



Issue Date	September 29, 2007
Audit Report Number:	2007-CH-0001

TO: Keith A. Nelson, Assistant Secretary for Administration, A

FROM:   
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The U.S. Department of Housing and Urban Development Did Not Fully Implement Succession Planning

## **HIGHLIGHTS**

### **What We Audited and Why**

We reviewed the U.S. Department of Housing and Urban Development's (HUD) management of human resources. We initiated the review based on our annual audit plan and our strategic plan to help HUD resolve its major management challenges. Our objective was to determine whether HUD initiated adequate succession planning to address future staffing concerns. This is the first of three audit reports on HUD's management of its human resources.

### **What We Found**

HUD had not fully initiated adequate succession planning to address future staffing concerns. Specifically, two of the five program offices reviewed, failed to identify and/or support the actions taken to fully implement HUD's succession plan. However, three program offices initiated adequate succession planning. As a result, HUD cannot be assured that, when key members of its workforce retire over the next several years, they will be succeeded by qualified employees with the skills, knowledge, and abilities needed to continue its mission.

## **What We Recommend**

We recommend that the Assistant Secretary for Administration ensure that HUD implements adequate procedures and controls to ensure that its program offices initiate succession planning to comply with its succession plan.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

## **Auditee's Response**

We provided the results of our succession plan reviews to HUD's management during the audit. We also provided our discussion draft audit report to HUD's Assistant Secretary of Administration on August 29, 2007. We conducted an exit conference with HUD's management on September 10, 2007.

We asked the Assistant Secretary for Administration to provide written comments on our discussion draft audit report by September 27, 2007. The Deputy Assistant Secretary for Human Resource Management provided written comments to the discussion draft report, dated September 27, 2007. The Deputy Assistant Secretary for Human Resources Management agreed with our recommendation. The complete text of the written comments, except for 10 pages of supporting documentation that was not necessary to understand the Deputy Assistant Secretary for Human Resources Management's comments, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVE

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As part of the Human Capital Strategy on the President's Management Agenda scorecard, the U.S. Department of Housing and Urban Development (HUD) is addressing the fact that approximately 60 percent of its workforce will be eligible to retire by fiscal year 2009. Although 60 percent of its employees will be eligible to retire, HUD recognizes that not all employees retire when they become eligible. For this reason, HUD implemented a probability model to more accurately project future retirement and target high-risk critical positions for succession planning purposes in May 2006. The retirement probability model provides statistical estimates of retirement eligibility for various groups of employees. The model is one feature of the comprehensive workforce plan essential to ensuring that HUD has adequate personnel with the relevant skills, to accomplish its mission and goals, both now and in the future. The model also serves as a critical component of HUD's human capital strategy and a viable tool for accomplishing its human capital goals for a mission-focused, high-quality workforce, maintained through effective succession planning.

In August 2000, HUD developed its first workforce succession plan. HUD's workforce was assessed in terms of attrition losses due to retirements and buyouts. This study determined that HUD's workforce had decreased in size as anticipated and that the workforce as a whole was aging. Further, the plan concluded that in order for HUD to meet the challenges of the future and continue to perform its essential functions, succession planning was necessary. Therefore, HUD has been actively engaged in reviewing various aspects of human resource management and established a senior-level Strategic Workforce Planning Task Force with representatives from all of its program and support areas in October 2005. This task force, using the President's Management Agenda and HUD's strategic management goals as its objectives, completed a preliminary analysis of its workforce, skill gaps, critical and noncritical positions, and the location of its retirement-eligible employees. In addition to HUD's Strategic Human Capital Management Plan, the work of the task force, which includes the completion of a comprehensive strategic workforce plan for HUD, will serve as a foundation for its succession planning efforts.

We audited HUD as part of our strategic plan to help HUD resolve its major management challenges and our fiscal year 2007 annual audit plan.

Our objective was to determine whether HUD's program offices initiated succession planning to address future staffing concerns. This is the first of three audit reports on HUD's management of its human resources.

## RESULTS OF AUDIT

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### Finding: HUD Program Offices Had Not Fully Initiated Adequate Succession Planning to Address Future Staffing Concerns

HUD's program offices did not always comply with its succession planning requirements. Specifically, two of the five program offices reviewed could not provide adequate documentation to support that any initial actions for succession planning had been taken. This condition occurred because HUD lacked adequate procedures and controls to ensure that its program offices initiated the necessary actions to comply with its succession plan. As a result, HUD cannot be assured that, when key members of the workforce retire over the next several years, they will be succeeded by qualified employees with the skills, knowledge, and abilities needed to continue its mission.

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#### Succession Planning

The Office of Administration developed HUD's succession planning guidance, "Seven Steps to Success: Succession Planning for HUD's Future," to assist its program offices with developing and preparing its workforce with the skills, knowledge, and abilities needed to assure the continuity of HUD's mission. The guidance was to be used to establish talent pools for mission-critical leadership positions and to document all succession planning efforts. The seven steps identified in this guidance are

- **Step 1:** Identify current and future mission-critical leadership positions.
- **Step 2:** Identify staff currently eligible and interested in competing for leadership positions within the next three years.
- **Step 3:** Establish a list of potential leadership pool members, indicate the most immediate management level each individual is aspiring to achieve, and distribute the applicable management competencies assessment tool to potential leadership pool members.
- **Step 4:** Have leadership pool members complete a self-assessment using the applicable management competencies assessment tool for the next leadership level for which they are eligible.
- **Step 5:** Have the leadership pool members' supervisor complete the applicable leadership assessment of his/her staff using a management competencies assessment tool. The supervisor will compare the employee's self-assessment against the supervisory assessment and determine skill gaps.
- **Step 6:** Update individual development plans based on skill gaps. The supervisor will recommend three or more competencies for employee

leadership development, coordinate with training to correlate skill gaps with HUD training offerings, and document progress.

- **Step 7:** Develop skill gap information used to determine leadership and management training for the upcoming fiscal year, develop office leadership and management recruitment strategies, and provide recommendations for the various HUD government leadership development programs.

We identified the number and percentage of employees by program office that were eligible to retire within the next five years by using HUD's Office of Human Resources' staffing data which it obtained from the National Finance Center's payroll personnel database. HUD's program offices all have mission-critical key positions. However, we selected the top five offices with the greatest percentage of employees eligible to retire within the next five years, to determine whether the program offices had initiated succession planning.

### Succession Planning Not Fully Initiated

HUD had not fully initiated adequate succession planning to address future staffing concerns. Specifically, two of the five program offices reviewed (Housing and Field Policy and Management) did not fully comply with HUD's succession planning requirements. However, the Offices of Public and Indian Housing, Administration, and Departmental Operations and Coordination provided sufficient documentation to determine they had fully implemented adequate succession planning.

Using the seven steps to succession planning guidance, we identified the following deficiencies for the two program offices that had not fully implemented adequate succession planning:

- One program office failed to fully identify staff in mission critical positions (step 1);
- Two program offices failed to establish a list of potential leadership pool members (step 3), and were unable to fully provide support that leadership pool members completed a self-assessment using the applicable management competencies assessment tool for the next leadership level for which they were eligible (step 4); and
- Two program offices did not adequately provide updated individual development plans based on skill gaps (step 5), and did not adequately provide skill gap information used to determine leadership and management training for the upcoming fiscal year, develop the office's leadership and

management recruitment strategies, and provide recommendations for the various HUD or government leadership development programs (step 6).

Appendix B of this report provides a summary of the significant succession planning deficiencies for the program offices reviewed.

### **Program Offices Fully Initiated Succession Planning Coordination**

The Offices of Public and Indian Housing and Administration, and Departmental Operations and Coordination had fully initiated adequate succession planning activities to support HUD's succession planning. They used the seven steps to succession planning guidance and developed a template to document the progress they had made in accomplishing all seven steps. Additionally, they provided documentation to support the tasks identified in the outline, for example

- Documentation outlining the leadership development program, containing information such as the curriculum and timeline of the program, program participants, and written policies and procedures for the program;
- A tentative schedule for the leadership development program participants that listed activities, competencies covered, and the requirements;
- A chart of occupations and targeted competencies;
- A list of mission-critical occupations and job series;
- A gap analysis improvement plan providing specific actions the offices planned to take or had taken, along with targeted completion dates;
- Documentation detailing the status of the offices' management assessment tool implementation;
- A list of recommended leadership development programs; and
- A list of leadership development programs graduates for fiscal years 2002 through 2006.

### **Lack of Adequate Procedures and Controls**

HUD lacked adequate procedures and controls to ensure that its program offices followed its succession plan requirements. As a result, HUD cannot be assured that when key members of the workforce retire over the next several years, they will be succeeded by qualified employees with the skills, knowledge, and abilities needed to continue HUD's mission.

Appendix C of this report provides details of HUD's requirements regarding its succession planning.

## Retirement Probability Model

HUD developed a retirement probability model to more accurately project future retirement and target high-risk critical positions for succession planning purposes to assist its program offices. The model takes the retirement eligibility data and assigns probabilities to the data as an estimate of the likelihood that each of the employees eligible to retire will actually retire. Additionally, the model assigns low, medium, and high probability to HUD employees' retiring within the next few years. Based on the model, as of September 2006, the retirement results of the five selected program offices were as follows:

Program office	Retirement eligible	Low probability	Medium probability	High probability
Administration	294	182	77	35
Housing	1,625	886	492	247
Departmental Operations and Coordination	46	31	13	2
Field Policy and Management	217	98	83	36
Public and Indian Housing	<u>747</u>	<u>438</u>	<u>210</u>	<u>99</u>
Totals	<u>2,929</u>	<u>1,635</u>	<u>875</u>	<u>419</u>

HUD needs to ensure that its program offices develop adequate succession planning to ensure the continuity of its mission if these individuals rated as medium or high for probability of retirement retire within the next five years.

## Recommendation

We recommend that the Assistant Secretary for Administration

- 1A. Implement adequate procedures and controls to ensure that HUD's remaining 11 program offices initiate succession planning to comply with HUD's requirements.



## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- HUD's Succession Management Plan, fiscal year 2006-2009, dated September 2006; Strategic Human Capital Management Plan, dated March 2003; Workforce Planning at HUD, dated April 27, 2005; and retirement probability model data as of September 2006.
- HUD program offices' succession planning documentation from the Offices of Administration, Departmental Operations and Coordination, Housing, Public and Indian Housing, and Field Policy and Management.
- The National Finance Center's payroll database retirement probability model data.

We also interviewed HUD's management and staff.

Using the staffing data obtained from the National Finance Center's payroll database, we identified the number and percentage of employees by HUD office who were eligible to retire within the next five years. Since all of the program offices had mission-critical key positions, we selected from the universe of HUD's 16 program offices, excluding the Offices of Inspector General and Federal Housing Enterprise Oversight, the top five offices that had the greatest percentage of employees eligible to retire within the next five years to determine whether the program offices had initiated succession planning. To determine our testing universe, we relied on documentation provided by the National Finance Center. The five offices were the Offices of Administration, Housing, Departmental Operations and Coordination, Field Policy and Management, and Public and Indian Housing.

We performed our audit work between January and July 2007. We conducted our audit at HUD's headquarters in Washington, DC and HUD's Chicago regional office. The audit covered the period October 1, 2004, through December 31, 2006. We extended this period as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objective:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weakness

Based on our audit, we believe the following item is a significant weakness:

- HUD's program offices had not fully implemented succession planning to ensure compliance with HUD's requirements (see finding).

# APPENDIXES


## Appendix A

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments

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CHICAGO, ILLINOIS  
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
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SEP 27 2007

MEMORANDUM FOR: Heath Wolfe, Regional Inspector General for Audit, SAGA

FROM: *Barbara J. Edwards*  
Barbara J. Edwards, Deputy Assistant Secretary for Human Resource Management, AR

SUBJECT: Response to Draft Audit Report, HUD's Management of Human Resources

We have reviewed the Office of Inspector General's (OIG) Draft Audit Report of August 29, 2007, on HUD's Management of Human Resources. The report found that HUD had not fully initiated adequate succession planning to address future staffing concerns. It was recommended that the Office of Administration implement adequate procedures and controls to ensure that each program office initiates succession planning. We agree with the recommendation of the OIG and will monitor Department wide implementation.

Management believes that succession planning is necessary in order for HUD to sustain and carry out its mission critical duties in the future. All program offices are currently engaged in succession planning and will be providing a copy of their succession plans to the Office of Administration on or before November 15, 2007 (Attachment 1).

Significant progress has been made by the three program offices involved in your review whose succession planning efforts were not fully documented. The following updates are being provided as it relates to these offices. This information is also presented in chart format as an attachment to this memorandum (Attachment 2). The Office of Administration has received a copy of the Office of Departmental Operations and Coordination's succession plan, which is also being supplied with this submission (Attachment 3). We have also received documentation from the Office of Field Policy and Management evidencing their ongoing succession planning efforts with a completed plan targeted for October 2007. The Office of Housing has provided additional documentation regarding their ongoing succession planning activities as well. Our office anticipates receiving Housing's completed plan once their Workforce Analysis Management Database (WAM), which has a succession planning component, is implemented.

If you have any questions or need additional information, please contact John Anderson, Supervisory Project Manager for Human Resource Management, at (202) 402-3055.

Attachments

cc: Keith A. Nelson, Assistant Secretary for Administration, A

[www.hud.gov](http://www.hud.gov) [espanel.hud.gov](mailto:espanel.hud.gov)

Comment 1

Comment 2

Comment 3

### OIG's Evaluation of Auditee Comments

- Comment 1** We reviewed the supporting documentation provided by the Office of Administration as support for the Office of Departmental Operations and Coordination's succession planning efforts. The documentation supported that the Office of Departmental Operations and Coordination was in compliance with HUD's succession planning requirements. Therefore, we revised the audit report accordingly.
- Comment 2** The Office of Administration claimed that it received documentation from the Office of Field Policy and Management evidencing that its ongoing succession planning efforts was scheduled for completion by October 2007. We commend the Office of Field Policy and Management for its ongoing succession planning efforts; however, since documentation was not provided to our Office to support the ongoing efforts, no adjustment was made to this audit report.
- Comment 3** The Office of Administration claimed that it received documentation from the Office of Housing regarding its ongoing succession planning activities and that it anticipates receiving Housing's completed plan once the Workforce Analysis Management Database, which has a succession planning component, is implemented. We commend the Office of Housing for increasing its ongoing succession planning efforts; however, since documentation was not provided to our Office to support the ongoing efforts, no adjustment was made to this audit report.

## Appendix B

### SUMMARY OF SUCCESSION PLANNING DEFICIENCIES USING HUD'S REQUIREMENTS

Seven steps to succession planning success					
	Office of Administration	Office of Departmental Operations and Coordination	Office of Housing	Office of Public and Indian Housing	Office of Field Policy and Management
Step 1: positions identified	Yes	Yes	No*	Yes	Yes
Step 2: staff identified	Yes	Yes	Yes	Yes	Yes
Step 3: leadership pool established	Yes	Yes	No*	Yes	No*
Step 4: pool members completed assessment	Yes	Yes	No	Yes	No
Step 5: supervisor completed assessment	Yes	Yes	No	Yes	No
Step 6: individual plans updated	Yes	Yes	No*	Yes	No*
Step 7: skill gap information used	Yes	Yes	Yes	Yes	Yes

Legend:

No\* - some information/documentation was provided; however, it was insufficient to fully support the activities under the applicable step.

## Appendix C

### HUD'S REQUIREMENTS

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HUD's Succession Management Plan – fiscal year 2006-2009, dated September 2006,

- Page 12, section III, states that annual skills assessments must be conducted by each program organization to identify specific skills gaps based on the competencies with each mission-critical occupation.
- Page 25, section V, states that program offices will document all activities associated with the seven steps to succession planning which constitute HUD's succession planning effort. The seven steps are 1) mission-critical leadership positions, 2) eligibility of current staff for leadership positions, 3) leadership pool, 4) self-assessment: leadership pool members, 5) supervisory assessment and skill gap analysis, 6) individual development plan, and 7) succession planning.

HUD's Strategic Human Capital Management Plan, dated March 2003,

- Page 5 states that HUD must ensure that employees retiring over the next five years are succeeded by qualified employees who are prepared to continue quality service and program delivery and that the technical knowledge of those departing is captured, documented, and institutionalized.

The Workforce Planning at HUD, dated April 27, 2005,

- Policy Guidance, page 6, states that 1) each organization's head must examine their resource estimation allocation process data and workforce analysis data as appropriate and determine areas impacted by skill gaps, full-time equivalent gaps, and potential losses from retirement projections and begin succession planning accordingly; 2) all program offices that are under their authorized full-time equivalent ceiling and have the capacity to fill vacancies through external recruitment must effectively use their full-time equivalent resources and follow existing procedures for additional resources; and 3) program offices will develop internal processes to track their compliance and progress under this plan.