Statement of
Susan Gaffney, Inspector General
U.S. Department of Housing and Urban Development
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Management and Performance Issues Facing HUD

Chairman Allard, Ranking Member Kerry, and Subcommittee members, I appreciate the opportunity to appear before you today to discuss management and performance issues facing HUD. Specifically, I'd like to give you our assessment of the HUD 2020 Management Reforms and the challenges HUD's next Secretary will face.

HUD's recent efforts to reform trace back to February 1993. After the HUD scandals of the late 1980's, HUD was under intense Congressional scrutiny. Secretary Cisneros put together a reinvention plan which he felt was vital to HUD's survival. Secretary Cisneros' Reinvention Blueprint proposed: (1) major legislative changes to consolidate programs, and (2) bringing the staffing levels to 7,500, a cut of more than 3,000 staff. Efforts to make the legislative changes during the Cisneros administration proved unsuccessful but the Congress endorsed the proposal for reduced staffing.

When Secretary Cuomo took office in 1997, he made it clear that he would not seek HUD legislative reforms, but he would continue reductions in HUD staffing, and would correct HUD's long-standing management deficiencies and compensate for the staffing reductions through the HUD 2020 Management Reform Plan. The 2020 reorganization plan was a very ambitious effort by Secretary Cuomo to quickly overhaul operations at HUD with a series of complicated, far reaching organizational and management process changes. The HUD 2020 strategy was to centralize major operations and establish management systems organized by function rather than by program. As part of this strategy, staff was to be divided into two distinct components: those who deal with Clients and Communities (Community Builders), and those who handle “back office” processing operations (Public Trust Officers). Community Builders were hired and stationed in every HUD location, providing a presence in dealing with HUD’s clients. Public Trust Officers, who administer HUD’s programs, were charged with focusing greater attention on program monitoring.

Concurrent with the staffing reductions and organizational/management process changes, HUD 2020 envisioned correcting HUD’s inadequate resource allocation, financial management, procurement and information systems, and bringing the HUD staff’s skill levels up to par. That is, the HUD 2020 organizational process changes were made without the benefit of a sound organizational infrastructure in place. The organizational/process changes were to be made while establishing the organizational infrastructure, without the benefit of program consolidation or empowerment and within the context of staff reductions. This was and is an extraordinarily complicated plan.

The OIG has spent three years looking at various aspects of the HUD 2020 Reform Plan. The Department has announced that the HUD 2020 management reform plan has been successful at transforming the department into an efficient and effective agency. An August 2000 Progress Report on HUD 2020 entitled, “Promises Made - - Promises Kept” indicates that HUD 2020 reforms are complete. And, indeed, a number of changes - - including the organizational changes, the hiring of Community Builders, the appointments of a Chief Financial Officer and a Chief information Officer, and the establishment of a system for scoring the physical and financial health of public and assisted housing - - have been completed. But the OIG has yet to see the performance improvement promised as a result of these changes. In the OIG's view, HUD's reform efforts are a continuously changing "rough draft" - - a situation that will present major challenges for HUD's next Secretary.

At the start of HUD 2020, the OIG cautioned that the reorganization was moving too fast - - without sufficient analysis or planning. In our September 1997 Semiannual Report to the Congress, we expressed concern that there was little assurance that the reforms would enable HUD to accomplish its mission. We also expressed concern that operating weaknesses were being exacerbated by the growth in HUD's programs. We felt it was premature and problematic that new organizations were put in place, before staffing and system problems were resolved. We saw a need for a solid foundation of skilled staff, fewer programs, and more effective systems as essential for a reform effort to be effective. I'd like to touch on each of these areas.

<u>Management of Resources</u> - The adequacy of staff resources in the Department has long been a concern of the OIG and a root cause of many of HUD's material weaknesses. Our audits have consistently found a mismatch between the number and complexity of HUD's programs and the capability of HUD staff to administer those programs. In a 1997 count of HUD programs, we identified over 300 separable program/activities. A count today using similar measures would likely show programs/activities increasing. We are concerned when Secretary Cuomo announces new initiatives, such as Teacher Next Door, Officer Next Door, Gun Buyback, Gun Safety, Healthy Homes, etc. While each of these activities may offer benefits in and of themselves, HUD cannot afford to deal with an increasing number of small programs that are staff intensive to manage. It is clear through HUD's annual budget process that the number of HUD staff is declining and those numbers will most likely continue to decline. Consequently, the OIG believes that HUD must more sharply focus on its core mission and gain efficiencies through program consolidations and more effective management techniques. In my mind, adding more weight to an already weak foundation makes HUD a more vulnerable organization.

Several years ago, our office and the National Academy of Public Administration (NAPA) recommended that HUD develop a resource management system to align resources with program needs. In their Annual Performance report dated October 18, 1999, the Department announced its intention to implement NAPA's model over a 12 to 18 month period. The Office of the Chief Financial Officer was designated the lead organization to manage this process. Recently, HUD reported that it plans to develop a Resource Estimation and Allocation Plan (REAP) during calendar year 2000 based on NAPA's recommendation. Phase I of the implementation was "an independent baseline study of work functions, workload, and related resource requirements." This phase was expected to begin in August 2000.

Our recent review of REAP implementation found that plans were not progressing with the urgency one would expect for a priority status project. The implementation has experienced inadequate funding with only a portion of the implementing contract funded in Fiscal Year 2000. For example, the Single Family Housing programs, which experienced the greatest staffing cuts and could greatly benefit from REAP, were moved to a later phase of the project. To operate properly and hold individuals responsible for performance, HUD needs to know that they have the right number of staff with the proper skills. HUD's 2020 Plan called for implementing a resource estimation process that, according to HUD, would be a disciplined and analytical approach, to identify, justify, and integrate resource requirements and budget allocations. Delays caused by not fully funding REAP move the problem of resource allocation to the next Administration.

We have numerous ongoing investigations involving single family loan origination fraud that support the need for a resource allocation study. In our Housing Fraud Initiative locations, such as New York, Baltimore, Chicago, and Los Angeles, serious fraud involving FHA-insured mortgages continues to be uncovered. Our audits and investigations have found that HUD's current procedures for monitoring lenders, overseeing contractors and supervising HUD staff activities are less than effective. This lack of oversight and accountability results in criminal activities going undetected and major losses to the insurance fund. Let me illustrate this with a recent example. Last year, a HUD employee in the Santa Ana Homeownership Center was convicted for accepting bribes and tax evasion. The employee conspired with a real estate agent to carry out a systematic scheme of selling HUD-owned properties at prices far below HUD's listed price. FHA lost several million dollars as a result of this scheme. We conducted a review to determine what if any controls would have prevented this occurrence. We found that established internal controls were not being followed. The Chief Property Officer (CPO) was not signing off on property discounts as required. We recommended disciplinary action against the CPO for failing to perform his duties. In response to our recommendation, the Department stated that "the CPO at the time would not have been able to perform all the supervisory and monitoring duties prescribed in the Handbook and should not be subject to any administrative actions." This major breach of internal controls was dismissed for a lack of staff brought about by HUD reforms.

HUD's Mission - When Secretary Cuomo announced his HUD 2020 Management Reform Plan, he said "For HUD to fulfill its mission, it must have credibility - - with Congress, with local government and with the customer. They must all believe that HUD has the competence and capacity to perform its functions. It's time HUD put its own house in order." To achieve this objective, Secretary Cuomo set forth two missions, the first "empowering people and communities, and the second restoring the public trust."

HUD's strategy for accomplishing the first mission, empowering people and communities, was to hire Community Builders to improve community outreach and establish storefront offices and Kiosks for the public to obtain information about HUD. About 10 percent of HUD resources were committed to the Community Builder functions. Secretary Cuomo said that Community Builders would spearhead an effort to "empower America's people and local governments to take the leading role in improving lives and strengthening communities."

Our audits of the Community Builder program and Storefront/Kiosk operations found little if any measurable results for these activities. The Community Builders' impact on HUD's mission was for the most part indeterminable. The Secretary established a visionary mission whereby Community Builder staff would solve "the toughest economic and social problems facing communities." Our discussions with other HUD staff and outside customers found the impact of Community Builders to be minimal. The majority of the Community Builders interviewed said that they spent more than half of their time on public relations activities. In some instances, we found that Community Builders' limited knowledge of HUD programs and/or their poorly defined responsibilities caused Community Builder staff to give inappropriate guidance to communities or improperly interfere with HUD matters outside of their authority. Additionally, significant funds were expended to operate and maintain six storefronts and install 73 kiosks. HUD had little evidence of benefits derived from these operations. In fact, as a result of our audit, the Secretary and Deputy Secretary have decided to terminate the implementation of future storefronts pending a demonstrated needs determination.

HUD redirected a significant amount of resources to outreach and customer relations activities at a time when additional resources were needed for operational activities. The Secretary and the OIG see this situation differently. The Secretary views public relations as an important function. The OIG views these outreach activities as doing little to support HUD's core mission. We believe that HUD needs to focus on more wholesale management approaches, i.e., improving and empowering operations of major constituents, such as Public Housing Authorities, Lenders, Multifamily owners, etc.

HUD's second mission, restoring the public trust, has entailed establishment of various centralized centers to address long standing management problems. The purpose of the Real Estate Assessment Center is to assess the physical and financial capacity of multifamily owners and public housing authorities. The purpose of the Troubled Agency Recovery Center is to deal promptly with troubled public housing projects. The purpose of the Enforcement Center is to take independent enforcement actions against owners and managers of FHA insured and/or assisted multifamily housing properties. The purpose of the Homeownership Centers is to consolidate single family operations at four locations.

In our view, the consolidation of these many functions, while perhaps attractive from the narrow perspective of an efficiency expert, has eroded empowerment and may be uniquely suited to the management style of the current Secretary. The Centers place all control for functions in central locations using highly regimented approaches. This serves to eliminate the knowledge base in the various field offices/Hubs of local problems and, in some cases, it has angered customers. For example, the physical inspection of public housing portfolios has caused so much customer dissatisfaction that the use of the scoring process has been delayed. Further, these Centers have come at a considerable cost to the government to develop systems and protocols. Centers such as the Troubled Agency Recovery Centers and Enforcement Center are operating well below their intended capacity.

In summary, we see the changes being brought about by HUD 2020 as almost contrary to the two intended missions. We view empowerment as the devolution of power, that is, moving decision making processes to the communities that HUD serves. Also, we view restoring the public trust as giving our constituents greater flexibility and accountability in the way they administer HUD programs.

Information System Issues - HUD 2020 has led to the successful development and implementation of certain information technology solutions. Touch screen computer kiosks systems are now available to provide information to the public. Housing inspectors are now armed with hand held computers to collect and transmit real time data on the conditions of public and assisted housing facilities. And in keeping with the thrust toward E-government, HUD has developed Internet applications through which the public can submit housing discrimination complaints electronically.

But HUD has not been successful in establishing effective processes for planning and controlling its overall information technology resources. We continue to report instances where inadequate controls over information technology operations and investments have put HUD data systems data at risk. Since 1993, the OIG has reported as a material weakness slow progress towards improving financial management systems, control weaknesses over critical system applications, inadequate tracking of system development costs, and poor contracting practices. Without strong controls over information technology resources, HUD systems may not meet business needs, resulting in inaccurate and unreliable data, system failures, and excessive costs.

We have consistently supported the positioning of a strong Chief Information Officer in the Department to provide the needed leadership and attention for information management and technology investment as intended under the "Clinger-Cohen" Act. However, HUD's Chief Information Officer cannot achieve the reforms in information management and technology investment practices called for by the Act. The current organizational structure has fragmented control over information technology resources. It splits information technology planning/policies, operations and technical services between the Chief Information Officer, the Office of Administration, and the Chief Financial Officer. The Chief Information Officer is limited to a policy, guidance, and planning role with no direct control over the resources for system development, operations and maintenance, and security. This diffusion of authority and accountability has not provided the necessary focus and attention for information management that the Department so greatly needs. Several components of the reform plan are reliant upon the successful development and implementation of new automated systems. However, developing systems that perform as intended, within schedule and at cost, remains a challenge for HUD. For example, during Fiscal Year 2000 HUD abandoned its development effort on the Departmental Grants Management System. This failed attempt cost $5.3 million during a time when the information technology budget for HUD was severely limited.

We have continually reported on the lack of effective management in system development and operations at HUD. The ability of the Department to control information technology costs is limited because for many years the Department lacked an adequate project cost accounting system. Another issue is constant scope and strategy changes. For instance, the Financial System Integration (FSI) project, the most ambitious and costly HUD information technology project, has suffered from frequent project scope, strategy, and management changes. This project was an ambitious effort that started in 1991 to integrate approximately 100 HUD financial and program systems into nine consolidated systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness in OIG Financial Statement Audits since 1993. The FSI program in 1991 had projected a total cost of $103 million to develop and deploy the nine consolidated systems. In a Benefit/Cost study, Arthur Anderson indicated that the ongoing FSI program costs through FY 1999 totaled $206 million.

Further, this year HUD's flawed implementation of a Standard General Ledger for the Department - - a cornerstone of FSI - - led to a disclaimer of opinion on the Department's Fiscal Year 1999 Financial Statements. As a result, the Department is considering yet another approach without completing the planned solution decided in 1997. This repeated shift in approach will further delay correction of long stand deficiencies, such as insufficient information regarding individual multifamily loans, inability to support adequate funds controls for FHA, duplications of accounting entries due to a lack of integration between program and accounting systems, inability to timely identify excess funds remaining on expired project-based Section 8 contracts, and problems in reconciling cash balances with Treasury records.

Despite OIG objections at the time, the solution adopted in 1997 was made without a complete and through analysis of alternatives. As a result of a hasty decision, the Department encountered unanticipated difficulties that led to schedule delays and cost overruns. However, a number of technical difficulties with the system interfaces between key transactions systems are now resolved. The Department must conduct a thorough analysis to determine whether the current solution is no longer viable before moving to another approach. This analysis should follow HUD's process of Information Technology investment decisions which includes feasibility studies and cost benefit evaluations.

Despite all of these problems, just last month HUD's 2020 Progress Review and Accomplishment report noted "HUD's once vulnerable financial management system is now reliable, accurate and timely."

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HUD has been under continuous change since the 2020 Reforms were announced three years ago. Since the changes were not built on a solid infrastructure, completing the reforms has been time consuming and complicated, and we are still waiting to see the promised performance improvements.

There is also the question of whether the next HUD Secretary will want to maintain the new, centralized organizational units. In organizing HUD by function, program offices have lost control of many activities. For example, the REAC gives direction to the Assistant Secretary for Public and Indian Housing and the FHA Commissioner as to where they must focus their monitoring activities. Community Builder staff may be in the public eye discussing Assistant Secretaries' programs, but reporting to the Deputy Secretary. The Enforcement Center may take a project from the control of the FHA Commissioner because of failing inspection scores.

In the context of diminishing HUD resources, we should be looking for ways to build incentives into programs that work to prevent fraud waste and mismanagement, thus requiring less onerous and unappreciated monitoring by the Federal Government. We should be thinking about whether Government Corporations would be a better way to gain efficiencies in profitable operations such as Ginnie Mae and FHA. HUD needs know what resources are needed and that staff have the appropriate skills. If insufficient resources exist to carry out programs, HUD and the Congress need to make the tough choices in deciding what should and should not be done.

Lastly, the OIG believes that the Congress and HUD should be looking for every opportunity to consolidate, terminate and streamline programs. We believe that HUD's future should not be in an expanding number of programs but in better pursuit of its core mission, serving the housing needs of the needy.