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The President of the Senate
The Speaker of the House of Representatives

This report addresses the major performance and management challenges that have limited the effectiveness of the Department of Housing and Urban Development (HUD) in carrying out its mission. It also addresses corrective actions that HUD has taken or initiated on these challenges, including the reforms it announced in June 1997, and further actions that are needed. For many years, we have reported significant management problems at HUD. These problems are the results of serious deficiencies in internal controls, information and financial management systems, organizational structure, and staffing. These deficiencies cut across HUD's program areas.

HUD is making significant changes and has made credible progress since 1997 in laying the framework for improving the way the Department is managed. HUD's Secretary and leadership team have given top priority to addressing the Department's management deficiencies. This top management attention is critical and must be sustained in order to achieve real and lasting change. Importantly, given the nature and extent of the challenges facing the Department, it will take time to implement and assess the impact of any related reforms. While major reforms are under way, several are in the early stages of implementation. Consequently, we continue to believe, as

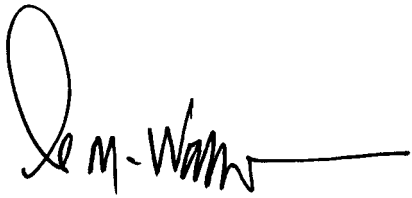
we reported in 1995 and 1997, that these management deficiencies, taken together, place the integrity and accountability of HUD's programs at high risk.

This report is part of a special series entitled the Performance and Accountability Series: Major Management Challenges and Program Risks. The series contains separate reports on 20 agencies—one on each of the cabinet departments and on most major independent agencies as well as the U.S. Postal Service. The series also includes a governmentwide report that draws from the agency-specific reports to identify the performance and management challenges requiring attention across the federal government. As a companion volume to this series, GAO is issuing an update to those government operations and programs that its work has identified as "high risk" because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. High-risk government operations are also identified and discussed in detail in the appropriate performance and accountability series agency reports.

The performance and accountability series was done at the request of the Majority Leader of the House of Representatives, Dick Armey; the Chairman of the House Government Reform Committee, Dan Burton; the Chairman of the House Budget Committee, John Kasich; the Chairman of the Senate Committee on Governmental Affairs, Fred Thompson; the Chairman of the Senate Budget Committee, Pete Domenici; and Senator Larry Craig. The series was subsequently cosponsored by the

Ranking Minority Member of the House Government Reform Committee, Henry A. Waxman; the Ranking Minority Member, Subcommittee on Government Management, Information and Technology, House Government Reform Committee, Dennis J. Kucinich; Senator Joseph I. Lieberman; and Senator Carl Levin.

Copies of this report series are being sent to the President, the congressional leadership, all other Members of the Congress, the Director of the Office of Management and Budget, the Secretary of Housing and Urban Development, and the heads of other major departments and agencies.



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Overview

Directly or indirectly, the Department of Housing and Urban Development (HUD) affects millions of Americans as it carries out the federal government's missions, policies, and programs for housing and community development. These missions range from making housing affordable by insuring loans for multifamily rental housing properties and providing rental assistance for about 4.5 million low-income residents, to helping revitalize over 4,000 localities through community development programs, to encouraging homeownership by providing mortgage insurance to about 7 million homeowners who might not have been able to qualify for nonfederally supported loans. HUD is also one of the nation's largest financial institutions, with significant commitments, obligations, and exposure. As of September 30, 1997, HUD was responsible for managing about $454 billion in insured mortgages and $531 billion in guarantees of mortgage-backed securities.[1] For fiscal year 1999, it has $24.3 billion in budget authority.

[1]These mortgage-backed securities are guaranteed by HUD's Government National Mortgage Association and backed by pools of mortgage loans insured or guaranteed by HUD's Federal Housing Administration, the Department of Agriculture's Rural Housing Service, or the Department of Veterans Affairs.

The Challenges

We designated HUD as a high-risk area in 1994 because of four serious, long-standing departmentwide management deficiencies. We reported on these deficiencies and HUD's progress in resolving them in 1995 and 1997.[2] Taken together, these deficiencies placed the integrity and accountability of HUD's programs at high risk. Specifically, internal control weaknesses, such as a lack of necessary data and management processes, were a major factor leading to the HUD scandals of the late 1980s. Second, poorly integrated, ineffective, and generally unreliable information and financial management systems did not meet the needs of program managers and weakened their ability to provide management control over housing and community development programs. Third, HUD had organizational deficiencies, such as overlapping and ill-defined responsibilities and authorities between its headquarters and field organizations and a fundamental lack of management accountability and responsibility. Finally, an insufficient mix of staff with the proper skills hampered the effective monitoring and oversight of HUD's programs and the timely updating of

[2]High-Risk Series: Department of Housing and Urban Development (GAO/HR-95-11, Feb. 1995) and High-Risk Series: Department of Housing and Urban Development (GAO/HR-97-12, Feb. 1997).

procedures. Resolving these management deficiencies is particularly critical for HUD because its housing and community development programs rely extensively on the integrity of thousands of diverse individuals and entities, such as cities, public housing authorities, mortgage lenders, contractors, and property owners over whom it does not have direct control.

HUD continues to make credible progress in overhauling its operations to correct its management deficiencies. First, it has improved its financial reporting to the extent that its Inspector General was able to provide qualified opinions on its financial statements for fiscal years 1996 and 1997, compared with no opinion on the reliability of its financial statements for fiscal year 1995. In addition, it deployed components for improving its information and financial management systems; reorganized its resources by function; and established various consolidated or centralized entities for single-family insurance operations, the payment of rental assistance, assessments of HUD-owned or HUD-supported rental properties, and enforcement activities. Finally, it refocused and began retraining its workforce.

A major contributor to this progress is HUD's June 1997 2020 Management Reform Plan, a set of proposals intended to, among other things, correct the management deficiencies that we and others (e.g., HUD's Inspector General, external auditors) identified. The plan calls for reducing the number of programs, reducing staffing levels, retraining the majority of the staff and separating service from compliance functions, reorganizing the 81 field offices, consolidating processes and functions within and across program areas into specialized centers, and modernizing and integrating information and financial management systems. HUD has also linked its management reform efforts to the strategic and annual plans it has developed under the Government Performance and Results Act of 1993.[3] As a result, its success in achieving strategic objectives and meeting annual performance goals depends on the success of its management reforms. Booz-Allen and Hamilton, Inc., reported in March 1998 that these reforms, when implemented, should present a significant improvement in HUD's performance; lower the risk of fraud, waste, and abuse in its programs; and position the Department to better serve America's communities.

[3]The Results Act seeks to shift the focus of government decisionmaking and accountability from activities to results.

While major reforms are under way, our recent work indicates that internal control weaknesses and problems with information and financial management systems persist. Furthermore, recent reforms to address the Department's organizational and staffing problems are in the early stages of implementation, and it is too soon to tell whether or not they will resolve the major deficiencies that we and others have identified. Consequently, we continue to believe, as we reported in 1995 and 1997, that these deficiencies, taken together, place the integrity and accountability of HUD's programs at high risk. To resolve these management deficiencies, the Department needs to ensure that the actions being taken eliminate the remaining major internal control weaknesses; strengthen the management and oversight of efforts to integrate HUD's information and financial management systems and correct these systems' weaknesses; ensure that the field offices have enough staff to carry out the work assigned, including the monitoring of programs and activities and the assessment of outcomes; and ensure that all staff have the skills needed to perform their functions.

Internal Control Weaknesses Persist

While HUD has initiated actions that should help to address the internal control weaknesses that we and others have identified, material internal control weaknesses persist in its management of the Section 8 subsidy payment process, which provides $18 billion in rental assistance; control and management of staff resources; management of losses resulting from defaults in the single-family and multifamily insurance programs; implementation of automated systems to provide needed management information or reliable data; and monitoring of multifamily properties and of the single-family and multifamily notes inventories. In addition, HUD identified inadequate contracting procedures as a departmentwide material internal control weakness for fiscal year 1997. Furthermore, since we issued our 1997 report, we have reported that HUD has not adequately monitored, among other things, its real estate asset management contractors, the performance of appraisers of properties purchased with FHA-insured loans, and its process for deobligating funds no longer needed for Section 8 project-based rental assistance contracts.

A strong internal control system provides the framework for accomplishing management

objectives, accurate financial reporting, and compliance with laws and regulations. Effective internal controls serve as checks and balances against undesired actions, thereby providing reasonable assurance that resources are effectively managed and accounted for. Not having good internal controls puts an entity at risk of mismanagement, waste, fraud, and abuse.

Work Remains on HUD's Information and Financial Management Systems

While efforts to integrate HUD's information and financial management systems are well under way, the Department will continue to be adversely affected by inadequate systems and information until it has completed these efforts. The fiscal year 1997 audit of HUD's consolidated financial statements continued to report material internal control weaknesses in financial systems that were departmentwide or FHA-wide. In addition, we recently reported that HUD does not know when its systems integration effort will be completed, or at what cost, because it has not yet finalized detailed project plans or cost and schedule estimates for this effort.[4] We concluded that without such plans, the Department is likely to continue to spend millions of dollars, miss milestones, and still

[4]HUD Information Systems: Improved Management Practices Needed to Control Integration Cost and Schedule (GAO/AIMD-99-25, Dec. 18, 1998).

not fully meet its objective of developing and fully deploying an integrated financial management system. We also reported that HUD has not yet fully implemented a complete, disciplined information technology investment management process. Therefore, we concluded that HUD does not have adequate assurance that it is selecting the right projects or maximizing its return on investment.

It Is Too Early to Assess the Effectiveness of Organizational Changes

Although a new field organization structure is now in place and operational, it is too early to assess the effectiveness of this structure in correcting organizational deficiencies. Under HUD's reform initiatives, some of the work previously carried out by field offices will be transferred to centers. Such work includes the financial assessment and physical inspection of multifamily properties, work related to troubled public housing authorities, enforcement activities, and Section 8 financial management activities. Additionally, some service and compliance functions formerly assigned to the field offices will be shifted to staff designated as community builders and public trust officers, respectively.

However, the enforcement, financial management, and real estate assessment centers will not be performing all of their centralized functions until 1999 and 2000, when the transfer of functions and responsibilities from the field offices to the centers is expected to be complete. To date, no significant transfers have occurred except to homeownership centers, according to the field office managers and staff we interviewed between July and October 1998.[5] Office managers also indicated that the transfer of community service and outreach functions and responsibilities from the field offices to community builders was in a transitional phase.

Staffing Under the 2020 Reform Plan Is in Transition

Because staffing reforms and workload transfers from the field offices to the centers are still occurring, the effectiveness of HUD's changes in correcting staffing deficiencies cannot be determined. For example, most of the field offices we visited initially lost staff following HUD's staffing reforms. However,

[5]From July through October 1998, we interviewed HUD managers and staff at selected locations about the effect on their programs and work of the various organizational changes made under the 2020 plan. We judgmentally selected the Denver homeownership center; the Fort Worth, Chicago, Houston, and New Orleans field offices; the troubled agency recovery center at Memphis; and the real estate assessment and enforcement centers in Washington, D.C., to conduct our work.

some of these staff losses were recovered after HUD finalized staffing decisions in September 1998. While most of the offices we visited reported being fully staffed, three of the centers were understaffed. The enforcement center had 62 percent of its authorized staff level, the real estate assessment center 40 percent, and the Memphis troubled agency recovery center 86 percent. HUD managers said the vacant positions in these centers will be advertised sometime in 1999. In addition, HUD has not yet developed a process for identifying and justifying its staff resource requirements.

Progress and Next Steps

Given the severity of the management deficiencies that we and others have observed, it would not be realistic to expect that HUD would have substantially implemented its reform efforts and demonstrated success in resolving its management deficiencies in the 2 years since we issued our last report. Nevertheless, with close oversight by the Congress, HUD is making significant changes and has made credible progress since 1997 in laying the framework for improving its management. HUD's Secretary and leadership team have given top priority to addressing the Department's management deficiencies. This

top management attention is critical and must be sustained in order to achieve real and lasting change. Importantly, given the nature and extent of the challenges facing the Department, it will take time to implement and assess the impact of any related reforms. While major reforms are under way, several are in the early stages of implementation, and it is too soon to tell whether or not they will resolve the major deficiencies that we and others have identified. Therefore, in our opinion, the integrity and accountability of HUD's programs remain at high risk.

Major Performance and Management Issues

The HUD scandals of the late 1980s focused public attention on management problems at HUD. In 1994, we designated HUD as a high-risk area because of four serious, long-standing departmentwide management problems. These deficiencies, taken together, placed the integrity and accountability of HUD's programs at high risk. First, internal control weaknesses, such as a lack of necessary data and management processes, were a major factor leading to the scandals. Second, poorly integrated, ineffective, and generally unreliable information and financial management systems did not meet the needs of program managers and weakened their ability to provide management control over housing and community development programs. Third, HUD had organizational problems, such as overlapping and ill-defined responsibilities and authorities between its headquarters and field organizations and a fundamental lack of management accountability and responsibility. Finally, an insufficient mix of staff with the proper skills hampered the effective monitoring and oversight of HUD's programs and the timely updating of procedures. These problems can affect the management of HUD's $454 billion in insured mortgages and $531 billion in guarantees of mortgage-backed securities (as of September 30, 1997). They can also

affect the management of HUD's other programs, funded by $24.3 billion in budget authority for fiscal year 1999.

Actions Are Under Way to Address Internal Control Weaknesses, but Problems Persist

Internal control weaknesses that we and others have identified at HUD in the past include a lack of staff and resources to manage and monitor its real estate inventory, an inadequate early warning system to prevent losses through defaults in its single-family and multifamily insurance programs, inadequate controls over a rental assistance program, inadequate automated systems to provide needed management information or reliable data, and an inadequate management control system.

A strong internal control system provides the framework for accomplishing management objectives, accurate financial reporting, and compliance with laws and regulations. Effective internal controls serve as checks and balances against undesired actions, thereby providing reasonable assurance that resources are effectively managed and accounted for. Not having good internal controls puts an entity at risk of mismanagement, waste, fraud, and abuse.

In February 1997, we reported that HUD had made limited progress in addressing internal control weaknesses by implementing a new management planning and control program intended to identify and rank the major risks in each program and devise strategies to abate those risks. We also reported that HUD had reduced the material weaknesses identified through its Federal Managers' Financial Integrity Act (FMFIA) assessment from 51 in the early 1990s to 9 at the end of fiscal year 1996.[6] At the same time, we noted that the remaining material weaknesses were long-standing and put large sums of money at risk and that financial audits continued to identify material internal control weaknesses in HUD's programs. We also found that managers were not actively assessing risks in their programs as required under the management control program. Finally, we reported in 1997 that HUD's monitoring of program participants, despite its importance as a management tool, continued to be problematic.

[6]Management control programs for federal agencies are mandated by FMFIA and supplemented by requirements established by the Office of Management and Budget. Each year, federal departments are to report whether their management control systems provide reasonable assurance that the requirements of FMFIA are being met, identify any new material weaknesses and instances of nonconformance, and report any corrective actions taken on previously existing material weaknesses.

2020 Reform Plan Is Directed Toward Internal Control Weaknesses

Under its June 1997 2020 Management Reform Plan, HUD has taken a number of actions to begin addressing its internal control problems. In 1998, HUD's Office of Chief Financial Officer (CFO) established the Risk Management Division, which worked with the Department's program offices and nationwide centers in preparing risk assessments for programs that were being established or substantially revised. In fiscal years 1997 and 1998, the CFO also worked with certain program offices to prepare special risk assessments on some existing programs to identify and develop action plans to reduce risks. The program offices, with assistance from the CFO, will continue to carry out special risk assessments on existing programs. The CFO is also developing a risk evaluation database that will be used to identify programs needing special risk reviews. The database will include information on program funding, reviews by us and HUD's Inspector General, and internal reviews. In addition, as of September 30, 1998, the CFO's Risk Management Division completed risk management training for over 1,100 headquarters and field managers. As of November 1998, the CFO had also revised the 1992 handbook on HUD's Management Control Program. The revised handbook,

among other things, reinforces the requirement that front-end risk assessments be performed on any new program with a funding level of $10 million or more and on substantially revised programs or administrative functions where the revision results in increases or decreases of more than $10 million or the revision is equal to a change of 5 percent in the budget line item.

As part of its reform plan, HUD established a real estate assessment center, which has issued regulations on the physical and financial assessments of multifamily properties and public housing authorities. However, the center will not be fully functional until 2000. It will not begin financial assessments of multifamily properties until around April 1999, when audited financial statements on the properties are submitted to HUD. Although physical inspections of public housing authorities will start in 1999, financial assessments will not begin until 2000. The additional year is needed to give housing authorities time to convert their annual financial statements from HUD's accounting guidance to generally accepted accounting principles in accordance with the uniform financial standards for HUD's housing programs. The center began physically

inspecting multifamily properties in October 1998 and, according to HUD, had inspected over 4,200 properties as of late December 1998.

HUD also established an enforcement center to investigate and take enforcement actions against troubled multifamily and public housing authority properties that do not comply with HUD's regulations. Although the enforcement center began operations on September 1, 1998, it is not scheduled to perform all of its centralized functions until around April 1999, when it is to begin receiving referrals of troubled multifamily properties from the real estate assessment center.[7] However, as of December 1998, the enforcement center was working on 200 multifamily property cases referred to it by housing staff, according to HUD. Also, according to HUD, debarments of multifamily landlords totaled about 100 in 1997, more than three times the 1996 total.

[7]The referrals will be based on the property's physical and financial condition, the property's management performance, and residents' satisfaction. Before being referred to the enforcement center, public housing authorities will have 1 year to work with one of two troubled agency recovery centers within the Office of Public and Indian Housing to correct the deficiencies identified by the assessment center.

Problems With Internal Controls Persist

The Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 required HUD and 23 other major agencies to annually prepare and subject to audit organizationwide financial statements. These reports are submitted to the Congress through the Office of Management and Budget (OMB). The fiscal year 1997 financial statement audits conducted by public accounting firms or HUD's Inspector General found continued material internal control weaknesses in the programs of HUD and HUD's Federal Housing Administration (FHA). According to the Inspector General, HUD needs to overcome issues with its internal control environment. For example, it needs to upgrade its financial systems and improve its resource management to eliminate problems that are hindering its ability to carry out its mission and manage its programs. However, the Inspector General's fiscal year 1997 financial audit of the Government National Mortgage Association found no material internal control weaknesses.

HUD's Inspector General issued a qualified opinion on HUD's fiscal year 1997 consolidated financial statements.[8] The

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

qualification related to HUD's inability to account for its credit programs in accordance with federal accounting standards.[9] These accounting standards were developed to generally mirror the credit reform legislation that was enacted to better capture the government's cost of extending credit. During 1998, HUD, with the assistance of independent contractors, has focused significant effort toward improving its ability to reasonably estimate the costs of its loan programs and has developed a plan that, if fully implemented, should help it prepare reasonable estimates in the future. HUD's current loan cost estimates are being reviewed as part of the fiscal year 1998 financial statement audit, which, once completed, will determine the reasonableness of these estimates.

The fiscal year 1997 financial audit continued to find material weaknesses in HUD's internal controls, and the Inspector General reported that HUD continues to face major challenges in its efforts to correct long-standing material internal control weaknesses. For example, HUD reported that it spent about $18 billion to provide rent and

[9]For HUD's consolidated reporting purposes, FHA's financial results must be reported using federal accounting standards. FHA has been unable to comply with these standards, particularly as they relate to accounting for credit programs.

operating subsidies through a variety of programs. On the basis of data for calendar year 1996, HUD estimated that it had provided over $900 million in overpayments. Households generally are required to pay 30 percent of their income toward rent, and HUD provides the balance of the rental payment. When households fail to disclose all of their income, HUD may end up paying a greater rental subsidy than otherwise would be required. This high level of improper payments exists because HUD does not have adequate internal controls over the process of verifying tenants' self-reported income—the primary factor in determining the amount of assistance HUD pays. This was one of the material internal control weaknesses reported by HUD's Inspector General in the financial audit report for fiscal year 1997.[10] In fiscal year 1998, HUD unveiled a multifaceted plan to identify households' unreported and/or underreported income. The plan includes steps to (1) further expand HUD's computer matching efforts, (2) strengthen recertification policies and procedures, (3) ensure that HUD's information systems

[10]Other material internal control weaknesses included the need to complete improvements to financial systems, improve resource management, and continue efforts to improve the monitoring of multifamily properties.

have accurate and complete data on tenants, (4) institute penalties, and (5) perform monitoring and oversight functions, including revising and expanding audit procedures to be incorporated into OMB's A-133 Compliance Supplement.[11]

The public accounting firm KPMG Peat Marwick LLP, in auditing FHA's financial statements for fiscal year 1997, found that the statements were presented fairly, in all material respects, in conformity with generally accepted accounting principles.[12] However, the audit continued to find material weaknesses in FHA's internal controls. These weaknesses included insufficient staff and administrative resources for such tasks as performing loss mitigation functions,[13] managing troubled

[11]The compliance supplement outlines important provisions governing federal programs, including the requirements for auditing them.

[12]Federal Housing Administration, Audit of Fiscal Year 1997 Financial Statements, Office Inspector General (98-FO-131-0003, Mar. 9, 1998) (prepared by KPMG Peat Marwick LLP for the Office of Inspector General). Although FHA received an unqualified audit opinion on these financial statements, the reported amounts related to FHA's loan programs, derived using generally accepted accounting principles, are significantly different from those that would have been reported had federal accounting standards been used.

[13]FHA's loss mitigation program seeks, among other things, to mitigate losses resulting from foreclosure by using alternatives to foreclosure, such as loan modifications.

assets, and implementing new automated systems; inadequate emphasis on providing early warning of, and preventing losses due to, defaults on insured mortgages; and resolving remaining problems with accounting and financial management systems. The report added that because of the issues' complexity, implementing sufficient changes to mitigate these internal control weaknesses will take several years.

In addition, we and HUD's Inspector General have identified weaknesses related to HUD's contract management, including problems with the Department's automated procurement systems, assessment and planning for contract needs, and oversight of contractors' performance. Following the Inspector General's 1997 review of HUD's contracting practices, contracting departmentwide was added as a material internal control weakness in the FMFIA assessment for fiscal year 1997. HUD is implementing reforms to address these weaknesses, including appointing a chief procurement officer, redesigning the contract procurement process, and establishing standard training requirements for staff responsible for monitoring contractors' progress and performance.

The other material internal control weaknesses reported as open under the FMFIA assessment for fiscal year 1997 pertained to the (1) Section 8 subsidy payment process, (2) multifamily resource and asset management strategy, (3) Section 8 bond refunding, (4) single-family resource and asset management strategy, (5) management and control of staff resources, (6) monitoring of insured mortgages and multifamily projects, (7) Secretary-held multifamily and single-family mortgage notes inventories, and (8) income verification. HUD has reduced its material weaknesses from 51 in fiscal year 1991 to the 9 remaining open as of fiscal year 1997. Some of these remaining weaknesses are long-standing—one dates back to 1983, while four others date back to 1993—and some, such as those relating to the $18 billion rental assistance program, involve billions of dollars.

Problems in Monitoring Existing Programs Persist

Despite its importance as a management control tool, monitoring continues to be problematic for HUD in many program areas. Such a management control tool is particularly critical for HUD because its housing and community development programs rely extensively on the integrity of

thousands of diverse individuals and entities such as cities, public housing authorities, mortgage lenders, contractors, and property owners. Illustrations of HUD's monitoring problems follow.

- In July 1997, we reported that HUD's administration of its preservation program[14] was hampered by a number of factors that collectively limited the Department's ability to ensure that the program was being managed effectively and efficiently, that federal funds were being spent wisely, and that the program was being carried out as required.[15] We concluded that not having a uniform, up-to-date system to monitor owners' compliance with the program's requirements limited HUD's ability to ensure that owners were adhering to long-term affordability restrictions requiring them to maintain properties for low-income occupancy in exchange for financial incentives. Our findings contributed to the Congress's decision to stop funding the program.

[14]The preservation program was aimed at keeping existing multifamily housing affordable for lower-income households as the owners of these properties were approaching eligibility to pay off their mortgages.

[15]Housing Preservation: Policies and Administrative Problems Increase Costs and Hinder Program Operations (GAO/RCED-97-169, July 18, 1997).

- In March 1998, we also reported that HUD does not have an adequate system in place to oversee real estate asset management contractors.[16] As a result, HUD offices were not adequately performing all of the functions needed to ensure that the contractors were meeting their contractual obligations to maintain and protect HUD-owned properties. Our physical inspection of properties under contract management identified serious problems, including vandalism, maintenance problems, and safety hazards. We concluded that these conditions may decrease the marketability of HUD's properties; decrease the value of surrounding homes; increase HUD's holding costs; and, in some cases, threaten the health and safety of neighbors and potential buyers.

A recent report by HUD's Inspector General also states that HUD's oversight of real estate asset management contractors is inadequate.[17] The report noted that some contractors had not been visited by HUD staff since 1996 and 1997. The problem was due to a shortage of single-family staff because of downsizing, increased workload, and HUD's

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

[17]Semiannual Report to the Congress as of September 30, 1998, HUD, Office of Inspector General (as of Sept. 30, 1998).

inability to implement steps developed under its 2020 plan for handling properties when borrowers defaulted.

- In our May 1998 report on appraisals of selected properties for home buyers seeking FHA single-family loans in New Jersey and Ohio, we reported that HUD field offices in Camden, New Jersey, and Cleveland, Ohio, had not adequately monitored the performance of appraisers.[18] We found that appraisal reports on eight of nine properties did not reflect conditions we observed that adversely affected the structural soundness and continued marketability of the houses and the health and safety of the occupants. As of February 1998, five of the eight properties had been purchased with FHA-insured mortgages. In addition, the Cleveland office did not take any disciplinary action against an appraiser who had received several unacceptable performance ratings. To improve the appraisal process and provide more protection to home buyers, HUD implemented a new home buyer protection plan in June 1998.
- In July 1998 we reported that HUD's procedures for identifying and deobligating funds that are no longer needed do not

[18]Appraisals for FHA Single-Family Loans: Information on Selected Properties in New Jersey and Ohio (GAO/RCED-98-145R, May 6, 1998).

ensure that (1) all Section 8 project-based balances are evaluated each year and (2) balances that are no longer needed for specific Section 8 project-based contracts are identified and deobligated in a timely manner.[19] We found that the review process did not provide HUD with adequate assurance that the reviews were being conducted and identified funds were being deobligated. Assurance was inadequate because HUD did not adequately oversee the program offices' reviews and did not require the responsible program officials to certify that the unexpended balances associated with the Section 8 project-based contracts were still needed. We identified about $517 million in HUD's accounting system that, as of September 30, 1997, was no longer needed because the contracts had expired, been terminated, or never been executed. We pointed out in our report that if HUD had identified and deobligated these funds, it could have recaptured and used them to reduce the Department's request for Section 8 funding.

- In July 1998, we reported problems with HUD's oversight of lenders' compliance with requirements of the home improvement loan

[19]Section 8 Project-Based Rental Assistance: HUD's Processes for Evaluating and Using Unexpended Balances Are Ineffective (GAO/RCED-98-202, July 22, 1998).

insurance program.[20] We noted that in fiscal year 1997, HUD conducted on-site quality assurance reviews of only 4 of the approximately 3,700 lenders participating in the program. We also found that loan claim files submitted by lenders to, and paid for by, HUD following loan defaults often do not contain required loan documents, including the original loan applications and certifications signed by the borrowers stating that the property improvement work has been completed.

What Remains to Be Done

While HUD has initiated actions under the 2020 Management Reform Plan that could help to address its internal control weaknesses, such as efforts to improve the management and oversight of its real estate inventory, the reforms are not fully implemented, and it is too soon to assess their effectiveness. In addition, HUD still faces significant material internal control weaknesses, including weaknesses in the control structure intended to help ensure that $18 billion in rental subsidies are based on tenants' correct incomes. As reform efforts are fully implemented, HUD needs to ensure that the actions being taken under

[20]Home Improvement: Weaknesses in HUD's Management and Oversight of the Title I Program (GAO/RCED-98-216, July 16, 1998).

the 2020 reform plan and related efforts will address the remaining material internal control weaknesses.

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Work Remains on HUD's Information and Financial Management Systems

HUD relies extensively on information and financial management systems to manage its programs. However, we have reported in the past that these systems have been inadequate because they were poorly integrated, ineffective, and generally unreliable. They neither satisfied management's needs nor provided adequate

control over HUD's housing and community development programs.

In 1997, we reported that HUD was continuing to make progress in improving its information and financial management systems, but much work remained: Some of the projects would not be completed until 2000. In addition, in our 1997 report we noted that HUD had reported that most of its systems did not comply with FMFIA and therefore could not be relied upon to provide timely, accurate, and reliable financial information and reports to management.

2020 Reform Plan Is Directed Toward Systems' Weaknesses

The 2020 Management Reform Plan called for HUD to modernize and integrate outdated financial management information systems with an efficient state-of-the-art system, incorporating such features as efficient data entry, support for formulating and executing budgets, updates on the status of funds, standardized data for quality control, and security control. The plan also stated that information and accounting systems that did not comply with FMFIA would be overhauled to correct deficiencies. Finally, the plan stated that information and accounting systems' functions would be consolidated

into the new accounting systems or eliminated.

According to HUD, it had developed and deployed 11 new financial management systems or components for these systems as of December 1998. For example, in March 1998, the Office of Housing deployed the first phase of the Real Estate Management System, a new system being developed to implement 2020 reforms; the Office of Fair Housing and Equal Opportunity deployed an enhanced version of the first module for the Grants Evaluation Management System and completed development on a second module to support the tracking of grantees in fiscal year 1998; the Office of Public and Indian Housing deployed the sixth module to support the Integrated Business System's requirements and implemented a new module to support the requirements of the Office of Native American Programs; and the CFO's office developed and deployed a consolidated HUD-wide general ledger for fiscal year 1999 that will include summary transactions for the entire Department.

As part of its 2020 reform efforts, HUD is also (1) cleaning up certain data elements in its systems where necessary, including verifying

the reliability of the data, and (2) verifying the reliability of other data. Because the cleanup effort has just begun, it is too early to assess its impact. HUD selected 395 data elements for cleanup and/or verification from 18 different financial and mixed systems. About half the data elements were selected for verification only, to be performed by an independent contractor. These data elements are part of HUD's Community 2020 System, which identifies HUD projects in a given community and provides demographic information for use by HUD grantees and the public. A fourth of the data elements scheduled for cleanup will be cleaned up in the first quarter of fiscal year 1999, and most of the remaining data elements will be cleaned up in the second quarter of fiscal year 1999. HUD plans to hire a contractor to verify the cleanup results but has not yet established a schedule for the verification.

In March 1998, we also testified on HUD's year 2000 program. At that time, the Department was behind schedule in renovating 20 of its 30 mission-critical systems and was not tracking the status of work to replace an additional 12 mission-critical systems. HUD recently reported that it had completed all of its year

2000 renovations for both mission-critical and non-mission-critical systems and had finished certifying 93 percent of these systems and implementing 86 percent of them. HUD expects to complete the certification and validation process by January 31, 1999.

Problems With Systems Persist

HUD began a financial management systems integration (FSI) effort in 1991 to replace about 100 financial and mixed systems—which support both management and financial information needs—with 9 new standard integrated systems over a 7-year period. Management and oversight problems prompted HUD to revise its FSI strategy in September 1993 to more accurately take into account the Department's program operations and business processes and to strengthen management and oversight. HUD revised its FSI strategy again in September 1997 to extend the date for fully deploying the core financial management system (i.e., the backbone of FSI) to October 1999 and to include the development and deployment of additional new systems required to meet organizational and management changes called for in the 2020 Management Reform Plan.

In December 1998, we reported that HUD did not know when the systems integration effort would be completed, or at what cost, because the Department had not yet finalized detailed project plans or cost and schedule estimates for this effort. We concluded that without such plans, the Department is likely to continue to spend millions of dollars, miss milestones, and still not fully meet its objective of developing and fully deploying an integrated financial management system. While HUD's FSI cost increases and schedule delays are not yet fully known, the Department expects to spend about $239 million for development costs plus $132 million for maintenance costs through September 1999. We also reported that management and oversight problems continue to hamper the systems integration effort and that these problems may persist because HUD lacks an effective process to manage its information technology investments. For instance, HUD has not yet fully implemented a complete, disciplined information technology investment management process that includes selecting, controlling, and evaluating FSI projects and conforms with requirements in information-technology-related legislative reforms such as the Clinger-Cohen Act of 1996 and the

Paperwork Reduction Act of 1995. Therefore, we concluded that HUD does not have adequate assurance that it is selecting the right projects or maximizing its return on investment. HUD agreed with our overall recommendations to prepare complete and reliable estimates of the life-cycle costs and benefits of the 1997 FSI strategy and individual FSI projects, implement and institutionalize a disciplined information technology investment management process that is consistent with federal laws and guidelines, and develop and use structured processes for estimating FSI costs.

Other problems with information and financial management systems continue to limit HUD's ability to effectively manage its programs, as the following examples show.

Our reports on HUD's tenant-based and project-based Section 8 assistance programs illustrate the need for further improvement in financial management. In February 1998, we reported that flaws in HUD's budget process led to significant overestimates of contract renewal needs.[21] For example, in its budget submission to the Congress, HUD doubled-counted the administrative fees to

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

be paid to housing agencies for operating the Section 8 tenant-based program. We also reported that HUD made insufficient use of supporting historical data to justify this program's needs. Recognizing these inaccuracies, HUD submitted a revised budget estimate that was $1 billion lower than its original estimate. In July 1998, we reported that HUD had requested more funding than it needed for Section 8 project-based contract amendments because it did not have effective processes for taking unexpended balances into account when determining funding needs as part of its budget process. While HUD used a model to perform such an analysis for its fiscal year 1999 budget request, we found errors in this analysis, including the exclusion of active contracts, the incomplete reporting of all available funding, and weaknesses in the method used to estimate contract expenditure rates. Recognizing these problems, the Congress determined that no new funding for Section 8 amendments was necessary. Accordingly, the Congress did not provide the $1.3 billion that HUD had requested and rescinded an additional $1.65 billion in excess Section 8 funding that had been appropriated for Section 8 amendments and the Section 8 moderate rehabilitation program.

In February 1998, HUD completed a departmentwide effort to evaluate whether its systems conformed to the requirements of FMFIA and of OMB Circular A-127. HUD reported that 38 of its 92 systems did not conform (HUD had reported in 1997 that 85 systems did not conform).[22] The Inspector General's March 1998 report pointed out, however, that 21 of the 31 systems that HUD had reclassified as conforming did not have detailed assessments and justifications available as required by HUD's CFO. HUD's internal guidance for these reviews did not stipulate when or how the program staff should verify that the systems met OMB's requirements.

We selected three previously nonconforming systems that were determined to be in compliance in 1998 to obtain a better understanding of how HUD's staff determined the systems were now in compliance.[23] The

[22]HUD deleted 52 systems from the 1997 list of nonconforming systems in 1998. Thirty-one systems were reclassified from nonconforming to conforming, 14 systems were discontinued and dropped from the list, and 7 systems were designated as nonfinancial and dropped from the list. In total, five systems were added to the list.

[23]We selected one system from each of three HUD program offices—the Homeless Assistance Management Information System, Office of Community Planning and Development; Multifamily Tenant Characteristics System, Office of Public and Indian Housing; and Single-Family Default Monitoring System, Office of Housing.

assessments prepared by the program staff for these systems ranged in detail from a checklist providing for "yes" and "not applicable" responses to a list of the 12 FMFIA requirements with narrative comments for each requirement. The comments did not explain how the program staff arrived at their assessments, nor were there supporting documents explaining how they reached their conclusions. Program officials told us that the assessments were based on the program staff's knowledge of the systems.

However, reliance on staff's knowledge of a system without verification or supporting documentation does not always result in an accurate evaluation of the system's compliance. In one of the three cases, for example, we found that the program staff had determined that the system's internal controls for data reliability satisfied the requirements. OMB's guidance on internal controls requires that reliable data be obtained, maintained, and disclosed in reports produced by the system. However, HUD's Inspector General found, in the fiscal year 1997 financial audit report, that the system's data were incomplete, untimely, and inaccurate. In another case, we were informed that the system's security requirements had been reviewed by HUD's

technology staff, but a later investigation by HUD staff revealed that such a review had not been performed.

HUD's CFO is developing more detailed FMFIA guidance for program staff. The CFO is also aware of the need to evaluate the adequacy of the FMFIA assessments and plans to contract for an initial assessment of one of HUD's systems in order to determine how this evaluation can best be accomplished for all of HUD's systems. These efforts are in early stages, however, and it is likely that it will be some time before they are completed.

In its March 1998 audit report on HUD's fiscal year 1997 consolidated financial statements, the Inspector General continued to report material internal control weaknesses in financial management systems that were departmentwide or FHA-wide. Among the major deficiencies in these systems, which were reported in prior years and continue to some degree, the report cited (1) inadequate assurance about the propriety of Section 8 rental assistance payments; (2) insufficient information on the credit quality of individual multifamily loans; (3) insufficient information on FHA's operations by program, geographical area, or other relevant component; (4) a lack of integration between

program and accounting systems necessitating duplicate data entry, producing data inconsistencies, and preventing the blending of financial and program data to develop meaningful performance measures; and (5) security weaknesses in both HUD's general processing controls and specific application controls. In addition, according to KPMG Peat Marwick LLPs audit report, some of FHA's automated systems either do not provide needed management information or do not produce reliable information.

In April 1998, we reported that participation in demonstration programs has enabled HUD to facilitate the financing of affordable multifamily housing while limiting its exposure to loss through risk sharing.[24] We concluded that while HUD retained responsibility for monitoring its risk-sharing partners' performance, its data system for monitoring the progress of credit enhancement projects is unreliable.

What Remains to Be Done

While efforts by HUD to integrate its financial systems are well under way, it will continue to be adversely affected by inadequate systems and information until its efforts are

[24]Housing Finance: FHA's Risk-Sharing Programs Offer Alternatives for Financing Affordable Multifamily Housing (GAO/RCED-98-117, Apr. 23, 1998).

successfully completed. In the meantime, we believe HUD needs to strengthen the management and oversight of its efforts to integrate financial systems, including its information technology investment decisions. In addition, HUD needs to continue its efforts to bring nonconforming systems into conformance with FMFIA requirements. As part of this process, HUD's needs to ensure that its assessments of systems to determine conformance are well documented and verified. Finally, HUD needs to eliminate the material internal control weaknesses related to systems.

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It Is Too Early to Assess the Effectiveness of Organizational Changes

In the past, an ineffective organizational structure has also contributed to management problems throughout HUD. Organizational problems have included overlapping and ill-defined responsibilities and authorities between HUD headquarters and field organizations and a fundamental lack of management accountability and responsibility.

In February 1997, we reported that HUD had completed a field reorganization in 1995, which eliminated its regional office structure and transferred direct authority for staff and resources to the assistant secretaries, and was planning additional reorganization efforts. Although HUD had not evaluated the effects of its reorganization, most field directors we surveyed at that time rated it as successful overall and believed that the reorganization had achieved most of the

intended goals—namely, eliminating previously confused lines of authority within programs, enhancing communication, reducing levels of review and approval, and improving customer service.[25]

2020 Reform Plan Further Reorganizes Field Offices and Consolidates Activities in Centers

During 1997 and 1998, HUD again reorganized its field resources. Under its 1997 2020 Management Reform Plan, HUD reorganized its field resources by function, rather than strictly by program, and consolidated, centralized, or privatized functions and responsibilities where needed. Its actions included the following:

- HUD consolidated (1) single-family housing insurance operations—previously carried out in 81 field offices—in four homeownership centers and (2) certain multifamily housing development and management functions—previously located in more than 50 field offices—into 18 hub offices.
- The Office of Public and Indian Housing consolidated some of its functions—previously performed in 52 public housing offices—into 27 hub offices and 16 program centers; centralized the

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

management of competitive grants and public housing operating and capital funds into one grants center; centralized applications for demolition/disposition, designated housing, and homeownership plans into one special applications center; and centralized activities to improve the performance of troubled public housing authorities into two troubled agency recovery centers.

- The Office of Fair Housing and Equal Opportunity consolidated programs' compliance monitoring and enforcement functions within its existing field structure of 48 offices into 10 hubs, 9 program centers, and 23 program offices.
- HUD staff were given a primary mission—either performing service functions as a community builder or performing compliance functions as a public trust officer. The community builders are to be the first point of contact for HUD customers and are to provide technical expertise, have knowledge of finance programs, and provide economic development advice to the community. In contrast, public trust officers are to serve as the front line for monitoring and protection against waste, fraud, and abuse and for ensuring compliance with programs' requirements.

In addition, HUD established three nationwide centers—a Section 8 financial management center to consolidate budgeting, financial, and payment functions for its rental assistance programs; a real estate assessment center to consolidate physical and financial assessment functions for its real estate inventory; and an enforcement center to consolidate its enforcement functions. The CFO's accounting operations have been consolidated from 10 divisions into one center.

As noted by the Public Strategies Group and others, HUD expects to improve both the efficiency and effectiveness of its operations through these organizational changes. Beyond allowing the agency to operate with a smaller workforce, other expected benefits include (1) reducing the time for endorsements for single-family housing insurance and development applications for multifamily housing; (2) reducing paperwork requirements for grant programs; (3) insuring greater financial management accountability, since budgetary and financial responsibilities are centralized; (4) improving HUD's ability to manage public and assisted housing portfolios though the operations of the assessment center; and

(5) improving HUD's ability to enforce contractual requirements with private owners, public housing authorities, and other HUD clients. In March 1998, we reported that the benefits HUD anticipated from the organizational changes were generally not based on detailed empirical analyses or studies, but rather on a variety of factors, including some workload data, the limited results of one pilot project, best practices identified in HUD field offices, benchmarks from other organizations, and managers' and staff's experience and judgment.[26]

HUD has clearly linked the efforts under its 2020 Management Reform Plan to the plan it has developed under the Results Act, so that its success in meeting annual performance goals and achieving strategic objectives depends on the success of its management reform efforts. According to HUD, its September 30, 1997, strategic plan builds on the foundation of management reforms. The fiscal year 1999 annual performance plan further states that the reforms are keyed to work in tandem with HUD's strategic plan and legislative initiatives. The annual performance plan established specific goals

[26]HUD Management: Information on HUD's 2020 Management Reform Plan (GAO/RCED-98-86, Mar. 20, 1998).

for the 2020 management reform efforts, including goals for HUD's nationwide real estate assessment, enforcement, and Section 8 financial management centers. The goals include establishing a workforce that is empowered, capable and accountable for results; establishing streamlined, efficient operations; establishing performance that produces results; capturing, standardizing, improving and evaluating financial and physical data on the real estate inventory; consolidating organizations and employees to deal with HUD's enforcement activities; and establishing a unified center for processing Section 8 payments. Each of the goals has various indicators to help measure whether it is being achieved.

In mid-1998, HUD issued guidelines on developing new business and operating plans to implement its management reforms, along with performance goals, throughout the agency for fiscal year 1999. In developing these new plans, HUD revised its strategic objectives somewhat from those in the strategic and annual performance plans. The business operating plan consolidates the seven strategic objectives in HUD's September 30, 1997, strategic plan, into five strategic objectives and adds one new strategic objective, "restoring the public

trust." Each program area and field office has drafted a business operating plan showing how it expects to support the newly defined strategic objectives and use performance goals to assess its progress in achieving the objectives. The business operating plans were finalized at the end of November 1998, according to a HUD official.

Organizational Structure Is in Place, but Transfer of Functions and Responsibilities Is in Transition

During 1998, all of HUD's various offices, hubs, program centers, and specialized and nationwide centers became operational. However, the real estate assessment, enforcement, and financial management centers will not be performing all of their centralized functions until 1999 and 2000. As previously discussed, while the real estate assessment center had inspected over 4,200 multifamily properties as of December 1998, it will not begin the financial assessment of multifamily properties until around April 1999, and it will not begin the physical inspection and financial assessment of public housing authorities until 1999 and 2000, respectively. Furthermore, as discussed previously, the enforcement center is not scheduled to begin receiving referrals of multifamily properties from the real estate assessment center until around April 1999. The transfer of the Section 8

financial management processing workload from HUD's public housing field offices to the financial management center is expected to be completed in January 1999. However, the transfer of the Section 8 financial management workload relating to 4,600 annual contribution contracts from the Office of Housing field offices to the financial management center will not begin until February 1999 and is expected to be completed in mid- to late summer 1999. Also, when the transfer of the financial management workload for approximately 21,000 housing assistance contracts from the Office of Housing field offices to the center occurs will depend on when contract administrators are selected and deployed. According to the director of the financial management center, the transfer may not take place until late 1999 or early 2000.

There has not yet been a significant shift of functions and responsibilities from the field offices to the centers except at homeownership centers, according to the field office managers and staff we interviewed between July and October 1998. Office managers also indicated that the transfer of community service and outreach functions and responsibilities from the field

offices to the community builders was in a transitional phase.

Field Office Staff Are Positive About Organizational Changes

A recent survey by the National Partnership for Reinventing Government showed that 70 percent of HUD's workforce identified the agency's reinvention efforts as a top priority. All of the managers and staff we interviewed said that the organizational changes under the 2020 Management Reform Plan were beneficial overall. For example, some managers and staff stated that their responsibilities and lines of authority and accountability for programs were more clearly defined. In addition, some managers and staff pointed out that obtaining clearance on routine issues took less time because program managers in the field had greater authority to make decisions. Managers and staff also stated that once the various centers and community builders assume all of their functions, the field offices will have more time to carry out their public trust responsibilities—namely, compliance and monitoring. However, most managers and staff we interviewed said the transfer of functions was in transition and they generally did not know when it would be complete.

Despite these generally positive comments, 15 program managers and groups of staff we interviewed at six locations—four HUD field offices and two centers—expressed concerns about not having enough travel funds to conduct on-site monitoring of program activities. Although HUD's travel budget increased from $13.5 million in fiscal year 1997 to $19 million for fiscal year 1999, according to these officials, a lack of travel funds has prevented them from conducting some on-site monitoring reviews. According to some of these officials, resources used in implementing some of the 2020 plan's changes, such as staff relocation and the outreach activities of community builders, may have contributed to the lack of travel funds. Additionally, the Inspector General's December 1998 semiannual report notes that while travel funds for fiscal year 1999 are similar to prior years' expenditures, travel funds for program staff have been reduced by the allocation of travel funds for community builders. According to the report, program staff have said that travel funds have been reduced to such a level that the staff will not be able to perform necessary monitoring.

What Remains to Be Done

Although a new field organization structure is now in place and operational, the transfer of functions from the field offices to the centers has not been completed, and staffing decisions were only recently completed. Furthermore, some of the centers that began assuming their functions in 1998 will not be carrying out all functions until 1999 and 2000. In accordance with the Results Act, HUD needs to monitor the performance of the centers as they assume their functions, as well as track the other organizational changes, to determine whether the 2020 reform plan's goals are being achieved.

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Staffing Under the 2020 Reform Plan Is in Transition

HUD has been downsizing since the 1980s. In the past, not having enough staff with the necessary skills—coupled with not having adequate financial and management information systems, which could have helped staff oversee operations—has limited HUD in performing essential functions, such

as monitoring programs and updating procedures.

In 1997, we reported that HUD had made some progress in addressing problems identified in our 1995 report, including problems with staff members' skills, resource management, and staff training, and had begun to implement a needs assessment process to plan future training. We also reported that the HUD directors we surveyed at that time generally believed that their staff members' skills had improved over the previous 2 years; however, 40 percent of the directors rated the Department's training as less than good. In addition, we reported that we and the Inspector General had continued to identify staff resource problems in HUD's major program areas.

2020 Reform Plan Has Resulted in Significant Staffing Changes

Assurance that HUD has the right number of staff with the proper skills has been an issue of concern to us, the Inspector General, and others for a number of years. HUD's 2020 Management Reform Plan not only established a basic goal of reducing staffing from about 10,500 to 7,500 but also included several proposals affecting staff resource capacity. For example, the plan calls for

refocusing and retraining HUD's workforce; reducing more than 300 programs, through consolidation or elimination, to 70; deregulating well-run public housing authorities; and replacing the current field structure with one that consolidates functions within and across program areas. The plan also calls for implementing a resource estimation process that, according to HUD, will be a disciplined and analytical approach to identify, justify, and integrate resource requirements and budget allocations.

Since the 2020 Management Reform Plan was announced in June 1997, HUD's staffing, now totaling about 9,000 full-time positions, has undergone significant changes, including the following:

- Over 1,000 staff left the agency as a result of buyouts.
- Over 3,000 staff were voluntarily reassigned to what HUD termed substantially similar positions in the same geographical area.
- Over 1,000 staff were placed in new positions under a merit staffing plan.
- Over 1,300 staff who were unplaced after the reorganization were placed in permanent positions as of September 1998.

- More than 200 new staff were hired as community builders.

Staffing Targets Under the 2020 Reform Plan Are Uncertain

Much attention has focused on the origin and rationale for the downsizing targets in the 2020 Management Reform Plan. When first announced, the plan established a target of 7,500 full-time staff by 2000, a goal subsequently extended to 2002. Our March 1998 report on the plan found that HUD's target staffing levels were not based on a systematic analysis of needs. While HUD used historical workload data to apportion or allocate predetermined target numbers of staff among different locations or functions, it did not systematically analyze how many staff it needed to carry out a given responsibility or function. Our finding was consistent with that of HUD's Inspector General, who reported that the Department adopted a target of 7,500 staff without first performing a detailed analysis of its mission and projected workload.

In an April 1998 briefing on the implementation of its 2020 plan, HUD showed an authorized staffing level of 7,826 under the reforms. This staffing level was consistent with a March 1998 report by Booz-Allen and Hamilton, Inc., which

concluded that 7,400 to 8,100 staff would be adequate for HUD to properly fulfill its responsibilities in 2002, assuming the successful implementation of the new organizations, processes, and systems; passage of legislation to consolidate programs; and realization of the benefits of portfolio reengineering for multifamily properties. In March 1998, HUD also reported that it would maintain its current staffing level (approximately 9,000 full-time equivalent positions) unless (1) the Congress enacts legislation to consolidate HUD's programs and (2) there is a substantial reduction in the number of troubled multifamily assisted properties and troubled public housing authorities.

The 2020 Management Reform Plan also calls for HUD to implement a proposed resource estimation and allocation process. In its annual performance plan for fiscal year 1999, submitted to the Congress in March 1998, HUD noted that it no longer has departmental systems for measuring work and reporting time and that it lacks a single integrated system to support resource allocation. HUD reported that it intends to work with the National Academy of Public Administration to develop a methodology or approach for resource management that will

allow the Department to identify and justify its resource requirements for effective and efficient program administration and management. According to the Academy, the resource estimation elements will include workload factors and analysis based on quantifiable estimates of work requirements for planning, developing, and operating current and proposed programs, priority initiatives, and functions. The methodology will also enable HUD to estimate resources for its budget formulation and execution and to link resources to performance measures. According to a HUD official, as of November 1998, work had been completed on the resource management methodology and was ready to be tested at selected offices, but a component to validate the methodology had not yet been completed.

Staffing Was in Transition at the Offices We Visited

Most of the field offices we visited initially lost staff following the 2020 staffing changes. However, some of these staff losses were recovered after HUD decided in May 1998 to assign unplaced staff to permanent

positions.[27] According to HUD, most of the formerly unplaced staff had been assigned positions as of September 1998, and most were in place. At a few locations, some of the formerly unplaced staff will not be reporting to their new positions until 1999. While most of the offices we visited reported being fully staffed, three of the centers were understaffed. The enforcement center had 62 percent of its authorized staff level, the real estate assessment center 40 percent, and the Memphis troubled agency recovery center 86 percent.[28] HUD managers said the vacant positions in these centers will be advertised sometime in 1999.

Workload Was Also in Transition

Under 2020 reforms, some of the work previously carried out by HUD field offices will be transferred to centers. Such work includes financial assessment and the physical inspection of multifamily properties, work related to troubled public

[27]After making a number of personnel decisions in the fall of 1997 to implement the 2020 reforms, HUD sent letters to approximately 3,000 employees notifying them that they had not been placed in positions in HUD's new organization. In May 1998, the Secretary announced that the downsizing activity would cease and that the 1,300 staff who were still unplaced at that time would be given permanent assignments.

[28]The troubled agency recovery center's operations will address, among other things, the recommendation of the National Performance Review (now the National Partnership for Reinventing Government) that HUD target efforts to resolve severe difficulties with problem public housing authorities.

housing authorities, enforcement activities, and Section 8 financial management activities. In addition, community builders will assume certain functions previously carried out by field office staff. Once workload transfers are completed, managers at the field offices we visited expect their workload to decrease, although these managers did not know how much of a reduction would occur. To date, there has not been a significant shift in workload from the field offices to the centers, according to the staff and managers we interviewed from July through October 1998. These managers and staff said the transfer of work to the centers and the assumption by community builders of their responsibilities was in transition.

Additionally, efforts to match workforce to workload at HUD's homeownership centers have presented difficulties. According to the Inspector General's December 1998 semiannual report, HUD's single-family homeownership centers cannot handle the workload currently associated with HUD's inventory of Secretary-held notes or inventory of single-family properties, which HUD receives through foreclosures. This situation has developed because HUD's plans to sell the properties before they enter its

inventory have not evolved and its plans to sell the existing notes inventory have been postponed. HUD is currently hiring contractors to assist in managing and disposing of its single-family property inventory.

Managers Were Generally Positive About Training and Staff Skills

The 2020 Management Reform Plan stated that HUD would retrain the majority of its staff. The field office managers and staff we interviewed during our 1998 field office visits reported that their training increased significantly with the plan's implementation. The managers and staff were generally positive about the amount of training available to them and the quality of the training. Training varied from that provided at universities, to external professional certification training, to videotaped programs and substantial on-the-job training needed because of staff reassignments. For example, staff at the Memphis troubled agency recovery center reported spending most of their first 3 months on the job in locally developed training programs and in on-the-job-training with more experienced public housing staff. Staff and managers reported a need for continuing program area and specialized computer training.

In addition, managers reported during our 1998 field office visits that the skills of their staff varied from adequate to excellent and were sufficient for the staff to do their jobs, except in the case of some of the recently assigned, formerly unplaced staff. The managers told us that while the formerly unplaced staff may lack specific program knowledge, they have the ability to do the work.

What Remains to Be Done

Because staffing reforms and workload transfers from the field offices to the centers are still in transition, the effectiveness of HUD's changes in correcting staffing deficiencies cannot be determined. In accordance with the Results Act, HUD needs to closely monitor the implementation of its staffing reform efforts to ensure that the field offices and staff have the resources and skills to carry out the work assigned, including the monitoring of programs and activities and the assessment of outcomes. In addition, HUD needs to complete its efforts to develop a process for identifying and justifying its staff resource requirements.

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Major Management Challenges and Program Risks: Department of Education (GAO/OCG-99-5)

Major Management Challenges and Program Risks: Department of Energy (GAO/OCG-99-6)

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Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO/OCG-99-8)

Major Management Challenges and Program Risks: Department of the Interior (GAO/OCG-99-9)

Major Management Challenges and Program Risks: Department of Justice (GAO/OCG-99-10)

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Major Management Challenges and Program Risks: Agency for International Development (GAO/OCG-99-16)

Major Management Challenges and Program Risks: Environmental Protection Agency (GAO/OCG-99-17)

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