



September 29, 2000

**Audit Memorandum
No. 00-PH-169-0802**

MEMORANDUM FOR: Saul Ramirez, Deputy Secretary, SD

FROM: Daniel G. Temme, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Progress Assessment - Implementing the Resource Estimation and Allocation Process (REAP)

This memorandum contains the results of our assessment of the Department's progress in developing and implementing a Resource Estimation and Allocation Process. The assessment focused on the Department's commitment to REAP. Our memorandum addresses the timeliness of the REAP effort and discusses the actions HUD needs to take to confirm its commitment to REAP.

Within 60 days, please give us, for the recommendation in the memorandum, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of this assessment.

INTRODUCTION

The 2020 Management Reform Plan called for HUD to implement a resource estimation and allocation process. In HUD's annual performance plan for fiscal year 1999, submitted to Congress in March 1998, HUD noted that it no longer had departmental systems for measuring work and reporting time, and that it lacks a single integrated system to support resource allocation. The absence of this capability concerned Congress, which requested that the National Academy of Public Administration (NAPA) examine HUD's practices for estimating human resource needs. HUD reported that it intended to work with the National Academy of Public Administration to develop a methodology or approach for resource management that would allow the Department to identify and justify its resource requirements for effective and efficient program administration and management.

For the past two years, NAPA worked with HUD to design and test a methodology for a resource management system. NAPA tested its methodology by conducting pilots in two HUD Offices: Community Planning and Development (CPD) in Philadelphia, and the Processing and

Underwriting Division (PUD) of the Denver Homeownership Center in Single Family Housing. Based on these assessments, HUD determined to implement the REAP and an automated report and validation system, Total Estimation and Allocation Mechanism (TEAM), to support REAP, departmentwide. NAPA developed a plan to implement REAP over a 12-18 month period.

HUD reported its plan to Congress in the Annual Performance Plan Progress Response dated October 18, 1999, and designated the Office of the Chief Financial Officer (CFO) as the lead organization to manage the process. HUD believed that REAP and TEAM in combination would allow the Department to eliminate a material weakness and a GPRA concern by giving the Department the tools to effectively monitor and deploy workforce resources in a highly efficient manner. Further, REAP would provide necessary data for budget formulation, execution and analysis. HUD proposed to phase in the system over an 18 month period and projected an investment of up to \$5 million.

HUD senior staff determined the proposed resource management system a priority and made a strong commitment to adopt and implement the system. On November 22, 1999, the Deputy Secretary announced to senior HUD officials that NAPA would brief each Assistant Secretary and Principal Staff on the REAP methodology and the impact it would have on HUD programs. NAPA was to begin the briefings in mid-December and scheduled to be completed by January 7, 2000. The actual briefings were held in January and early February 2000.

NAPA estimated HUD would need \$3.3 million to implement REAP departmentwide if the studies were done largely by outside contractors. The Office of Budget initiated action to procure contractor support for work measurement studies to determine the resource estimate requirement of selected offices/programs/units/locations, as envisioned by HUD 2020 MRP. The studies were to include, but were not limited to: defining the work of the program office; estimating the volume of work in the office; and calculating the resources needed to do the work. Study results were to be used to estimate the number of staff resources required, by program areas, throughout the Department.

The Contract Statement of Work contained the following schedule for the REAP studies.

Phase 1 June 2000 to November 2000	Phase 2 December 2000 to May 2000	Phase 3 June 2001 to November 2001
PIH	Housing (Operations & Comptroller)	OGC/Field Legal
Administration	Lead Hazard Control	CPO
Multifamily Housing	FDOS	Enforcement Center
CPD	PD&R	GNMA
Single Family Housing	FHEO	REAC
	OMHAR	Departmental Management
	CIO	ODEEO
		CFO

AUDIT OBJECTIVES

Our overall objective was to assess the Office of the CFO's progress implementing the REAP and evaluate whether the REAP is receiving the emphasis warranted by a Departmental priority designation. To realize this objective, we wanted to learn:

- the status of the REAP contract procurement;
- the Department's schedule for completing the REAP; and
- the challenges that have or may impact completing the REAP initiative on target.

AUDIT SCOPE AND METHODOLOGY

We reviewed the Department's actions to develop and implement REAP through the August 2000 award of the REAP Contract. To do the assessment, we interviewed responsible Headquarters personnel, and reviewed pertinent reports and documents discussing HUD's need for a resource management system, the development and testing of the methodology to manage HUD's human resources, and the progress HUD has made to implement this methodology departmentwide.

SUMMARY

We have completed an assessment of the Department's progress in developing and implementing a Resource Estimation and Allocation Process (REAP) using the preceding methodology. We found that HUD conveyed to Congress the realization that it needed a resource management system and that it planned to implement such a system within 18 months. We found that HUD with the National Academy of Public Administration (NAPA) developed a methodology for resource estimation and allocation. Further, NAPA briefed each Assistant Secretary on the REAP methodology and the impact it would have on their programs. Also, HUD selected a contractor to implement the methodology and do the measurement studies at various program offices throughout the Department to determine resource estimate requirements.

Despite these positive events, the implementation of REAP has not progressed with the urgency we would expect for a priority status project. The REAP implementation progress has not moved forward with the timeliness intimated by the Department and has experienced inadequate contractor funding since only a portion of the contract scope is funded. Not funding fully the REAP contract will require the coming HUD administration to complete the REAP implementation. We disagree with this strategy and feel it portrays HUD presently, with less than resolute support for REAP. We believe the present HUD administration should demonstrate its commitment to REAP by obligating funds sufficient to execute the full REAP contract.

In responding to our preliminary draft memorandum, the Deputy Secretary reported that the Department had fully funded the REAP Project at the required amount of \$3.165 million, that the Department's top level management was in complete support of REAP, and that the REAP Project was on target. The Deputy Secretary's full response is contained in Appendix A.

OBSERVATION

HUD Needs To Clarify Its Commitment to REAP

The Department's implementation of REAP has not proceeded with the urgency we expected for a priority project having the admitted support of the Offices of the Secretary and Deputy Secretary. The CFO officials we spoke to considered REAP to be a HUD priority. They also intimated that REAP had the full and solid support of the highest levels of the Department. In practice, the delay in achieving effectual progress does not support that REAP was a Departmental priority or that it had the attention and solid support of HUD senior management.

Delays in implementing REAP will postpone availability of REAP study results by the coming administration.

From the outset, REAP has experienced and continues to experience schedule slippages as it strives forward. The Secretary, on October 18, 1999, advised the Chairman on the Senate Committee on Governmental Affairs that the Department would develop and institute a REAP phased in over an 18 month period giving the reader the understanding that REAP's implementation was imminent. However, circumstances have moved much more slowly, especially as they affected REAP contractor procurement.

The procurement of a REAP contractor was to begin in April 2000 with an anticipated contract award in June 2000. However, the procurement process was delayed and the actual contractor selection and contract award did not take place until August 2000. The delay in awarding the contract award impacted when the REAP studies would begin and end.

NAPA's plan called for a contractor to do REAP studies in three Phases. NAPA planned April 2000 as the start of the Phase 1 studies and October 2000 for Phase 1 study completion. Because of delays in selecting a contractor, the Statement of Work schedule for the start of the Phase 1 studies slipped from April 2000 to June 2000 with completion rescheduled from October 2000 to November 2000. Further delays in procuring a contractor till August caused the start date to be pushed back again to August 2000, while retaining the November 2000 completion date because the studies for Single Family Housing were moved from Phase 1 to Phase 2. Phase 2 studies were scheduled to begin in December 2000. A CFO official acknowledged the November 2000 scheduled completion of Phase 1 was ambitious, but doable. Consequently, the Department will be hard pressed to have even the Phase 1 studies completed in time for the transition to the new HUD administration.

Full funding of the REAP Contract will confirm HUD's commitment to REAP.

The Department selected a contractor to do the REAP studies and executed the REAP contract August 9, 2000. The REAP contract is performance based, and will be implemented in three phases, over a 16 month period. Only Phase 1 has been funded at this time. Phases 2 and 3 are options and contingent on the Contractor's performance during Phase 1. Though HUD and the contractor estimated \$1.5 million for Phase 1, because of salaries and expenses funding constraints, the Department was able to find and commit only \$1 million for Phase 1. Consequently, the Department had to adjust the Phase 1 scope by moving the Single Family Housing studies to Phase 2.

The Department strategy to undertake the REAP studies in phases, while only assuring funding for one of the three phases, portrays a constrained rather than a committed disposition by senior managers toward REAP. HUD management even had to reduce the planned scope of Phase 1 because HUD would only authorize \$1 million of the \$1.5 million needed to complete all the studies specified in the original Phase 1. CFO officials said funding opportunities for the REAP contract next fiscal year would be even tighter than they were this year. It will be compelling for HUD to ask the coming HUD administration to recognize the merits of REAP and arrange funds to complete Contract Phases 2 and 3. There is no guarantee the next administration will also see the merits of REAP and be amenable to authorizing funds to complete the contract work. Since the present HUD administration has expressed its commitment to REAP, it should not hesitate at this juncture to demonstrate this commitment by obligating sufficient funds for the remaining contract services.

CONCLUSION

Assurance that HUD has the right number of staff with the proper skills has been an issue of concern with the GAO, the OIG and others for a number of years. 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. With NAPA's help, HUD today has a methodology to establish its resource needs. HUD also has a contractor with the technical skills to implement the methodology departmentwide. Further, we have received assurances from CFO officials that the Department's senior levels have extended their full backing and encouragement to the REAP effort. It appears the only thing REAP lacks is enough money to fully fund the REAP contract. Currently, the Office of the CFO has a \$2.149 million shortfall to complete the contract's Phases 2 and 3. Until the REAP contract is fully funded, we view with skepticism the statements asserting HUD's commitment to REAP.

DEPUTY SECRETARY RESPONSE

The Deputy Secretary reported that the Department had fully funded the REAP Project at the required amount of \$3.165 million. The Deputy Secretary noted that the Department's top level management was in complete support of REAP and believed the project had progressed with

urgency appropriate for a priority status project. Moreover, Phase 1 of the Project was well underway and the Department was on target with the REAP Project.

OIG COMMENTS

We welcome the Deputy Secretary's affirmation that the REAP Project is now fully funded, on target, and that the Department's top level management remains in complete support of this effort. Though we believe the Department should have moved with greater energy to fund and contract for the REAP Project, recent events show a reinforcement of HUD's commitment to REAP. We look forward to reviewing the Project results. The Department's full funding for the REAP Project satisfied the recommendation we made in our draft memorandum.

Should your staff have any questions regarding this memorandum, please contact Thad Staniul, Assistant District Inspector General for Audit at (215) 656-3401.

AUDITEE COMMENTS



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE DEPUTY SECRETARY
WASHINGTON, D.C. 20410-0050

SEP 27 2000

MEMORANDUM FOR: Daniel G. Temme, District Inspector General
for Audit, Mid-Atlantic, JAGA

FROM: Saul N. Ramirez, Jr., Deputy Secretary, SD

SUBJECT: Draft Report - Progress Assessment - Implementing the Resource Estimation
and Allocation Process (REAP)

This is in response to your September 6, 2000 memorandum regarding subject matter. I am pleased to report that we have fully funded the REAP Project at the required amount of \$3.165 million. Our commitment to REAP has never wavered. The top level management of the Department is in complete support of this effort. We strongly believe that the REAP Project has progressed with the urgency that would be expected for such a priority status project.

Phase 1 of the Project is well underway. Phase 1 will cover a large percentage of the Department's staff. It will lay the foundation for completing Phases 2 and 3. We are on -target with the REAP Project, and we believe that the Department should be praised rather than criticized for its timely implementation of the recommendations of the National Academy of Public Administration. At a minimum, we believe that your recommendation should be changed to indicate that the Department is in full support of REAP and has fully funded the entire Project.

Thank you for your consideration in this matter.

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