

Improper Payments Elimination And Recovery Act Reporting Details

The Requirements

The Improper Payments Elimination and Recovery Improvement Act (IPERIA), Public Law 112-248, signed into law by the President on January 10, 2013, amends the Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Public Law 111-204) which amended the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300), and repealed the Recovery Auditing Act (Section 831 of the FY 2002 Defense Authorization Act, Public Law 107-107). Under the IPERIA and OMB implementing guidance in Appendix C of Circular A-123, agencies are to assess all programs and activities they administer and 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 in their annual report (PAR or AFR) to OMB, along with plans and targets to reduce improper payments.

The statute defines a “significant” level of improper payments as annual improper payments exceeding 1) both 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported, or 2) \$100 million (regardless of the improper payment percentage of total program outlays).

An “improper payment” is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts consist of overpayments and underpayments (including inappropriate denials of payment or service). Improper payments also include:

- Any payment that was made to an ineligible recipient or for an ineligible good or service;
- Duplicate payments;
- Payments for goods or services not received;
- Payments that do not account for applicable discounts; and
- Payments for which there is insufficient or lack of documentation to determine whether it was proper.

In addition to identifying substantive errors that might warrant repayment, HUD’s statistical sampling of support for payments also identified “process” errors that increase the risk of substantive payment errors, which are included in HUD’s improper payment estimate.

HUD’s Commitment

At the time of implementation of the IPIA, the Secretary designated the Chief Financial Officer as the lead official for overseeing HUD actions to address improper payment issues and bring HUD into compliance with requirements of the IPIA and OMB implementing guidance. The Office of the Chief Financial Officer (OCFO) implemented the IPIA requirements and continues to address improper payment issues under the IPERIA. HUD’s plans, goals, and results for identifying and reducing improper payments are tracked and reported in the annual AFR. Additionally, managers are held accountable for achieving improper payment reduction targets via goals established for their program.

On November 20, 2009, the President signed Executive Order (EO) 13520: *Reducing Improper Payments and Eliminating Waste in Federal Programs*. The purpose of the EO is to reduce improper payments by boosting transparency, holding agencies accountable for reducing improper payments, examining the creation of incentives for states and other entities to reduce improper payments, and increasing penalties for contractors who fail to timely disclose improper payments. HUD is largely in compliance with the requirements of the EO and the OMB implementing guidance in Circular A-123, Appendix C, Part III. As such, HUD has established and reported supplemental measures for reducing improper payments in its designated high-priority program, the Rental Housing Assistance Programs (RHAP). HUD has also submitted an Accountable Official Annual Report to the Inspector General detailing HUD's methodology for identifying and measuring improper payments in the high-priority program, plans for meeting reduction targets, and plans for ensuring that initiatives undertaken pursuant to the EO do not unduly burden program access and participation by eligible beneficiaries.

HUD's Process

HUD's process for complying with the IPERIA consists of four steps:

- 1) Conduct a survey of all program and administrative activities for potential indicators of significant improper payments. (Under IPIA, the first annual assessment was conducted in FY 2004, based on the \$52.9 billion in payments made during FY 2003 in support of over 200 programs and administrative activities.)
- 2) Perform a detailed risk assessment of program activities identified in the first step with annual expenditures in excess of \$40 million¹¹. (Under the initial IPIA assessment, HUD identified ten activities, representing 57 percent of all payments, as potentially "at risk" of significant improper payments.)
- 3) Test a statistical sample of payments in program activities determined to be susceptible to significant improper payments. (Under IPIA, statistical sampling and analysis performed by independent reviewers during the initial assessment determined that only five of the ten activities actually had a significant improper payment problem).
- 4) Establish, execute, and monitor corrective action plans for reducing improper payments in the programs identified as at risk.

Summary of HUD Results to Date

Prior to enactment of the IPIA, IPERA, and IPERIA, OMB requested agency input on improper payments in select programs, including the Community Development Block Grant (CDBG) Entitlement and Non-Entitlement (States and Small Cities programs). These CDBG programs were identified through statistical sampling in HUD's initial annual risk assessment to be at low risk of improper payments and did not warrant reporting. OMB subsequently revised its guidance to clarify that agencies should

¹¹ The OCFO determined that programs with expenditures of less than \$40 million would not be included in the risk assessment. OMB Circular A-123, Appendix C, Part 1, defines "significant erroneous payments" as annual erroneous payments in the program exceeding 1) both 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or 2) \$100 million (regardless of the improper payment percentage of total program outlays). Based on the Office of the Chief Financial Officer's (OCFO's) analysis of the programs and their funds control activities, OCFO concluded that no program was susceptible to having an error rate in excess of 25 percent (i.e., 25 percent of \$40 million = \$10 million).

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continue to report on programs until they could document a minimum of two consecutive years in which improper payments are less than \$10 million annually, after which they could submit to OMB a request for relief from annual reporting.

HUD's analysis for two consecutive years determined that the CDBG Programs were below the \$10 million threshold for required reporting, and on March 14, 2007, OMB approved HUD's request for relief from annual improper payment reporting for those programs. HUD will continue to conduct an annual risk assessment of the CDBG programs and provide results annually to OMB by June 30.

Corrective actions were developed and completed for two of the five remaining activities identified as having significant improper payments (the Single Family Acquired Asset Management System and the Public Housing Capital Fund). These two activities were subsequently removed from the improper payments reporting requirement, leaving three high-risk program areas:

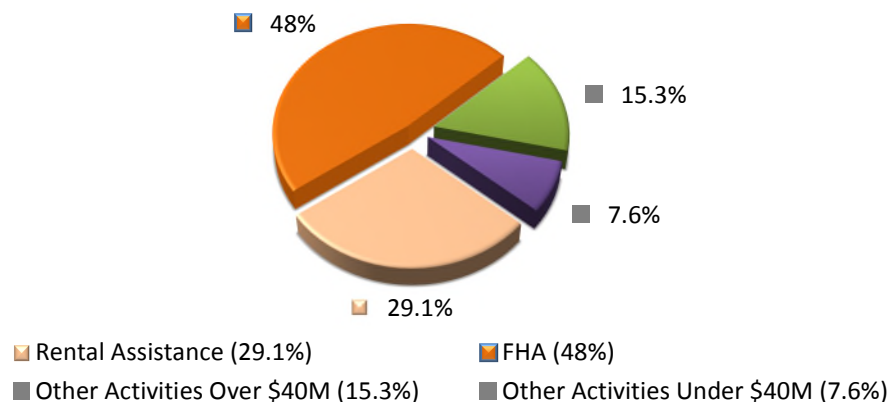
- Public Housing,
- Section 8 Housing Choice Vouchers and Moderate Rehabilitation, and
- Owner-administered Project-based Assistance Programs (Section 8, Section 202, and Section 811).

These programs are collectively referred to as HUD's RHAP. HUD has reduced the combined baseline gross improper rental housing assistance payment estimates of \$3.43 billion¹² to \$1.324 billion in Fiscal Year 2012, a reduction of 61 percent.

Results of Annual Risk Assessment Update and Continued Payment Testing

The FY 2013 risk assessment update was based on payments and other relevant activities that occurred during FY 2012. Approximately 200 distinct program and administrative payment activities were

HUD's \$106.4 Billion Payment Universe



identified from all of HUD's financial management systems in FY 2012, with total payments of \$106.4 billion. The payment universe consisted of the following distribution: HUD's risk assessment

¹² This figure combines the FY 2000 baseline estimate of \$3.22 billion for two types of improper payments (i.e., program administrator and tenant income reporting errors), with the FY 2005 baseline estimate of \$214 million, based on FY 2003 expenditures for the third type of improper payment (i.e., billing errors).

update in FY 2013 did not identify any new activities as being at risk of significant improper payments. Programs that previously tested below the improper payment threshold established by the IPERIA were removed from HUD's at risk inventory and are not subject to re-testing unless there is significant change in the nature of the activity, HUD's internal control structure, or operating environment.

Rental Housing Assistance Programs

HUD's RHAP had previously been assessed as being at high risk of significant improper payments – and continues to be reported as such – with corresponding error measurement methodologies, corrective action plans, and error reduction goals described below. These programs constituted \$31 billion¹³, or 29 percent, of HUD's total payments in FY 2012.

In FY 2001, prior to enactment of the IPIA, IPERA, and IPERIA, HUD established the Rental Housing Integrity Improvement Project to reduce an acknowledged improper payment problem in its rental assistance programs. This project is directed by the responsible HUD program offices, with oversight by the OCFO and statistical sampling¹⁴ support from the Office of Policy Development and Research. HUD's RHAP are administered by over 26,000 Public Housing Agencies (PHAs) and multifamily housing owners or management agents on HUD's behalf. In general, beneficiaries pay up to 30 percent of their adjusted income as rent, and HUD payments cover the remainder of the rental cost (or the operating cost, in the case of public housing).

There are three major components of potential errors which could result in improper payments in these complex programs:

- 1) Program administrator error – the administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;
- 2) Tenant income reporting error – the tenant beneficiary's failure to properly disclose all income sources and amounts upon which subsidies are determined; and

¹³ In response to an OIG report, HUD removed certain expenditures (i.e., Public and Indian Housing (PIH) Administrative Fees, Multifamily Housing Capital Advances, PIH Technical Assistance Grants, PIH Resident Opportunity Self-Sufficiency Grants, and PIH Family Self-Sufficiency Grants) from the universe of RHAP expenditures due to the fact that these expenditures do not have a direct correlation to Rental Assistance. Accordingly, HUD's improper payment error rate will be calculated without including these expenditures in the denominator.

¹⁴ HUD's methodology for statistical sampling in FY 2012 was to select 600 projects that were considered to be nationally representative of the 26,000 PHAs and multifamily housing owners or management agents that administer rental housing assistance on HUD's behalf. Projects were selected with probabilities proportional to size. Projects having a size exceeding the sampling interval were selected from larger projects for eight, twelve, or more households in the project and were counted as more than one project for purposes of determining the sampling size. Certain projects were excluded from the study due to their different eligibility and rent calculation rules, such as Owner-administered RAP/SUP projects. Projects were allocated approximately equally among the three assisted program types, and 200 projects were sampled from each major program type data was collected for a multiple of four households from each project. Additionally, data was collected for four households in one additional PHA to ensure that, given any unexpected circumstances, the sample would include a minimum of 2,400 households. This resulted in a total of 2,404 households with representation from among the three program areas. Because some large projects were selected multiple times, the study sample included 554 distinct projects in 59 geographic areas across the United States and Puerto Rico. The sample is designed to obtain a 95 percent likelihood that estimated aggregate national rent errors for all programs are within two percentage points of the true population rent calculation error, assuming an error of ten percent of the total rents (based on OMB criteria). Previous studies determined that a tenant sample size of 2,400 will yield an acceptable precision for estimates of the total average error.

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- 3) Billing error – errors in the billing and payment of subsidies due between HUD and third party program administrators and/or housing providers.

From FY 2000 through FY 2012, HUD reduced the gross improper payments for the first two of these three categories of error from \$3.22 billion to \$1.22 billion, a reduction of 62 percent. A baseline measurement for the third component, billing error, was completed in FY 2005, based on FY 2003 expenditures, and was estimated to be \$214 million. In FY 2012, the billing error was estimated to be \$106 million. This estimate was derived from the most recent billing error estimates for the Public Housing Program and the Owner-administered Project-based Assistance programs. The following chart provides a summary for all three error components for FY 2012 as compared to FY 2011 and the baseline year (FY 2000). Actual results are not presented for FY 2013 because HUD reports on prior year data (i.e., FY 2013 studies are conducted using FY 2012 data).

Other Information
Improper Payments Reporting Details

IMPROPER RENTAL ASSISTANCE PAYMENTS
DOLLARS IN THOUSANDS

Administration/ Error Type	2012 Subsidy Over- Payments	2012 Subsidy Under- Payments	2012 Net Erroneous Payments	2012 Gross Erroneous Payments	2011 Gross Erroneous Payments	2000 Gross Erroneous Payments
Public Housing						
Administrator Error	\$118,049	\$72,801	\$45,248	\$190,850	\$139,885	\$602,557
Income Reporting Error	\$203,685	-	\$203,685	\$203,685	\$78,622	\$294,000
Billing Error*	\$35,000	\$14,000	\$21,000	\$49,000	\$49,000	Not available
Subtotal:	\$356,734	\$86,801	\$269,933	\$443,535	\$267,507	\$896,557
Section 8 Voucher						
Administrator Error	\$272,915	\$157,801	\$115,114	\$430,716	\$436,155	\$1,096,535
Income Reporting Error	\$168,802	-	\$168,802	\$168,802	\$265,696	\$418,000
Billing Error	-	-	-	-	-	Not available
Subtotal:	\$441,717	\$157,801	\$283,916	\$599,518	\$701,851	\$1,514,535
Total PHA Administered						
Administrator Error	\$390,964	\$230,602	\$160,362	\$621,566	\$576,040	\$1,699,092
Income Reporting Error	\$372,487	-	\$372,487	\$372,487	\$344,318	\$712,000
Billing Error	\$35,000	\$14,000	\$21,000	\$49,000	\$49,000	Not available
PHA Subtotal:	\$798,451	\$244,602	\$553,849	\$1,043,053	\$969,358	\$2,411,092
Total Project Based/Owner Administered						
Administrator Error	\$131,523	\$45,711	\$85,812	\$177,234	\$119,168	\$539,160
Income Reporting Error	\$46,713	-	\$46,713	\$46,713	\$84,175	\$266,000
Billing Error*	\$21,000	\$36,000	(\$15,000)	\$57,000	\$57,000	Not available
Project Based Subtotal:	\$199,236	\$81,711	\$117,525	\$280,947	\$260,343	\$805,160
Total Improper Payments						
Administrator Error	\$522,487	\$276,313	\$246,174	\$798,800	\$695,208	\$2,238,252
Income Reporting Error	\$419,200	-	\$419,200	\$419,200	\$428,493	\$978,000
Billing Error	\$56,000	\$50,000	\$6,000	\$106,000	\$106,000	Not available
GRAND Total:	\$997,687	\$326,313	\$671,374	\$1,324,000	\$1,229,701	\$3,216,252
TOTAL PROGRAM PAYMENTS	-	-	-	\$30,949,038	\$31,896,542	\$18,800,000
IMPROPER PAYMENT RATE	-	-	-	4.3%	3.9%	17.1%

*Billing error estimates are based on FY 2004 data for Public Housing and FY 2009 data for Owner Administrators.

Percent Reductions in Improper Payments
Dollars in Billions

Error Type	Baseline Estimates	FY 2012 Estimates	Percent Reduction
Administrator Error	* \$2.238	\$0.799	64%
Income Reporting Error	* \$0.978	\$0.419	57%
Billing Error	* \$0.214	\$0.106	50%
Total	\$3.430	\$1.324	61%

** Administrator and Income Reporting Error Estimates are from FY 2000; the Billing Error Estimate is from FY 2005.*

Corrective Actions Taken to Reduce Improper Payments

The overall reduction in improper payments for HUD's three major types of RHAP over the past 12 years has been primarily attributed to HUD's efforts to work with its housing industry partners through enhanced program guidance, training, oversight, and enforcement.

Collectively, these efforts have had a positive impact on the program administrators' ability to reduce their errors in the calculation of income, rent, and subsidies. Although the Administrator Error increased from \$695 million in FY 2011 to \$799 million in FY 2012, the findings were on par with the findings from FY 2004 through FY 2011, within the statistical margin of error, and do not represent statistically significant differences. There is an increase in the error rate in FY 2012, because the population totals used in HUD's RHAP sample to assess errors were updated based on the FY 2012 sampling frame which included Moving to Work PHAs. Therefore, a portion of the changes in total gross dollar error may be due to an increase in population, and not due to an increase in rent error.

In the Housing Choice Voucher Program, the establishment of a budget based funding methodology was implemented in FY 2005 to eliminate the opportunity for billing errors.

HUD also uses the Enterprise Income Verification (EIV) system to reduce the level of improper payments. The EIV system makes integrated income data available from one source for PHAs and multifamily property owners to improve income verification during income reexaminations. Increased availability and use of the EIV system by PHAs, owners, management agents, and contract administrators for HUD's rental assistance programs have a direct correlation to the reduction of improper payments associated with income reporting errors. Use of EIV by PHAs, owners, management agents, and contract administrators became mandatory effective January 31, 2010.

HUD continues to operate in accordance with its Do Not Pay Implementation plan (as approved by OMB) and is committed to using Treasury's Do Not Pay solution to reduce improper payments.

PIH implemented a "Do Not Pay List" on September 20, 2009 within the EIV system. This feature identifies individuals who currently have outstanding debts with PHAs nationwide. PHAs are required to use this feature to screen applicants. The feature alerts PHAs of current assisted families when there is a report of an outstanding debt to another PHA so that the current PHA may terminate the family's assistance in accordance with PHA established policies and prevent subsequent improper payments.

During FY 2011, HUD formed an Improper Payments Assessment Team to monitor PHAs reporting of information to the Public and Indian Housing Information Center (PIC). The intended outcome of this

monitoring effort is to confirm PHA compliance with PIC reporting and effective use of the EIV system to reduce improper payments within PIH RHAP.

In FY 2010, HUD also implemented reporting in the EIV system to aid PHAs in recovering payment errors at the local level. One of these reports is the Deceased Tenant Report which measures the number of deceased single member households within a public housing agency's jurisdiction. The measure helps Public Housing Agencies reduce improper payments made to deceased beneficiaries. In the first three years of monitoring the Deceased Tenants Report, \$6.9 million in improper payments have been recovered.

HUD's Improper Payment Reduction Forecast

HUD will continue to take aggressive steps to address the causes of improper rental housing assistance payments to ensure that the right benefits go to the right people. Based on the above results for the three types of rental housing assistance errors, as well as plans to address known causes and levels of improper payments, HUD provides the statistical results for FY 2012 and the outlook for improper payment percentages on a combined program basis from FY 2013 – FY 2015 as follows:

Rental Assistance Improper Payment Reduction Outlook FY 2013-FY 2015

(Dollars shown in billions)

	FY 2011 Payments	FY 2011 IP	FY 2011 IP% Goal/Actual	FY 2012 Payments	FY 2012 IP	FY 2012 IP% Goal/Actual	FY 2013 IP% Goal and IP Dollar Amount	FY 2014 IP% Goal and IP Dollar Amount	FY 2015 IP% Goal and IP Dollar Amount
Rental Assistance	\$31.897	\$1.229	2.8/3.9	\$30.949	\$1.324	3.8/4.3	4.2% / \$1.302	4.2% / \$1.302	4.2% / \$1.302
Estimated Payments							\$31	\$31	\$31

The annual Improper Payment calculation is based on prior year data. Accordingly, the FY 2013, FY 2014, and FY 2015 results will be reported in the FY 2014, FY 2015, and FY 2016 AFRs respectively.

During FY 2011, the improper payment rate was 3.9 percent thus missing HUD's FY 2011 goal of 2.8 percent. During FY 2012, the improper payment rate increased to 4.3 percent, thus missing HUD's FY 2012 goal of 3.8 percent. The increase in the error rate can largely be explained by sampling variance and the updating of the population totals for FY 2012 as previously mentioned.

Also, as noted previously, HUD agreed to remove certain expenditures from the denominator (universe of RHAP expenditures) when calculating HUD's improper payment error rate, which also contributed to the increase in HUD's error rate. To meet future goals, Public Housing Agencies and Multifamily Housing owners must put more discipline into the mandatory use of the EIV system to reduce income errors. HUD's corrective action plans will include addressing this issue during the Management and Occupancy Reviews and Rental Integrity Monitoring reviews. HUD believes that the goals for FY 2013 and beyond are realistic and achievable. In addition, program simplification, via revised legislation, could lead to additional reductions in rental subsidy errors for HUD's RHAP.

Recovery Auditing Activity

Under the requirements of the IPERIA, recovery audits of each program and activity of an agency that expends \$1 million or more annually shall be conducted if performing such audits would be cost-

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effective. The IPERIA significantly increases agency payment recapture efforts by expanding the scope of recovery audits to all programs and activities (e.g., grants, loans, benefits, and contract outlays), and lowering the threshold for conducting payment recapture audits from \$500 million in annual outlays to \$1 million in annual outlays. In FY 2012, HUD, with contractor assistance, performed a detailed recovery auditing review on payments made from the Department's FY 2011 Administrative Expense Appropriation. The results of the review disclosed one minor instance with potential recoveries. However, HUD's Government Technical Representative subsequently validated the payment as proper. Therefore, in FY 2013, HUD did not procure a contractor to perform recovery auditing services on payments made from the Department's FY 2012 Administrative Expenses Appropriation, as it was determined to not be cost-effective.

HUD is still in the process of implementing the recovery audit requirements under the IPERA. Currently, HUD does not have any information to report for Tables 2-5 as displayed in OMB Circular A-136. Certain programs within HUD do not have the means to capture and report the amounts of improper payments identified and recovered. A significant number of appropriations under RHAP are "no year money," and according to guidance in the revised Parts I and II to Appendix C of OMB Circular A-123, recovered overpayments from an appropriation that have not expired are not available to pay contingency fee contracts. As such, the Department has requested an exemption from payment recovery auditing for programs that are funded with "no year money."

An initiative in Multifamily Housing is in the planning stages for the development of an electronic Error Tracking Log to be incorporated as part of the Tenant Rental Assistance Certification System (TRACS) along with the creation of the new Integrated Subsidy Error Reduction System (iSERs) for tracking the specific dollar impact of income and rent discrepancies and the corresponding resolution and/or recapture. However, it is not expected to be operational until at least FY 2014 due to budgetary constraints. The monthly electronic reporting will assist Multifamily Housing to target training to those areas where most errors are occurring, and to ensure that the Department continues to monitor program administrators while increasing efforts to ensure that subsidy payments are being calculated correctly.

In addition, PIH has implemented additional functionalities within EIV and has a team dedicated to monitoring PHA progress in addressing other issues (other than tenant unreported income) which may result in documenting the occurrence of improper payments and HUD's recovery of the improper payments.

The chart on the next page displays improper payments identified and recovered through post-payment reviews outside of payment recapture audits.

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Overpayments Recaptured Outside of Payment Recapture Audits

Agency Source	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY)	Amount Recovered (PY)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
PIH Post Payment Reviews of Payments made on Behalf of Deceased Tenants	\$1,593,892	\$1,591,497	\$756,057	\$740,902	\$2,349,949	\$2,332,399
PIH Post Payment Reviews of Grants	\$1,902,253	\$0	-	-	\$1,902,253	\$0
PIH Subtotal	\$3,496,145	\$1,591,497	\$756,057	\$740,902	\$4,252,202	\$2,332,399
Office of Sustainable Housing and Communities Post Payment Reviews of Grants	\$7,744	\$7,744	-	-	\$7,744	\$7,744
CPD Post Payment Reviews of Grants	\$13,300,000	\$448,000	\$39,176,063	\$19,962,485	\$52,476,063	\$20,410,485
FHA Lender Reviews	\$31,000,000	\$26,000,000	\$22,000,000	\$19,000,000	\$53,000,000	\$45,000,000
OIG Reviews	\$937,229,372	\$2,077,200	\$1,300,177,753	\$1,145,256,247	\$2,237,407,125	\$1,147,333,447
Total	\$985,033,261	\$30,124,441	\$1,362,109,873	\$1,184,959,634	\$2,347,143,134	\$1,215,084,075

Accountability

The Department currently ensures that responsible personnel are held accountable for reducing and recovering improper payments. HUD's implementation of OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A requirements continues to ensure that the Agency's internal control over financial reporting and systems are well documented, sufficiently tested, and properly assessed. In turn, improved internal controls resulting from these reviews enhance safeguards against improper payments, fraud, and waste and better ensure that the Department's resources continue to be used effectively and efficiently to meet the intended program objectives.

In addition, the Office of the Chief Financial Officer enforces its *Administrative Control of Funds: Policies and Procedures Handbook No. 1830.2 Rev-5* protocols via allotment holder and funds control

officer certifications as well as reviews and approvals of funds control plans for all program and administrative accounts.

Agency Information Systems and Other Infrastructure

The internal controls, human capital, information systems, and other infrastructure are sufficient to reduce improper payments to the levels targeted by HUD. Since 2010, the U.S. Department of Housing and Urban Development (HUD) has invested in a series of critical Information Technology (IT) Transformation Initiatives (TI) to revolutionize HUD's mission services. As a result, HUD's IT investments are advancing the mission to create strong, sustainable, inclusive communities and quality, affordable homes for all. Today, as the housing market and economy continue to improve, HUD remains focused on transforming service delivery in response to the needs of its customers, promoting an innovative, supportive workplace for its employees, and reducing improper payments.

HUD's information technology, comprised of systems created decades ago, has led to increased operating costs, risks associated with obsolescence, and program capability gaps that increase the risk of fraud, waste and abuse. To address these challenges, HUD is executing a multi-year effort to modernize the IT-enabled services it provides to our citizens. Through the IT initiatives, HUD is improving its underlying technology and decreasing its reliance on legacy environments. Successful modernization is critical to HUD's continued progress in reducing improper payments, preventing homelessness, helping homeowners refinance, avoiding foreclosure, finding affordable and suitable rental properties, and living in healthier homes.

Barriers

The principal cause of improper payments in HUD's rental assistance programs is a function of program complexity, the administrative nature of the process, the scope of the program, and the legacy systems used at HUD.

An example of the program complexity can be demonstrated by the fact that there are over 45 different types of income that should or may (depending on local options) be excluded from the subsidy calculation. Additionally, rules exist for determining a family's adjusted income that consider medical expenses, child care expenses, income of full-time students, treatment of assets, and application of earned income, disregard rules (if required) and the correlation between bedroom size, payment standard, the contract rent, and utility allowances. This increases program complexity and the probability that errors will be made.

In addition to continued use of EIV and monitoring efforts to improve the quality of PHA-submitted data to the Public and Indian Housing Information Center (PIC), HUD is currently implementing a new initiative, the Next Generation Management System (NGMS). NGMS will enhance HUD's affordable housing program management, streamline complex business processes, and integrate disparate IT systems into a common platform. NGMS will provide a business solution to manage all facets of HUD's RHAP. Ultimately, NGMS will improve how housing authorities and HUD work together in providing affordable housing programs to citizens. By streamlining processes, HUD aims to modernize and simplify business operations to maximize investment returns on modern business-driven, service-oriented solutions that employ shared and standardized technology. NGMS is a comprehensive development plan that can serve as a tool to help reduce improper payments and improve the business process moving forward for administering HUD's RHAP. NGMS will fundamentally improve the business performance by

eventually improving automated tracking controls across the full line of RHAP business processes. It will allow HUD to implement cash management requirements efficiently and effectively by eliminating manual processes and streamlining funding allocations, disbursements and reconciliations. By aligning current and future RHAP processes in NGMS, HUD aims to simplify business operations and maximize investment returns for the Department with business-driven, service-oriented solutions that employ shared and standardized technology. As a result of this simplification and streamlining, NGMS will reinforce HUD's monitoring systems to detect waste, fraud and abuse and lead to a reduction of improper payments in HUD's RHAP.

HUD is also in the process of implementing the New Core Initiative. The New Core Initiative will provide HUD with a modern, compliant, integrated core financial system that will summarize financial data, control funds, prepare annual financial statements, and meet all internal and external reporting requirements. HUD's current financial information application portfolio is comprised of compartmentalized legacy systems that combine both program and traditional accounting functionality and are at an increasing risk of system failure. These systems are in need of enterprise consolidation and modernization in order to improve the stability and efficiency of financial management operations.