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Resources, Community, and
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The Honorable Richard K. Armey
Majority Leader
House of Representatives

The Honorable John Kasich
Chairman, Committee on the Budget
House of Representatives

The Honorable Dan Burton
Chairman, Committee on Government Reform
and Oversight
House of Representatives

The Honorable Bob Livingston
Chairman, Committee on Appropriations
House of Representatives

Subject: Results Act: Observations on the Department of Housing and Urban Development's Draft Strategic Plan

On June 12, 1997, you asked us to review the draft strategic plans submitted by the Cabinet departments and selected major agencies for consultation with the Congress as required by the Government Performance and Results Act of 1993 (the Results Act). This report is our response to that request concerning the Department of Housing and Urban Development (HUD).

HUD is at a critical juncture in its history. The Department 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 and have led to our designating it as a "high-risk" area. On June 26, 1997, HUD announced its HUD 2020 Management Reform Plan to address the ongoing operational, informational, and management concerns. HUD based much of its July 14, 1997, draft strategic plan on the proposals introduced in its management reform plan, which addresses many of our concerns and could help HUD's attempts to resolve many of its problems.

Objectives, Scope, and Methodology

Specifically, you asked us to review HUD's draft strategic plan and assess (1) whether it fulfills the requirements of the Results Act and to provide our views on its overall quality; (2) whether it reflects HUD's key statutory authorities; (3) whether it reflects interagency coordination for crosscutting programs, activities, or functions that are similar or complementary to those of other federal agencies; (4) whether it addresses major management challenges that we had previously identified; and (5) whether HUD has adequate data and information systems to provide reliable information for measuring results.

We reviewed the July 14, 1997, draft strategic plan that HUD provided to congressional committees. It is important to recognize that HUD's final plan is not due to the Congress and the Office of Management and Budget (OMB) until September 30, 1997. Furthermore, the Results Act anticipated that perfecting the process of developing a strategic plan may take several planning cycles and that each agency's strategic plan would continue to be refined as future planning cycles occur. Thus, our comments reflect a snapshot of HUD's plan at this time. We recognize that this process is dynamic and that HUD is continuing to revise the draft with input from OMB, congressional staff, and other stakeholders.

Our overall assessment of HUD's draft strategic plan was generally based on our knowledge of HUD's operations and programs, our numerous reviews of the agency, and other information available at the time of our assessment. Specifically, the criteria we used to determine whether HUD's draft strategic plan complied with the requirements of the Results Act were the Results Act itself and OMB's guidance on developing the plans.[1] To judge the overall quality of the draft plan and its components, we used our May 1997 guidance for congressional review of the strategic plans (GAO/GGD-10.1.16). To determine whether HUD's draft plan contained information on interagency coordination and addressed management problems and whether the Department had adequate systems in place to provide reliable information on performance, we relied on our general knowledge of HUD's operations and programs, the results of our previous reports, the HUD Office of Inspector General's (OIG) report on HUD's fiscal year 1996 financial statements, and HUD's reporting under the Federal Managers' Financial Integrity Act (FMFIA) for fiscal year 1996. In determining whether HUD's draft plan reflects its major statutory responsibilities, we coordinated our review with the Congressional Research Service and reviewed material in HUD's fiscal year 1998 budget

[1]Circular A-11, Part 2: Preparation and Submission of Strategic Plans and Annual Performance Plans, June 1997.

explanatory notes for an overview of the agency's primary functions and activities. Because HUD's draft strategic plan relied heavily upon its management reform plan, we also reviewed that plan to help ensure a complete assessment of HUD's efforts. Our work was performed in July and August 1997. We obtained comments on a draft of this report from HUD, and its comments and our responses are incorporated in this report.

Background

Established in 1965, HUD is the principal federal agency responsible for programs dealing with housing, community development, and fair housing opportunities.[2] Through its programs, HUD currently provides rental assistance to more than 4 million lower-income households, has insured mortgages for about 23 million homeowners, has helped revitalize over 4,000 communities, and helps ensure that access to housing is equally available to all. HUD is responsible for the expenditures of significant amounts of tax dollars. The total budget outlays for HUD's programs were just over $36 billion in fiscal year 1996, the vast majority of which was for assisted and public housing programs. HUD also is responsible for managing more than $426 billion in mortgage insurance, $497 billion in guarantees of mortgage-backed securities, and about $170 billion in prior years' budget authority for which it has future financial commitments.

The Results Act requires that an agency's strategic plan contain the following six specific components: (1) a comprehensive mission statement covering its major functions and operations; (2) general goals and objectives, including outcome-related goals and objectives, for its major functions and operations; (3) a description of how its general goals and objectives will be achieved, including processes, skills and technology, and resources required; (4) a description of the relationship between the annual performance goals and the goals and objectives in the strategic plan; (5) an identification of the key external factors affecting the achievement of general goals and objectives; and (6) a description of how program evaluations were used in establishing the goals and objectives, with a schedule of future evaluations. OMB Circular A-11, Part 2, provides additional guidance and more detailed directions for preparing a strategic plan.

According to HUD, its strategic planning process began in the fall of 1993, the same year that the Results Act was passed. Subsequently, HUD initiated a series of reinvention efforts to define its mission, develop the agency's

[2]For additional information on HUD, see The Department of Housing and Urban Development: Information on Its Role, Programs, and Issues (GAO/RCED-97-173R, July 21, 1997).

priorities, and refine its performance measures. On June 26, 1997, HUD announced a management reform plan that sought to realign HUD's programs and activities, increase accountability, and restore the public's trust.

HUD's draft strategic plan is built around the following two missions that reflect the concepts embodied in its management reform plan: (1) "empower people and communities to improve themselves and succeed in today's time of transition" and (2) "restore the public trust by achieving and demonstrating competence." Its draft plan includes eight strategic objectives that are intended to reflect HUD's core business functions:[3]

- "empower communities to meet local needs;
- "help communities and States establish a full continuum of housing and services designed to assist homeless individuals and families achieve permanent housing and self-sufficiency;
- "increase access by families and individuals to affordable housing in standard condition;
- "reduce the isolation of low-income groups within a community or geographical area;
- "provide empowerment and self-sufficiency opportunities to support low-income individuals and families as they make the transition from dependency to work;
- "provide economic opportunities for low- and moderate-income persons through creation and retention of jobs;
- "increase homeownership opportunities, especially in Central Cities, through a variety of tools, such as expanding access to mortgage credit; and
- "promote equal housing opportunities for those protected by law."

HUD's draft strategic plan also discusses its interdependence on the management reform plan and on legislative proposals, which generally include consolidating or reforming many of its programs. HUD states that its success depends on the success of all three components—the strategic plan, the management reform plan, and the legislative proposals.

Results in Brief

While the current draft strategic plan is a positive step toward developing a strategic plan, HUD needs to do additional work before its draft plan can

[3]The Results Act requires that agencies establish "general goals and objectives," which HUD calls "strategic objectives." Throughout the report, we use HUD's terminology when discussing the provisions of its draft strategic plan.

fulfill the requirements of the Results Act. The plan is missing one of the required components—a description of how program evaluations were used in establishing the strategic objectives, including a schedule of future evaluations. Also, HUD's treatment of the other five required components is often vague and does not yet fully comply with the Results Act or OMB's guidance. HUD's two mission statements do not define the agency's basic purpose or focus on its core programs, and the mission statement that focuses on restoring the public's trust is not clearly supported by HUD's strategic objectives. While the strategic objectives cover the agency's major program activities, the statements do not clearly describe how HUD will assess whether it is making progress toward achieving those objectives. Also, the discussion of HUD's strategies to achieve its objectives and the relationship of annual performance goals to the strategic objectives could be improved by discussing the resources needed to achieve its objectives and the type of information needed for its performance goals, as required by the Results Act. Furthermore, the draft plan does not cover the time frames specified by the Results Act.

HUD's draft strategic plan generally reflects consideration of the key statutes authorizing the Department's programs. The Results Act does not require a statement of an agency's major statutory responsibilities, but HUD describes the major programs that it believes will enable it to fulfill its various strategic objectives. This information helps stakeholders understand the complexity and the diversity of HUD's activities.

Although the draft strategic plan discusses HUD's consultation process and recognizes its many community partnerships, the draft plan does not yet reflect whether HUD coordinated with other federal agencies. Furthermore, the draft plan does not identify programs and activities that are crosscutting or similar to those of other federal agencies. For example, although the draft plan repeatedly refers to the importance of welfare reform to HUD's goals, it does not reflect coordination with the Department of Health and Human Services, the primary federal agency responsible for welfare reform activities.

HUD's draft strategic plan acknowledges that significant management challenges face the agency and broadly describes how these problems will be addressed. However, HUD could improve the draft strategic plan by more fully integrating the management reform plan with the strategic plan, providing specific information about how the strategic plan addresses financial reporting and material internal control weaknesses identified by

HUD's OIG, and addressing HUD's efforts to integrate its financial and management information systems.

HUD's capacity to provide reliable information on the achievement of its strategic objectives is uncertain because the draft strategic plan has not yet been developed sufficiently to identify the types and sources of data needed to evaluate its progress toward achieving HUD's objectives. However, the plan identifies some annual performance goals for which obtaining reliable data could be difficult because of weaknesses with HUD's current financial and management information systems.

HUD's Draft Strategic Plan Does Not Yet Fulfill the Requirements of the Results Act

Although HUD's draft strategic plan includes five of the six components required by the Results Act, HUD needs to do additional work before its plan can meet the act's requirements. HUD's draft plan does not fully address several issues and contains no information on one component—a description of how program evaluations were used to prepare the strategic plan, including a schedule of future evaluations. Additionally, the time frame covered by the draft plan (fiscal years 1999 to 2003) does not meet the Results Act's requirement that a strategic plan should cover the 5 years following the fiscal year in which it is submitted. Because the strategic plan is required no later than September 30, 1997, it should include at least fiscal year 1998. In providing comments, HUD officials said that they had used various program evaluations to develop the information discussed in the draft plan and agreed to incorporate this information in the next version of the draft. They also agreed to change the time frame covered by the plan.

Overall Quality of the Draft Strategic Plan

Overall, HUD's draft strategic plan does not yet meet the requirements of the Results Act and could be improved by more completely describing its efforts to develop the strategic plan and its long-term vision. Our specific observations on the five required components included in HUD's draft strategic plan as well as observations on the consultation process are discussed in the following sections.

Mission Statement

HUD's "twin missions" of empowering people and communities and restoring the public's trust do not meet the Results Act's requirement that an agency's comprehensive mission statement cover its major program functions and operations. HUD's mission statement needs to provide a clear vision of why the Department exists, what it does to meet its mission, and

the strategic objectives that it feels are critical to performing that mission effectively.

HUD's mission statement that focuses on empowering communities and people is very broad, does not identify HUD's unique contribution toward achieving its mission, and does not include the mechanisms by which it can accomplish its mission. The mission statement that focuses on restoring the public's trust reflects the goals of HUD's management reform plan, rather than defining HUD's major program functions and operations. Although we recognize the importance of the management reform plan to HUD, the reform initiatives in that plan should be seen as the means by which the Department intends to more effectively achieve its statutory mission.

HUD may want to consider revising its mission statement to capture its core programmatic goals, such as increasing the supply of affordable housing and opportunities for homeownership, reducing homelessness, fighting for fair housing, and promoting jobs and economic development in communities.

Strategic Objectives

The Results Act requires that an agency's strategic plan contain objectives for its major functions and operations. HUD's draft strategic plan provides eight strategic objectives for accomplishing its mission, and they generally cover the Department's major functions and operations, as required by the Results Act. However, given that HUD's draft plan does not discuss the relationship between the objectives and annual performance goals and does not include the program evaluation section, it is not clear how HUD will assess its progress in achieving its objectives. For example:

- The first strategic objective—to empower communities to meet local needs—does not clearly describe how HUD can empower communities, what local needs HUD can help communities meet through its array of core programs, or how the results will be measured.
- The third strategic objective—to increase access by families and individuals to affordable housing in standard condition—does not clearly define how HUD will measure its success in expanding access to housing. This objective also does not (1) realistically reflect the problems related to the escalating costs of renewing Section 8 contracts, which will soon account for half of HUD's discretionary budget authority, or (2) explain the impact of the planned demolition of public housing on HUD's ability to provide more housing in the near future.

- The fifth strategic objective is to provide empowerment and self-sufficiency opportunities to support low-income persons making the transition from dependency to work, and the sixth strategic objective is to create and retain jobs for low- and moderate-income persons. Measuring the results of HUD's programs for achieving these objectives, as stated, will be difficult because of the myriad federal programs and public and private efforts at the state and community levels that provide similar services.

  Furthermore, it is not clear how HUD's strategic objectives support implementing the mission that focuses on restoring the public's trust.

  HUD could improve its draft strategic plan by (1) phrasing the strategic objectives to more readily allow for assessment of whether they are being achieved and (2) clarifying how these objectives support HUD's mission to restore the public's trust.

Strategies for Achieving the Strategic Objectives

HUD's draft strategic plan lacks an adequate description of how its strategic objectives will be achieved; HUD discusses only the operational process or programs it intends to use to achieve them. Furthermore, those discussions omit references to some of the major issues facing HUD, such as the problems related to the Federal Housing Administration's (FHA) insuring multifamily rental units where HUD pays high subsidies to landlords, the financial risk is high, and the units are in poor physical condition.

Additionally, HUD's discussion of its strategies to achieve its strategic objectives does not describe, as required by the Results Act, the resources, such as staff, capital, and technologies, that are needed to achieve those objectives. While the introduction to the draft plan states that it includes "an analysis of the required resources" for each of the plan's eight strategic objectives, HUD does not discuss the resources required. A related footnote states only that HUD is working on linking its budget and performance measures.

HUD's draft strategic plan also does not include several elements specified in OMB Circular A-11, Part 2. The draft plan does not include (1) schedules for initiating or completing significant actions, including underlying assumptions or projections; (2) projections of the funding and the staff that will be available over the time frame covered by the strategic plan; and (3) an outline of the processes for communicating the goals and

objectives throughout the agency and for assigning accountability to managers and staff for achieving the strategic plan's objectives.

HUD's draft strategic plan could be improved if it included a full discussion of the items required by the Results Act and included in OMB's guidance. HUD's draft plan states that the Department cannot fulfill its empowerment mission if it fails to protect the public's trust, build competence and excellence from within, and restore the confidence and faith of the American public. Because of the significance of the management reform initiatives to achieving its mission, HUD may wish to consider incorporating the management reform plan as part of its strategies to achieve its strategic objectives.

Relationship Between Annual Performance Goals and HUD's Strategic Objectives

The Results Act requires an agency's strategic plan to describe how the annual performance goals relate to the strategic objectives. While an agency's strategic plan is not required to identify specific performance goals, OMB's guidance states that the plan should describe (1) the type, the nature, and the scope of the performance goals; (2) the relationship between the performance goals and the strategic objectives; and (3) the relevance and use of the performance goals in helping to determine an agency's achievement of its strategic objectives.

HUD's draft strategic plan provides limited examples of annual performance goals under each of its eight strategic objectives, but it does not describe the relationship between them, as required by the Results Act. The draft plan also does not provide the more detailed information, suggested by OMB, which would allow for a complete analysis of this relationship. Without such a description, evaluating whether HUD's performance goals are reasonable and will allow HUD to assess its progress toward meeting its strategic objectives is difficult. For example, under the third strategic objective—increasing access to housing—it is unclear how demolishing units or removing and replacing nonviable stock will help HUD achieve its objective, especially in an environment of decreasing resources in which funds for replacement housing may not be available. It is also unclear how reducing the number of troubled public housing authorities will increase access to affordable housing.

We also noticed an inconsistency in HUD's discussion of its annual performance goals. The third strategic objective states that one of HUD's annual performance goals is to improve the average scores in HUD's Public Housing Management Assessment Program. However, the discussion

under this same objective indicates HUD intends to replace that program with a better assessment method. In providing comments on this report, HUD officials said that they were committed to the Public Housing Management Assessment Program and the plan should have indicated that HUD is looking at ways to improve that program.

To meet the requirements of the Results Act, HUD needs to ensure that its strategic plan discusses the linkage between the annual performance goals and the strategic objectives and that those goals logically support the strategic objectives.

Key External Factors

HUD's draft strategic plan only partially meets the requirement of the Results Act and the guidance provided by OMB to describe key factors that are external to an agency and beyond its control that could significantly affect the achievement of its objectives. OMB Circular A-11 states that a strategic plan should describe each key external factor, indicate its link with a particular strategic objective, and describe how the achievement of the objective could be affected by the factor. HUD briefly discusses the external factors in its draft strategic plan without linking them to specific strategic objectives. Additionally, while the draft plan discusses a few external factors—such as HUD's limited control over numerical goals and outputs of local, community-based plans; and conditions in the financial markets, where high interest rates can affect the feasibility of homeownership—other important external factors are not discussed. For example, the draft plan does not discuss the role that tax policy plays in influencing housing markets and HUD's own programs and that, consequently, might have an impact on the achievement of strategic objective seven—increase homeownership opportunities, especially in cities. Also, there is no discussion of how cities' fiscal problems, which lead to lower-quality schools and other services, could adversely affect HUD's efforts to achieve this strategic objective.

Furthermore, although both HUD's draft strategic plan and the management reform plan refer to proposed legislative changes, the draft plan does not discuss the impact on the strategic plan or on HUD's programs if the proposals are not enacted.

Other Observations

The draft strategic plan describes HUD's strategic planning process as being based on the development of the Secretary's priorities, from which the Department develops its program management plans that include annual

performance goals. The draft plan also states that this process has resulted in greater management accountability. We note that HUD did not solicit and consider its stakeholders' views and suggestions during the development of its draft strategic plan. HUD's draft plan indicates that HUD is just now in the process of sharing its completed draft plan with the various organizations and agencies that may be interested. Additionally, the draft plan indicates limited meetings with the Congress in which process issues were discussed, rather than mission and goals.

HUD's final strategic plan needs to take full advantage of the consultation process that provides the opportunity for HUD and the Congress to evaluate the continuing appropriateness of HUD's mission, goals, and strategies. This is particularly important given that (1) HUD is pursuing a major management realignment while it is developing its strategic plan, (2) the Congress is considering legislative proposals that would overhaul HUD's programs and activities, and (3) some of HUD's eight strategic objectives may overlap those of other agencies. In providing comments on this report, HUD officials said that the revised plan would include a more in-depth discussion of their consultation process.

HUD's Draft Strategic Plan Generally Reflects Key Statutory Authorities

HUD's draft strategic plan generally reflects the key statutes authorizing HUD's programs. The Results Act does not require a statement of the major statutory responsibilities, but within each section HUD describes the major programs it believes will help it fulfill its various strategic objectives. This information will help stakeholders understand the complexity and diversity of HUD's activities.

Various HUD housing programs are described in the discussion under strategic objective three. HUD describes programs that it will use to expand rental and homeownership opportunities, including Housing Opportunities for People Everywhere (HOPE) VI, the HOME Investment Partnerships, Community Development Block Grants, FHA multifamily insurance, Sections 202 and 811 (which provide housing for the elderly and disabled), and Housing Opportunities for Persons With AIDS.

Similarly, HUD's community development programs are discussed under strategic objectives five and six. HUD describes the following programs: Empowerment Zones and Enterprise Communities; Economic Development and Supportive Services grants, including Bridges to Work and the Neighborhood Networks; Tenant Opportunity Program; Public Housing Drug Elimination; Community Development Block Grants;

Youthbuild; Section 108 Loan Guarantee Program; and Economic Development Initiatives grants. HUD also mentions Section 3 of the Housing and Urban Development Act of 1968, as amended by the Housing Act of 1992, which requires that economic opportunities generated by financial assistance from HUD shall, to the greatest extent feasible, be given to low- and very low-income persons.

HUD's Strategic Plan Does Not Yet Indicate Significant Interagency Coordination

Although the draft strategic plan discusses HUD's consultation process and recognizes HUD's community partnerships, the draft plan does not clearly indicate whether HUD coordinated with other federal agencies in developing its plan. Specifically, the draft plan does not identify crosscutting programs or those that may duplicate programs administered by other federal agencies. Most significantly, although both the draft strategic plan and the management reform plan make specific references to the importance of HUD's participation in welfare reform and plans to implement the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the draft strategic plan provides no evidence that HUD has coordinated with the Department of Health and Human Services.

The draft strategic plan lists HUD's extensive partnerships with various community organizations and working groups and it specifically mentions HUD's relationship with other federal agencies in three areas: (1) HUD's coordination with the Department of Transportation on a welfare-to-work transportation proposal that is tied to a HUD demonstration program operating in five cities, (2) HUD's partnerships with the Environmental Protection Agency and the Department of the Treasury on the redevelopment of urban toxic sites, and (3) HUD's responsibility for monitoring government-sponsored enterprises' compliance with fair-lending laws and establishing goals for the enterprises' purchase of mortgages in urban, rural, and underserved areas. However, the strategic plan does not clearly indicate whether coordination has occurred in other areas. For example:

- The second strategic objective seeks to help communities and states establish a full continuum of housing and services to assist the homeless, which would include such services as immediate shelter and transitional housing with appropriate supportive services, such as job training and placement, child care, and health services. To ensure the most effective use of resources, these efforts should be coordinated with the Departments of Labor and Health and Human Services.

- The fifth and sixth strategic objectives, which seek to empower families and individuals via economic development opportunities and to support the welfare reform initiatives, do not indicate coordination with the Departments of Labor or Health and Human Services.
- The eighth strategic objective seeks to promote equal housing opportunity under the law and specifically states that HUD proposes to double the number of housing discrimination cases sent to the Department of Justice for prosecution over the next 4 years. The draft strategic plan does not indicate coordination with the Department of Justice on this objective, although it would seem to directly affect Justice's workload.

In providing comments on this report, HUD officials indicated that they have coordinated with some federal agencies, including the Department of Health and Human Services, and that the coordination will be included in the final strategic plan.

Draft Strategic Plan Addresses Some Management Challenges, but More Information Is Needed

In recent years, we and others have reported on the major management problems that HUD faces in carrying out its mission. HUD's draft strategic plan acknowledges some of the management problems it faces and broadly describes how these problems will be addressed. However, HUD could improve the draft plan by more fully integrating its management reform plan into its draft strategic plan; by providing specific information about how the strategic plan addresses financial reporting and material internal control weaknesses identified by HUD's OIG; and by addressing HUD's efforts to integrate its information and financial management systems, including how these efforts and strategies support the achievement and the measurement of HUD's strategic objectives.

In 1994, we designated HUD as a high-risk area because of four long-standing, agencywide 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. However, we also reported that HUD's efforts were far from reaching fruition; that HUD's programs continued to pose a high risk to the government in terms of their vulnerability to waste, fraud, abuse, and mismanagement; and that HUD and the Congress would need to work together to successfully eliminate these deficiencies.[4]

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

HUD's draft strategic plan acknowledges the significant management challenges the Department faces and indicates that they will largely be addressed through its management reform plan and the mission statement that focuses on restoring the public's trust. The draft strategic plan summarizes the management reform plan and links each strategic objective to the management reform plan by including in the discussion of each objective a listing of applicable sections of the management reform plan. However, OMB's circular states that agencies should provide details in their strategic plans when the achievement of goals is predicated on a significant change in resources, in technological levels or capacities, or in the mode or functioning of the processes. HUD's proposed management reforms are calling for changes similar to those discussed in OMB's circular. Specifically, the management reform plan includes reducing the number of programs and/or activities from over 300 to about 70; reducing staffing levels from about 10,600 as of the beginning of fiscal year 1997, to 7,500 by the end of fiscal year 2000; retraining the majority of staff; reorganizing the 81 field offices; modernizing and integrating the financial and management information systems; developing and strengthening internal controls; and increasing program monitoring and measurement. To be consistent with OMB's guidance, HUD should more fully integrate the management reform plan into the strategic plan by (1) describing the relationship of the specific changes planned to each strategic objective; (2) indicating the impact that the change, or lack thereof, would have on reaching each strategic objective; (3) providing timetables for implementing the changes; (4) estimating the resources needed to bring about the changes; and (5) describing the legislation required to implement the changes.

In April 1997, HUD's OIG issued a qualified opinion on the Department's fiscal year 1996 consolidated financial statements.[5] One qualification related to HUD's inability to accurately estimate excess subsidies being paid under its rental assistance programs and to comply with generally accepted federal accounting standards for reporting loans and loan guarantees.[6] The report also identified seven material internal control weaknesses, including HUD's failure to have a control structure in place to help ensure that $19 billion in rental subsidies are based upon tenants' correct income; HUD's failure to adequately monitor multifamily projects; FHA's lack of sufficient staff and administrative resources needed to mitigate multifamily housing losses and properly manage troubled assets; and HUD's lack of an adequate system to determine staff needs. HUD's draft

[5]U.S. Department of Housing and Urban Development Audit of Fiscal Year 1996 Financial Statements, Office of Audit, HUD, Office of Inspector General (97-FO-177-003, Apr. 10, 1997).

[6]These standards essentially mirror the Federal Credit Reform Act of 1990.

strategic plan does not clearly address these financial reporting and material internal control weaknesses.

Finally, HUD—like many federal agencies—faces a major challenge in managing information resources to ensure that information technology tools and resources are aligned to support the accomplishment of its mission. Neither the draft strategic plan nor the management reform plan address (1) HUD's current efforts, ongoing since 1991, to integrate its management information systems; (2) HUD's current strategies for managing information technology; or (3) how these efforts and strategies support the achievement and measurement of HUD's strategic objectives. HUD's information technology strategy should contain information on how the agency plans to comply with the Clinger-Cohen Act of 1996. This act calls for agencies to implement a framework of modern technology management based on practices followed by leading private-sector and public-sector organizations that have successfully used technology to dramatically improve their performance and meet their strategic goals.

HUD's Capacity to Provide Reliable Information on the Achievement of Its Strategic Objectives Is Uncertain

To measure progress in achieving its strategic objectives, HUD needs reliable data. HUD's draft strategic plan has not yet been developed sufficiently to identify the types and the sources of the data needed to evaluate HUD's progress in achieving its strategic objectives. However, the draft plan identifies some annual performance goals for which obtaining reliable and accurate data could be difficult because of weaknesses in HUD's current financial and management information systems. For example:

- The April 1997 report by HUD's OIG on the Department's consolidated financial statements for fiscal year 1996 cited as material internal control weaknesses both HUD's efforts to improve its systems and FHA's accounting and financial management systems. The report stated that while HUD has been improving its financial management systems, delays have occurred in improving some these systems and some of FHA's systems either do not provide needed management information or do not provide reliable information. Also, in our 1996 telephone survey, a third or more of the HUD field directors interviewed rated the following areas of information systems as fair to poor: the accuracy of the data, the ease of generating

reports, and the usefulness of the information systems that support monitoring and other program management activities.[7]

- HUD's self-assessment reporting under the Federal Managers' Financial Integrity Act continues to state that most of its systems do not comply with FMFIA. In its fiscal year 1996 accountability report, which included the assessment of compliance with FMFIA, HUD stated that 85 of its systems did not comply with FMFIA.[8] According to HUD's information as of November 1996, HUD had a total of 98 systems and subsystems classified as either financial or mixed (providing both financial and program information).[9]

Once HUD develops its final annual performance goals, it will need to determine whether system modifications or new systems are needed to capture and provide the essential management and measurement information. Such information is needed to measure compliance with the Results Act and to comply with the Chief Financial Officers Act of 1990, which requires the development of cost information to enable the systematic measurement of performance and the integration of program, accounting, and budget systems.

Agency Comments

We provided HUD with a draft of this report for review and comment. We met with HUD's Deputy Chief Financial Officer for Finance; the Director, Office of Internal Control and Audit Resolution; and other HUD officials, who said that HUD generally agreed with our observations and will consider the changes we suggested as it moves forward in completing the strategic plan. They emphasized that the strategic planning process is an iterative one and that they expect that the strategic plan will continue to improve.

HUD officials expressed two principal concerns with our draft report. First, they disagreed with our assessment of the mission statements and stated that these statements are consistent with the management reform plan and reflect HUD's direction. We continue to believe that the mission statement in HUD's strategic plan should reflect HUD's major program functions and

[7]HUD: Field Directors' Views on Recent Management Initiatives (GAO/RCED-97-34, Feb. 12, 1997). We surveyed 155 persons serving as Directors of Single-Family Housing, Directors of Multifamily Housing, Directors of Community Planning and Development, and Directors of Public Housing in the 40 largest HUD field offices in terms of staff.

[8]U.S. Department of Housing and Urban Development Accountability Report Fiscal Year 1996 (Washington, D.C.: Mar. 1997).

[9]The actual number of systems in HUD's inventory may vary, depending on how the systems and subsystems are counted.

operations, as required by the Results Act, rather than restate the goals of HUD's management reform plan. Second, HUD disagreed with our assessment that its capacity to provide reliable assessment data is uncertain. HUD officials stated that the Department has had problems with its data integrity but is addressing them. They added that their March 1997 accountability report noted that significant improvements have been made in some systems. While we agree that the report noted some improvements, it also stated that most of the agency's systems do not comply with FMFIA. Nonetheless, we clarified the discussion of HUD's actions in connection with assessment data in our report. HUD officials also provided some technical comments that have been incorporated into the report as appropriate.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this letter for 30 days. At that time, we will send copies of this report to the Ranking Minority Members of your Committees; the Chairmen and Ranking Minority Members of other Committees that have jurisdiction over HUD's activities; the Secretary of Housing and Urban Development; and the Director, Office of Management and Budget. Copies will be made available to others on request.

Major contributors to this product are Nancy Boardman, J. Davis, Larry Goldsmith, John McGrail, and Nancy Simmons. Please call me at (202) 512-7631 if you or your staffs have any questions concerning this report.

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