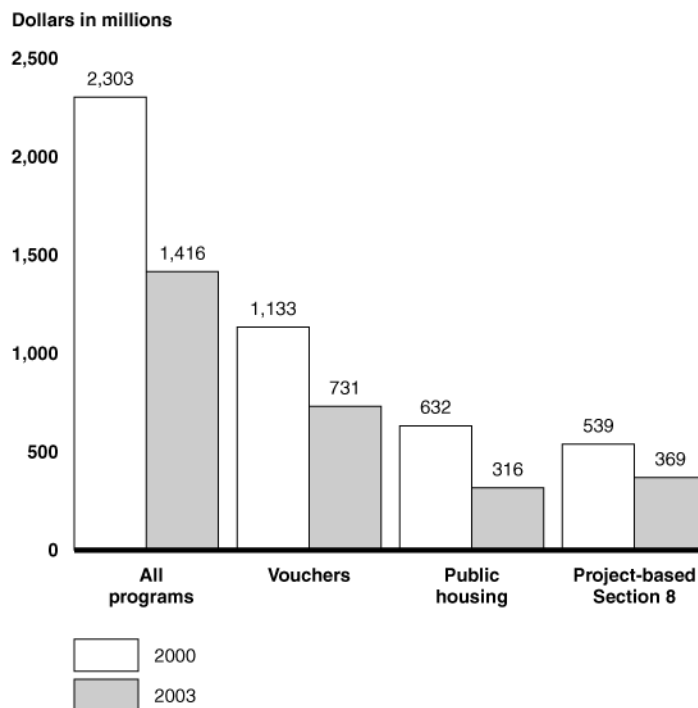
Each of the rental assistance programs experienced substantial reductions in gross program administrator error between fiscal years 2000 and 2003—50 percent for public housing, 35 percent for vouchers, and 32 percent for project-based Section 8 (see fig. 2). These reductions exceeded HUD's interim RHIIP 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.

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

⁸RHIIP'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 RHIP 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

⁹PBCAs 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.

¹⁰GAO, *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

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

determining rent subsidies. 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 approach 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.

Contacts and Acknowledgments

For further information on this testimony, please contact David G. Wood at (202) 512-8678. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony included Daniel Garcia-Diaz, Rose Schuville, Cory Roman, Steve Westley, Emily Chalmers, Carl Barden, Jerry Sandau, Marc Molino, and John McGrail.

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