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HUD MANAGEMENT

Information and Issues Concerning HUD's Management Reform Efforts

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss management issues concerning the Department of Housing and Urban Development (HUD). HUD has been the subject of sustained criticism for weaknesses in its management and oversight abilities that have made it vulnerable to fraud, waste, abuse, and mismanagement. In 1994, we designated HUD as a high-risk area because of four long-standing departmentwide management deficiencies: weak internal controls, inadequate information and financial management systems, an ineffective organizational structure, and an insufficient mix of staff with the proper skills. In February 1997, we reported that HUD had formulated approaches and initiated actions to address these deficiencies but that its efforts were far from reaching fruition.¹ In June 1997, HUD announced its “HUD 2020 Management Reform Plan,” a sweeping set of proposals intended to, among other things, address identified management weaknesses and continue downsizing the Department. The plan has continued to evolve since June 1997.

Our statement today is based upon our past reviews of various HUD programs, our report providing information on HUD’s 2020 Management Reform Plan,² our reviews of HUD’s strategic and annual performance plans prepared pursuant to the Government Performance and Results Act, reports recently issued by HUD’s Inspector General, and information HUD provided to us in an April briefing on the status of its reform efforts. Our statement discusses (1) progress HUD has made in addressing management deficiencies and the need for additional improvement, (2) the activities under HUD’s 2020 management reform and other efforts to address its deficiencies, (3) issues that we believe are key as HUD implements its management reforms, and (4) the relationship between HUD’s reform efforts and its Results Act plans.

In summary:

- HUD has made progress in addressing problems that led to our high-risk designation, but much remains to be done. Prior to announcing the 2020 management reform plan, HUD had among other things (1) addressed internal control weaknesses by implementing a new management planning and control program and reduced the material weaknesses identified under the Federal Managers’ Financial Integrity Act (FMFIA) assessment;

¹High-Risk: Department of Housing and Urban Development (GAO/HR-97-12, Feb. 1997).

²HUD Management: Information on HUD’s 2020 Management Reform Plan (GAO/RCED-98-86, Mar. 20, 1998).

(2) continued to make progress in improving its information and financial management systems; (3) completed a field reorganization that transferred direct authority for staff and resources to the Assistant Secretaries; and (4) made some progress in addressing problems with staff members' skills and with resource management. However, our recent work and that of the Inspector General indicate the need for continued progress in these areas; for example, the agency's financial statement audit for fiscal year 1997 indicates that HUD still faces significant material weaknesses, including weaknesses in its control structure intended to help ensure that \$18 billion in rental subsidies are based upon tenants' correct incomes.

- Under the HUD 2020 Management Reform Plan and related efforts, HUD is in the process of making significant changes that will affect most aspects of its operations, including the long-standing management problems and issues facing the Agency. The plan calls for reducing the number of programs, reducing staffing, retraining the majority of the staff, reorganizing the 81 field offices, consolidating processes and functions within and across program areas into specialized centers, and modernizing and integrating the financial and management information systems. As we stated in our March 1998 report, the plan is directed in part towards correcting the management deficiencies that we and others have identified. However, because the reforms are not yet complete and some of the plan's approaches are untested, the extent to which they will result in the intended benefits is unknown.
- Several interrelated issues are particularly important for achieving the intended benefits of HUD's management reform efforts: (1) HUD's ability to meet planned timetables for implementing key reforms, (2) the adequacy of staffing during and after the transition to the "new HUD," (3) the Department's ability to reduce the numbers of troubled public housing authorities and troubled multifamily projects (according to physical, financial and/or management measures), and (4) HUD's ability to effectively improve its procurement and contracting practices, including its oversight of contractors. It will also be important for HUD, as it implements the reforms, to assess the extent to which the reforms are achieving the desired outcomes and whether they are fully addressing known problems.
- The HUD 2020 Management Reform Plan appears to be the driving force behind agency operations, and it is clearly linked to the Agency's strategic and annual performance plans required by the Results Act. The degree to which HUD is successful in implementing its reform efforts will influence its success in meeting its goals and objectives outlined in the strategic and annual performance plans. Both appear to rely in part on many of the same legislative proposals that could affect HUD's staffing needs and the attainment of strategic objectives. As we have reported, HUD's strategic

plan could be improved by clarifying the impact on meeting objectives if the legislative proposals are not enacted.³

Background

HUD is the principal government agency responsible for programs dealing with housing, community development, and fair housing opportunities. HUD's missions include making housing affordable by providing mortgage insurance for multifamily housing, providing rental assistance for about 4.5 million lower-income residents, helping revitalize over 4,000 localities through community development programs, and encouraging homeownership by providing mortgage insurance. HUD is one of the nation's largest financial institutions, responsible for managing more than \$454 billion in mortgage insurance and \$531 billion, as of September 30, 1997, in guarantees of mortgage-backed securities. The agency's budget authority for fiscal year 1998 is about \$24 billion.

HUD has initiated a number of reform and downsizing efforts in the 1990s. In February 1993, then-Secretary Cisneros initiated a "reinvention" process in which task forces were established to review and refocus HUD's mission and identify improvements in the delivery of program services. HUD also took measures in response to the National Performance Review's September 1993 report, which recommended that HUD eliminate its regional offices, realign and consolidate its field office structure, and reduce its field workforce by 1,500 by the close of fiscal year 1999. Following a July 1994 report by the National Academy of Public Administration that criticized HUD's performance and capabilities, Secretary Cisneros issued a reinvention proposal in December 1994 that called for major reforms, including a consolidation and streamlining of HUD's programs coupled with a reduction in staff to about 7,500 by the year 2000. Building upon the earlier reinvention efforts, Secretary Cuomo initiated the 2020 planning process in early 1997 to address, among other things, HUD's downsizing goals and management deficiencies.

The Congress enacted the Government Performance and Results Act of 1993 in conjunction with the Chief Financial Officers Act and information technology reform legislation to help instill performance-based management in the federal government. The Results Act seeks to shift the focus of government decisionmaking and accountability away from a preoccupation with the activities—such as grants and inspections made—to a focus on the results—such as the real gains in employability,

³Managing for Results: Agencies' Annual Performance Plans Can Help Address Strategic Planning Challenges (GAO/GGD-98-44, Jan. 30, 1998).

safety, responsiveness, or program quality. Under the act, agencies are to develop strategic plans, annual performance plans, and annual performance reports.

HUD Has Made Progress in Addressing Management Problems

The HUD scandals of the late 1980s served to focus a great deal of public attention on the management problems at HUD. We designated HUD as a high-risk area because of four long-standing, departmentwide management problems. First, internal control weaknesses, such as a lack of necessary data and management processes, were a major factor leading to the scandals. Second, poorly integrated, ineffective, and generally unreliable information and financial management systems did not meet program managers' needs and weakened their ability to provide management control over housing and community development programs. Third, HUD had organizational problems, such as overlapping and ill-defined responsibilities and authorities between HUD headquarters and field organizations and a fundamental lack of management accountability and responsibility. Finally, an insufficient mix of staff with the proper skills hampered the effective monitoring and oversight of HUD's programs and the timely updating of procedures. We have testified before this Subcommittee on specific major management challenges facing HUD that are illustrative of these four deficiencies discussed above.⁴

In February 1997, we reported that HUD had made some progress in addressing these problems.⁵ Specifically, we reported that HUD:

- had made limited progress in addressing internal control weaknesses by implementing a new management planning and control program intended to identify and rank the major risks in each program and devise strategies to abate those risks, and had reduced its material weaknesses identified under the FMFIA assessment from 51 in the early 1990s to 9. At the same time, we noted that the remaining material weaknesses were long-standing and involved large sums of money, and that financial audits had continued to identify material internal control weaknesses in HUD's programs. We also found that managers were not actively assessing risks in their programs as required under the management control program. Finally, despite its importance as a management tool, HUD's monitoring of program participants continued to be a problem area.

⁴See Housing and Urban Development: Reform and Reinvention Issues (GAO/T-RCED-95-129, Mar. 14, 1995).

⁵GAO/HR-97-12.

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- continued to make progress in improving its information and financial management systems but much work remained: Some of the projects would not be completed until the year 2000. In addition, we noted that HUD reported that most of its systems did not comply with the FMFIA and therefore could not be relied upon to provide timely, accurate, and reliable financial information and reports to management.
 - had completed a field reorganization that eliminated its regional office structure and transferred direct authority for staff and resources to the Assistant Secretaries, and was planning additional reorganization efforts. Although HUD had not evaluated the effects of its reorganization, most field directors we surveyed rated it successful overall and believed that the reorganization had achieved most of the intended goals—namely, eliminating previously confused lines of authority within programs, enhancing communications, reducing levels of review and approval, and improving customer service.⁶
 - had made some progress in addressing the problems with staff members' skills and with resource management. The Department had increased staff training since our 1995 report and begun to implement a needs assessment process to plan future training. We noted that HUD directors we surveyed generally believed that the skills of their staff had improved over the previous 2 years; however, 40 percent of the directors rated the Department's training as less than good. In addition, we and HUD's Inspector General continued to identify staff resource problems in HUD's major program areas, specifically in public housing and the Federal Housing Administration (FHA). Finally, we reported that the problem of inadequate staff resources to monitor and administer HUD's current array of programs likely would be compounded as the Department implemented plans to downsize.

Our February 1997 report concluded that HUD programs continued to pose a high risk to the government in terms of their vulnerability to waste, fraud, abuse, and mismanagement; that HUD needed to complete its corrective actions; and that HUD and the Congress needed to work together to implement a restructuring strategy that focuses HUD's mission and consolidates, reengineers, or reduces HUD's programs to bring its responsibilities in line with its management capacity.

In its March 1998 report on the audit of the agency's fiscal year 1997 consolidated financial statements, HUD's Inspector General reported that

⁶HUD: Field Directors' Views on Recent Management Initiatives (GAO/RCED-97-34, Feb. 12, 1997).

management problems continue.⁷ For example, the report identified seven material internal control weaknesses, including the agency's failure to establish a control structure that provided reasonable assurance that \$18 billion in rental subsidies are based upon tenants' correct incomes.⁸ Other material weaknesses included the needs for HUD to upgrade its financial management systems; FHA to improve its accounting and financial management systems;⁹ HUD to improve the management of its resources, which affects the Department's ability to monitor program recipients and contractors; and HUD to improve its monitoring of multifamily projects.

Our work has also shown a continuing need for improvement. For example:

- Our recent report on HUD's tenant-based Section 8 assistance program illustrates the need for further improvement in financial management.¹⁰ We found that flaws in HUD's budget process, including double-counting of administrative fees that are paid to housing agencies for operating the Section 8 program and insufficient use of supporting historical data, led to significant overestimates of contract renewal needs. Recognizing these inaccuracies, HUD submitted a revised budget estimate that was \$1 billion lower than its original estimate. The agency agreed with our recommendations for improvements in this area.
- Similarly, in our on-going review of the project-based Section 8 program, we found errors in the analyses the Department uses to support its requests for funding to amend Section 8 contracts that do not have sufficient funding. As we discussed in recent testimony on HUD's fiscal year 1999 budget request, these errors contributed to HUD substantially overestimating the funding needed to amend Section 8 project-based contracts in fiscal year 1999.¹¹ The errors included omitting relevant Section 8 funding and contracts. We are continuing to work with HUD to ensure that these errors are corrected.

⁷U.S. Department of Housing and Urban Development Audit of Fiscal Year 1997 Financial Statements, Office of Audit, Office of Inspector General (98-FO-177-0004, Mar. 20, 1998).

⁸Based upon its computer matching efforts using calendar year 1996 data, HUD estimates that overpayments of rental subsidies were from \$755 million to \$1.12 billion.

⁹Also, FHA's systems are not capable of generating the case-specific cash flow data needed to comply with credit reform. As a result, HUD has not been able to accurately report the costs of its credit programs (the primary purpose of credit reform) in its consolidated financial statements—information important to executive and congressional decisionmakers.

¹⁰Section 8 Tenant-Based Housing Assistance: Opportunities to Improve HUD's Financial Management (GAO/RCED-98-47; Feb. 20, 1998).

¹¹Housing and Urban Development: Comments on HUD's Fiscal Year 1999 Budget Request (GAO/T-RCED-98-137, Mar. 25, 1998).

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- We recently testified that HUD faces Year 2000 risks with its automated systems (the possibility that systems that represent the year using two digits rather than four will generate incorrect results beyond 1999).¹² System failures could interrupt the processing of applications for mortgage insurance, the payment of mortgage insurance claims, and the payment of rental assistance. According to HUD's schedule for the 30 mission-critical systems undergoing renovation, testing, and certification or where renovation has not yet begun, all of these actions will be completed by December 31 of this year.¹³ However, at the time of our testimony HUD was behind schedule on 20 of these 30 mission-critical systems, with 13 of the 20 experiencing delays of 2 months or more. Furthermore, HUD reported that 5 of these 13 have "failure dates"—the first date that a system will fail to recognize and process dates correctly—between August 1, 1998 and January 1, 1999. To better ensure the completion of work on mission-critical systems, HUD officials decided to halt routine maintenance on five of its largest systems, beginning April 1.

2020 Reforms Are Directed Towards Correcting Management Weaknesses

Under the HUD 2020 Management Reform Plan and related efforts, HUD is in the process of making significant changes that will affect most aspects of its operations, including the long-standing management problems and issues facing the agency. The plan calls for reducing the number of programs, reducing staffing levels, retraining the majority of the staff, reorganizing the 81 field offices, consolidating processes and functions within and across program areas into specialized centers, and modernizing and integrating the financial and management information systems. As we stated in our March 1998 report, the plan is directed in part towards correcting the management deficiencies that we and others have identified. However, because the reforms are not yet complete and some of the plan's approaches are untested, the extent to which they will result in the intended benefits is unknown. The following sections discuss how HUD's reform efforts address weaknesses we have identified with the Department's internal controls, financial and information management systems, organizational structure, and staffing.

¹²Year 2000 Computing Crisis: Strong Leadership Needed to Avoid Disruption of Essential Services (GAO/T-AIMD-98-117; Mar. 24, 1998).

¹³HUD has designated 63 systems as mission-critical; of which 33 are already compliant, renovated and certified as compliant, or being replaced.

Internal Controls

A strong internal control system provides the framework for the accomplishment of management objectives, accurate financial reporting, and compliance with laws and regulations. Effective internal controls serve as checks and balances against undesired actions such as fraud, thereby providing reasonable assurance that resources are effectively managed and accounted for.

HUD's 2020 Management Reform Plan calls for a number of actions that if effectively implemented could help to address internal control weaknesses, including the need for more monitoring. These actions include (1) implementing a new financial integrity program, under which program managers will be held accountable for financial management; (2) establishing a risk management office within the Office of Chief Financial Officer to integrate risk management as a day-to-day operations in program offices; (3) improving financial management systems; (4) establishing a real estate management assessment center to perform physical and financial assessments of the multifamily inventory and public housing authorities; and (5) establishing a consolidated enforcement center responsible for investigating and taking enforcement actions against organizations administering HUD funds, such as public housing authorities, communities, and multifamily project owners who do not comply with the programs they administer.

In reporting on HUD's consolidated financial statements for fiscal year 1997, the Inspector General stated that to improve its internal control environment HUD needed to be successful in completing efforts to upgrade its financial management systems, correct resource management shortcomings, address weaknesses with its management control program, and improve program performance measures. The Inspector General also stated that the management integrity program—implemented under the HUD 2020 reform effort—was soundly conceived but that it was too early to evaluate how effective the program would be. HUD's Office of Risk Management had not become operational until the second quarter of fiscal year 1998. The report also noted that HUD's success in addressing the longstanding monitoring deficiency is dependent upon a concept for standardizing inspections of multifamily projects and public housing authorities that had not been tested. In April, HUD officials told us they were in the process of testing the physical assessment procedures and expected to test the financial assessment procedures within 6 months. Finally, although the HUD 2020 Management Reform Plan did not specifically address the internal control weakness relating to verifying tenants' incomes under HUD's rental assistance programs, the agency has

begun implementing some actions under the reform effort, according to the Inspector General's report.

Information and Financial Management Systems

HUD relies extensively on information and financial management systems to manage its programs. The 2020 plan calls for HUD to modernize and integrate outdated financial management information systems with an efficient state-of-the-art system, incorporating such features as efficient data entry, support for budget formulation and execution, updates on the status of funds, standardized data for quality control, and security control. The plan also states that information and accounting systems that do not comply with FMFIA would be overhauled to correct deficiencies, their functions would be consolidated into the new accounting systems, or they would be eliminated.

HUD's project to modernize and integrate its financial management systems has been ongoing for 6 years, and was revised to support the 2020 plan. The revised project plan calls for the consolidation of four general ledger systems into a core accounting system;¹⁴ an executive information system; and Communities 2020, a mapping software that will show the impact of HUD's funding activities in local communities. Recently, the Department decided to forgo purchasing a new software package to integrate its financial systems; instead, it will continue to implement the Federal Financial Systems software, which it began using in 1995. The Department plans to complete the systems integration project by September 1999 and has separated it into two phases. In the first phase, HUD will implement the Federal Financial Systems software as its consolidated general ledger and the FHA's general ledger by September 30, 1998. In the second phase, by September 30, 1999, HUD will fully implement the software as its core accounting system and integrate it with program information systems that contain financial data.

In addition, in February 1998, HUD completed a departmentwide effort to evaluate whether its systems conform to FMFIA requirements and OMB circular A-127, and it reported that 38 of its 92 systems were nonconforming systems (HUD had previously reported that 85 were not in compliance).¹⁵ The Inspector General's March 1998 report pointed out,

¹⁴The core accounting system is to conform with the government-wide standards issued by the Joint Financial Management Improvement Program and Office of Management and Budget Circular A-127 on financial management systems.

¹⁵Thirty-one systems were classified from nonconforming to conforming, 14 systems were discontinued and dropped from the list, 7 systems were designated as nonfinancial and dropped from the list, and 5 systems were added to the list.

however, that 21 of the 31 systems that HUD reclassified as complying did not have detailed assessments and justifications available as required by HUD’s Chief Financial Officer.

Organizational Structure

The 2020 Management Reform Plan calls for reorganizing field resources by functions, rather than program “cylinders,” and consolidating or centralizing functions. For example:

- HUD is consolidating single-family housing insurance operations—previously carried out in 81 field offices—in four homeownership centers, and is consolidating certain multifamily housing development and management functions—previously located in more than 50 field offices—into 18 hub offices.
- The Office of Public Housing is consolidating some of its functions—previously performed in 52 public housing offices—into 27 hub offices and 16 program centers; centralizing the management of competitive grants and public housing operating and capital funds into one Grants Center; centralizing applications for demolition/disposition, designated housing plans and homeownership plans into one Special Applications Center; and centralizing activities to improve the performance of troubled public housing authorities into two Troubled Agency Recovery Centers.
- The Office of Fair Housing and Equal Opportunity is consolidating program compliance monitoring and enforcement functions within its existing field structure of 48 offices into 10 hubs, 9 project centers and 23 program offices.

In addition, HUD is establishing three nationwide centers to consolidate across programs payments for rental assistance, physical and financial assessments of real estate, and enforcement functions. The budget and chief financial officer’s functions are being consolidated and accounting operations are being consolidated from 10 divisions into one center.

HUD expects to improve both the efficiency and effectiveness of its operations through these organizational changes. Specific expected benefits include (1) reducing the time for endorsements for single-family housing insurance and development applications for multifamily housing; (2) reducing paperwork requirements for grant programs; (3) greater financial management accountability, since budgetary and financial responsibilities are centralized; (4) improving HUD’s ability to manage public and assisted housing portfolios through the operations of the

assessment center; and (5) improving HUD's ability to enforce contractual requirements with private owners, public housing authorities, and other HUD clients. As we noted in our March 1998 report, HUD's anticipated benefits from these organizational changes are generally not based upon detailed empirical analyses or studies; but rather on a variety of factors, including some workload data, limited results of one pilot project, identified best practices in HUD field offices, benchmarks from other organizations, and managers' and staffs' experience and judgment. We concluded that because the reforms are not yet complete and some of the approaches are untested, the extent to which they will result in the intended benefits is unknown.

We believe it is too early to judge the effectiveness of HUD's organizational changes. It will be some time before the proposed reforms are completely implemented, any operational problems reveal themselves, and corrections are made. However, we note that the Inspector General's December 1997 report raised concerns about organizational structure, similar to those highlighted in our high-risk report, relating to the Office of Public and Indian Housing reorganization. The Inspector General stated that the structure and operating plans for overseeing programs and housing authorities may be difficult to implement because they provide for assigning staff authority and responsibilities in a fragmented and overlapping manner.¹⁶

Staffing

Assurance that HUD has the right number of staff with the proper skills has been an issue of concern to us, the Inspector General, and others for a number of years. The HUD 2020 Management Reform Plan—in addition to its basic goal of reducing staffing to 7,500—has several proposals that affect staff resource capacity. For example, the plan calls for: refocusing and retraining HUD's workforce, consolidating and/or eliminating more than 300 programs into 70, deregulating well-operating public housing authorities, and replacing the current field structure with one that consolidates functions within and across program areas. The plan also calls for implementing a resource estimation process that, according to HUD, will be a disciplined and analytical approach to identify, justify, and integrate resource requirements and budget allocations.

In commenting on a draft of our March 1998 report, HUD's Acting Deputy Secretary stated that the Department plans to achieve its downsizing goal

¹⁶Department of Housing and Urban Development, Office of Inspector General Semiannual Report to Congress as of September 30, 1997 (Washington, D.C.: HUD, Dec. 29, 1997).

of 7,500 full-time employees by 2002 in two phases. During the first phase, HUD has reduced staff to approximately 9,000 employees. According to the Acting Deputy Secretary, HUD now plans to continue downsizing to 7,500 by 2002—the second phase—only if (1) the Congress enacts legislation to consolidate HUD’s program structure and (2) there has been a substantial reduction in the number of troubled multifamily assisted properties and troubled public housing authorities.

Key Implementation Issues

Several interrelated issues are particularly important for achieving the intended benefits of HUD’s management reform efforts: (1) HUD’s ability to meet planned timetables for implementing key reforms, (2) the adequacy of staffing during and after the transition to the “new HUD,” (3) the Department’s ability to reduce the numbers of troubled public housing authorities and troubled multifamily projects, and (4) HUD’s ability to effectively improve its procurement and contracting practices, including its oversight of contractors. It will also be important for HUD, as it implements the reforms, to assess the extent to which the reforms are achieving the desired outcomes, which will depend on both its capacity to carry out the reforms and their sustainability under changing leadership.

Ability to Meet Planned Timetables

Because of the sheer scope of HUD’s management reform efforts, the Department has a large number of actions underway simultaneously—at a time when it has just downsized by nearly 10 percent . The Department plans to have its reorganization completed by September 30, 1998, including the establishment of the new consolidated functional centers. These changes, in turn, require other efforts, such as developing operating procedures and selecting and training staff, that must be completed in order to implement the planned reforms.

One area in which it may be difficult for HUD to meet targeted timeframes relates to the “mark-to-market” change as described in the 2020 plan. Specifically, the 2020 plan described HUD’s intention to reduce excessive rent subsidies to market levels for assisted housing, noting that roughly 65 percent of HUD’s insured Section 8 multifamily portfolio (the portfolio of multifamily properties with both project-based rent subsidies and HUD-insured mortgages) have rents that are substantially above market levels. On October 27, 1997, the Congress enacted legislation to, among other things, reduce the long-term costs of project-based rental assistance

and encourage project owners to restructure their FHA-insured mortgages and project-based assistance contracts before their contracts expire.¹⁷

HUD officials responsible for mark-to-market operations are currently taking steps to begin implementing the mark-to-market program by the mandated date of October 27, 1998.¹⁸ These steps include developing a management infrastructure, drafting interim and final regulations for the program, pursuing an Internal Revenue Service ruling on debt restructuring, and beginning the solicitation process for the third parties who will be responsible for actually restructuring the HUD-insured mortgages and rental assistance. However, according to HUD mark-to-market officials, HUD lacks the in-house capability to complete some other tasks that are essential to effectively implementing the mark-to-market program. These tasks include providing HUD staff and third-party partners with operating manuals, developing an organizational structure, assessing and revising information systems, providing briefings for HUD staff and third party partners regarding operating procedures, and developing budget analyses. HUD intends to obtain the capacity to complete such tasks through a task order under an existing management studies contract; however, the award of the task order has been delayed.

Another area in which HUD may have difficulty achieving its intended schedule for implementing changes is in developing alternatives to its property disposition process. To address poorly controlled and monitored disposition of single-family properties, HUD plans to privatize or contract out most property disposition activities. Specifically, according to officials in HUD's Single-Family Housing Division, the Department plans to sell the rights to properties before they enter HUD's inventory, thus enabling quick disposition once the properties become available. However, many of the details of these sales, which HUD refers to as "privatization sales," remain to be developed. In addition, HUD has proposed legislation to allow the Department to take back notes when claims are paid, rather than requiring lenders to foreclose and convey properties. HUD would then transfer the notes to a third party for servicing and/or disposition.

Since HUD has not fully developed plans for these alternative methods of property disposition, its schedule for implementing changes may be delayed. For example, according to single-family property disposition

¹⁷Department of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1998 (P.L. 105-65).

¹⁸The legislation requires that HUD issue final regulations to implement the restructuring program by the later of: (1) Oct. 27, 1998, or (2) within 3 months after a director is appointed to the Office of Multifamily Housing Assistance Restructuring (also established by the legislation).

officials, HUD expected to publish a proposed rule amending the current property disposition regulations in about March 1998, have a financial adviser hired by April 1998, conduct the first privatization sale in the summer of 1998, and publish the final rule amending the current regulations by September 1998. However, as of April 27, 1998, these steps had not been completed and HUD was unable to estimate when the events might occur.

Adequacy of Staffing

Our work, and that of the Inspector General, has identified problems with the adequacy of staff training and with the means of determining staffing resource needs. The 2020 Management Reform Plan, which incorporates the continued downsizing at HUD and the assignment of many staff to new duties, heightens the importance of both of these issues.

Meeting Training Needs

Our February 1997 report noted that HUD had taken steps to increase the effectiveness of its staff training by, among other things, beginning to implement a needs assessment process for future training, forming partnerships with colleges and universities to create new educational opportunities, and substantially increasing expenditures for training. HUD's field program directors that we surveyed for the report indicated that these efforts may have produced positive effects—for example, about 85 percent of the directors said that the skills of their staff had improved at least somewhat during the preceding 2 years—but that pockets of problems remained. More than one-fourth of the directors at that time were not satisfied with their staffs' knowledge of new regulations or with their staffs' interpersonal skills; 42 percent were not satisfied with their staffs' knowledge of information systems.

The need for staff training may be even more critical with the advent of HUD 2020, because over 1,000 employees have left the Department and HUD has reassigned some 1,300 employees. (Many more employees may be reassigned through the merit staffing of about 700 positions, which HUD initiated in April and expects to complete by June.) Cumulatively, this represents a significant loss of staff expertise. HUD's Inspector General reported in December 1997 that “[m]any of HUD's technical staff experts and mid- and senior-level managers have already left the Department, taking with them vast institutional knowledge and program expertise that cannot be easily replaced. “

To cope with the reforms and the attendant personnel and operational changes, HUD has laid out an ambitious training program. For example, HUD

plans to begin comprehensive training for all personnel assigned to the Section 8 Financial Management Center beginning June 1, 1998, and to train HUD staff on new tools and technology for physical inspections of properties (26 HUD inspectors have already been trained). HUD has also developed a training agenda and tentative schedule for staff of the new Enforcement Center and for Housing's quality assurance staff; this training is to include input from the Inspector General's office. In addition, according to the 2020 plan, HUD intends to create training programs for its new community resource representatives and public trust officers, including specialized training at universities beginning in the fall of 1998.

Determining Staff Resource Needs

Much attention has been focused on the origin and rationale for the downsizing targets in the 2020 management reform plan. We believe that there are two issues here that deserve the Congress's and HUD's attention. The first is ensuring that HUD has an adequate number of staff to carry out vital functions during the transition to its new organizational structure. The second is developing a systematic means of determining staff resource needs that can accommodate future organizational changes.

HUD's 2020 Management Reform Plan, when announced in June 1997, projected a target staffing level of 7,500 (on a full-time equivalent basis) by the year 2000, subsequently extended to 2002. However, more recently HUD has indicated that it may need more staff. A staff summary provided at HUD's briefing for us on April 17 shows an authorized staffing level of 7,826 under the reform plan. (A report by Booz-Allen & Hamilton, Inc., reported that HUD's projected staffing levels increased from 7,500 to 7,826 due to field management, the Enforcement Center, and the Assessment Center.) According to HUD's acting Deputy Secretary, this staffing level is likely to be needed even if the Congress enacts legislation consolidating programs; and it does not include any new responsibilities that may be imposed on HUD.

Our March report on the 2020 Management Reform Plan found that HUD's target staffing levels were not based upon a systematic analysis of needs. While HUD used historical workload data to apportion or allocate predetermined target numbers of staff among different locations or functions, it did not use a systematic analysis directed at determining how many staff are needed to carry out a given responsibility or function. Our finding is consistent with that of HUD's Inspector General, who reported that the Department's target of 7,500 staff was adopted without first performing a detailed analysis of HUD's mission and projected workload. In its annual performance plan for fiscal year 1999, HUD noted that

departmental systems for measuring work and reporting time are no longer available and that it lacks a single, integrated system to support resource allocation.

The 2020 Management Reform Plan calls for HUD to implement a proposed resource estimation and allocation process. HUD intends to work with the National Academy of Public Administration to develop a methodology or approach for resource management that will allow the Department to identify and justify its resource requirements. According to the Academy, the resource estimation elements will include workload factors and analysis based on quantifiable estimates of work requirements for planning, developing, and operating current and proposed programs, priority initiatives, and functions. The methodology is also to enable HUD to estimate resources for its budget formulation and execution and to link resources to performance measures.

Reducing the Numbers of Troubled Housing Authorities and Multifamily Projects

While HUD plans to have certain of its structural reforms—such as the new Troubled Agency Recovery Centers and its Enforcement Center—in place by early fall of this year, reducing the numbers of troubled public housing authorities and multifamily projects partly depends on successfully implementing other elements of the 2020 reform plan, including some that require legislation. For example, the 2020 plan includes a legislative proposal to reform bankruptcy laws to prevent owners from using them as a refuge from enforcement actions.

HUD is currently responsible for overseeing about 54 troubled public housing authorities. The 2020 reform plan proposes to revise the existing program for assessing the management of public housing, as well as incorporate information from physical inspections, audits, and evaluations of community and residents' satisfaction, to provide a comprehensive annual assessment. The Inspector General reported in December that, according to HUD officials, this effort could increase the number of housing authorities defined as troubled to more than 500, depending on the scoring system used. Furthermore, the 2020 plan calls for mandating a judicial receivership for any large housing authority that remains on the troubled list for more than 1 year. According to the plan, this action would require legislation. The Inspector General noted that HUD might have to deal with a large number of receivership actions with a downsized staff.

Reducing the number of troubled multifamily properties—which HUD estimates to number about 5,400—could also prove difficult. HUD's revised

processes for identifying and dealing with troubled properties are not yet fully developed, and the respective roles that multifamily project managers—located in field offices—and the enforcement center will play in taking actions on troubled multifamily projects are not yet clear. The 2020 plan noted that HUD lacked an efficient system to identify, assess, and respond to troubled properties, and stated that the Department-wide enforcement authority would handle troubled properties. However, according to information provided to us in the April briefing, HUD has created quality assurance divisions in its multifamily field structure and created senior project manager positions to handle severely troubled projects. It is also developing an automated tool to provide information on all conditions and activities of multifamily projects; the plans include access to the Assessment Center’s physical inspection and financial data.

While the Department has reduced staff workload by transferring some responsibilities, according to HUD officials, it has not yet achieved the workload ratios (nontroubled projects per asset manager) anticipated by the 2020 plan. Part of the rationale for this workload realignment is to prevent additional projects from becoming troubled. If the physical and financial assessments of properties indicate that more properties are troubled than currently estimated, HUD may need more staff and/or time to reduce the number of troubled properties.

Improving Procurement and Contracting Practices

HUD awards millions of dollars in contracts each year. The 2020 Management Reform Plan calls for HUD to contract with private firms for a number of functions, including physical building inspections of public housing and multifamily insured projects; legal, investigative, audit, and engineering services for the Enforcement Center; and activities to clean up the backlog of troubled assisted multifamily properties . The plan also encompasses the potential use of contractors to help dispose of single-family properties and to manage construction in the HOPE VI program.¹⁹ The Department—with fewer staff—will be responsible for ensuring that agency needs are accurately reflected in contract specifications and that contracts are fairly awarded and properly administered. Inadequate contracting practices leave HUD vulnerable to waste and abuse.

¹⁹The HOPE VI program provides funds for, among other things, the demolition, rehabilitation, and construction of public housing.

We and the Inspector General have identified weaknesses in HUD's procurement systems, needs assessment and planning functions, and oversight of contractor performance. For example:

- HUD's ability to manage contracts has been limited because its procurement systems did not always contain accurate critical information regarding contract awards and modifications and their associated costs. Although HUD recently combined several of its procurement systems, the new system is not integrated with HUD's financial systems, limiting the data available to manage the Department's contracts.
- Inadequate oversight of contractor performance has resulted in HUD's paying millions of dollars for services without determining the adequacy of the services provided.
- HUD staff have often not been trained or evaluated on their ability to manage the contracts for which they have oversight responsibility and have not always maintained adequate documentation of their reviews of contractors. This situation limits assurance that adequate monitoring has occurred.

For example, we recently reported that HUD did not have an adequate system in place to assess its field offices' oversight of real estate asset management contractors, who are responsible for safeguarding foreclosed FHA properties.²⁰ The three HUD field offices we visited varied greatly in their efforts to monitor the performance of these real estate asset management contractors, and none of the offices adequately performed all of the functions needed to ensure that the contractors meet their contractual obligations to maintain and protect HUD-owned properties.

HUD has recognized the need to improve its procurement processes and has begun taking actions to address weaknesses that we and the Inspector General have identified. The 2020 plan includes an effort to redesign the contract procurement process. HUD has recently appointed a chief procurement officer who will be responsible for improving HUD procurement planning and policies, reviewing and approving all contracts over \$5 million, and implementing recommendations that may result from an ongoing study of HUD's procurement practices by the National Academy of Public Administration. HUD is also establishing a contract review board, composed of the chief procurement officer and other senior HUD officials, that will be responsible for reviewing and approving each HUD program office's strategic procurement plan and reviewing the offices' progress in

²⁰Single-Family Housing: Improvements Needed in HUD's Oversight of Property Management Contractors (GAO/RCED-98-65, Mar. 27, 1998).

implementing the plans. In addition, HUD is taking actions to strengthen its monitoring of contractor activities by establishing standard training requirements for the HUD staff responsible for monitoring contractors' progress and performance and by including standards relating to contractor monitoring in its system for evaluating employee performance. HUD is also planning actions to integrate its procurement and financial systems.

We view these actions as positive steps. However, some key issues concerning their implementation remain to be decided, such as the relationship between the chief procurement officer and HUD's Office of Procurement and Contracts, the precise role of the contract review board in overseeing HUD's procurement actions, and HUD's ability to have the necessary resources in place to carry out its procurement responsibilities effectively. Perhaps even more important is the extent to which these actions will lead to a change in HUD's culture, so that acquisition planning and effective contractor oversight will be viewed by both management and staff as being intrinsic to HUD's ability to carry out its mission successfully.

HUD Has Linked Results Act Plans to Management Reform Efforts

The HUD 2020 Management Reform Plan appears to be the driving force behind agency operations. HUD has clearly linked its management reform efforts to the agency's Results Act plans, so that its success in meeting annual performance goals and achieving strategic objectives depends on the success of the management reform efforts. In addition, HUD's legislative proposals for 1997 support both its management reforms and strategic objectives.

In its September 30, 1997, strategic plan, HUD stated that the plan builds on the foundation of the sweeping management reforms. Each of the plan's objectives includes a discussion of the reform efforts that will affect the objective. The plan also notes that the Secretary's mission to restore the public's trust in HUD—one of the purposes of the 2020 HUD Management Reform Plan—permeates the Department and is an integral part of each and every objective in the strategic plan. The plan states the important linkage to the HUD 2020 Management Reform Plan: "To create a new HUD, we will need the full range of approaches set out in [the] Strategic Plan and the Management Reform Plan. The success of these efforts is dependent on the success of the whole." The annual performance plan, submitted to the Congress in March 1998, also provides a discussion of how the reform efforts affect each objective.

The annual performance plan includes—in addition to the performance goals that are associated with specific strategic objectives—a number of performance goals for “management reform;” in both cases, the performance goals include indicators. The plan does not explicitly link the management reform goals to the strategic objectives or performance goals where there are logical opportunities to do so. For example, one proposed performance indicator under the management reform performance goals is “achieve a reduction in the number of troubled properties over the next five years.” This could logically support HUD’s strategic objective of increasing the availability of affordable housing in standard condition (one of whose indicators is “increase the percentage of project-based Section 8 units in standard physical and financial condition”), but the plan does not make this linkage.

In reviewing HUD’s strategic plan, we observed that it contained a number of legislative proposals that appeared to affect the strategic objectives but did not make clear the impact on meeting the objectives if the legislative proposals were not enacted. We noted that the plan could be improved to better meet the purposes of the Results Act if this lack of clarity was addressed. More recently, in reviewing the annual performance plan, we noted that HUD does not discuss the impact on its annual performance goals if the proposed legislation is not enacted.

In summary, Mr. Chairman, HUD is at a particularly crucial moment as it adapts to a significant loss of staff expertise; a workforce that includes large numbers of personnel assigned to new responsibilities; a new organizational structure with units whose specific duties, responsibilities, and operating procedures are still evolving; and the implementation of many new systems and processes. This situation merits the close attention of the Congress and HUD’s managers. We look forward to working with the Subcommittee in your oversight efforts.

This concludes my prepared remarks. We will be pleased to respond to any questions that you or other Members of the Subcommittee might have.

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