



Highlights of [GAO-05-382T](#), a testimony before the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

### Why GAO Did This Study

The rural America of 2005 is far different from the rural America of the 1930s, when the federal government first began to provide housing assistance to rural residents. Advances in transportation, computer technology, and telecommunications, along with the spread of suburbia, have linked many rural areas to urban areas. These changes, along with new fiscal and budget realities, raise questions about how Rural Housing Service (RHS) programs could most effectively and efficiently serve rural America.

### What GAO Recommends

GAO suggested statutory changes to help improve eligibility determinations in rural housing programs and enhance RHS's tenant income verification process. GAO also made a number of recommendations aimed at improving RHS program operations.

[www.gao.gov/cgi-bin/getrpt?GAO-05-382T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-382T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-4325 or [shearw@gao.gov](mailto:shearw@gao.gov).

## RURAL HOUSING SERVICE

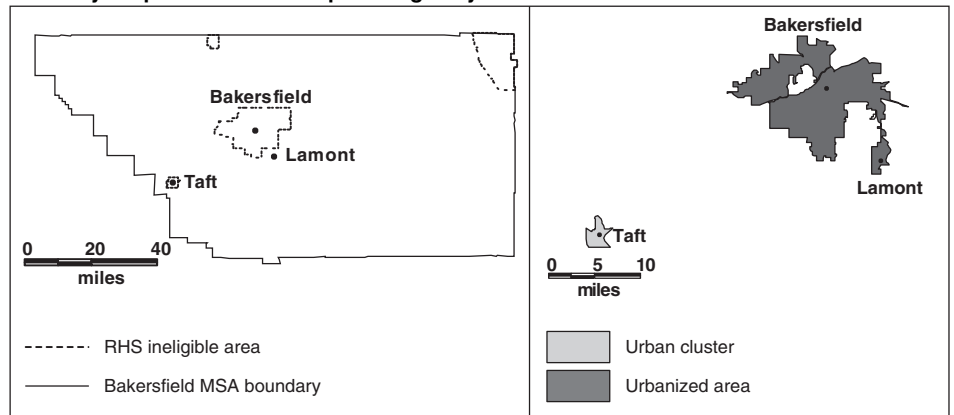
### Overview of Program Issues

#### What GAO Found

This testimony is based on a report on how RHS determines which areas are eligible for rural housing programs, three reports on RHS's rental assistance budgeting and distribution processes, and a report we are releasing today on internal control issues with RHS's loans and grants databases. GAO found that while RHS has significantly improved the housing stock in rural America and has made progress in addressing problems, several issues prevent the agency from making the best use of resources. Specifically:

- Statutory requirements for program eligibility, including those related to metropolitan statistical areas (MSA), "grandfathering" communities, and demonstrating a "serious lack of mortgage credit," are of marginal utility. For example, using density measures rather than MSAs might allow RHS to better differentiate urban and rural areas, and phasing out the "grandfathering" of communities could better ensure that RHS makes more consistent eligibility determinations.
- RHS has consistently overestimated its rental assistance budget needs by using higher inflation rates than recommended by the Office of Management and Budget and incorrectly applying those rates. Also RHS lacked sufficient internal controls to adequately monitor the use of rental assistance funds, particularly for fund transfers and income verifications. RHS has been taking actions that should correct many of the rental assistance shortcomings GAO identified.
- GAO found incorrect, incomplete, and inconsistent entries in RHS's loans and grants databases. Until RHS can demonstrate that its system edit functions or other design features can ensure the accuracy of data in its databases, second-party review is necessary to meet internal control standards.

**Statutory Requirements Can Impede Eligibility**



Source: GAO analysis of Census data.

MSA and grandfathering make more rural Taft ineligible (left), while density-based measures could make it eligible (right).