

GAO

## Testimony

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# HUD MANAGEMENT

## Major Challenges and Program Risks

Statement of Judy A. England-Joseph, Director  
Housing and Community Development Issues  
Resources, Community, and Economic  
Development Division



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Mr. Chairman and Members of the Subcommittee:

We are here today to discuss the results of our work regarding the major management challenges facing the Department of Housing and Urban Development (HUD).<sup>1</sup> For many years, we and others (e.g., HUD's Inspector General, external auditors) have reported significant management problems at HUD. These problems are the results of serious, long-standing departmentwide deficiencies in four management areas—internal controls, information and financial management systems, organizational structure, and staffing. In 1994, we designated HUD programs as a high-risk area because of these management deficiencies, and in 1995 and 1997,<sup>2</sup> we reported on the deficiencies and HUD's progress in resolving them. Taken together, these deficiencies place the integrity and accountability of HUD's programs at high risk. These deficiencies can affect HUD's management of significant financial commitments, obligations, and exposure. Resolving them is particularly critical for HUD because its housing and community development programs rely extensively on the integrity of thousands of diverse individuals and entities.

Our statement today is primarily based on our January 1999 report on HUD's major management challenges and program risks. It discusses (1) corrective actions that HUD has taken or initiated on its major management challenges, (2) major management challenges that remain and limit HUD's effectiveness in carrying out its mission, and (3) further actions that are needed to resolve these challenges.

In summary, we found the following:

- HUD is making significant changes and has made credible progress in overhauling its operations to correct its management deficiencies. Among other things, it has improved its financial reporting and developed risk assessments for its programs, developed and deployed components for its information and financial management systems, consolidated and centralized many of its operations, and reassigned and begun to retrain many of its staff. 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 identified. However, it should be recognized that HUD's problems were

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<sup>1</sup>Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO/OCG-99-8, Jan. 1999).

<sup>2</sup>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).

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years in the making and will take time and much effort to correct. Current HUD management has placed high priority on removing HUD programs from the high-risk designation, but it will take continued and sustained efforts before meaningful and lasting results can be achieved.

- While major reforms are under way, our recent work indicates that internal control weaknesses and problems with information and financial management systems persist. For example, material internal control weaknesses persist in the Section 8 subsidy payment process, which provides \$18 billion in rental assistance, and HUD has not adequately monitored programs and functions, such as contractors' management of the Department's real estate assets. Recently, we reported that HUD is likely to continue to spend millions of dollars, miss milestones, and still not meet its objective of developing and fully deploying an integrated financial management system because it has not yet finalized detailed project plans or cost and schedule estimates for this effort.<sup>3</sup> 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 the reforms will resolve the major deficiencies that we and others have identified. Therefore, pending the achievement of substantial results, the integrity and accountability of HUD's programs remain at high risk in our opinion. We reached this conclusion using the same methodologies and criteria as our 1995 and 1997 reports.
- To resolve these management deficiencies, the Department needs to ensure that the actions being taken eliminate the remaining major internal control weaknesses; strengthen its management and oversight of efforts to integrate its 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.

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## Background

Directly or indirectly, 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

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<sup>3</sup>HUD Information Systems: Improved Management Practices Needed to Control Integration Cost and Schedule (GAO/AIMD-99-25, Dec. 18, 1998).

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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.<sup>4</sup> For fiscal year 1999, it has \$24.3 billion in budget authority.

HUD initiated a number of reforms and downsizing efforts in the 1990s. In February 1993, then Secretary Cisneros initiated a "reinvention" process under which task forces were established to review and refocus HUD's mission and identify improvements in the delivery of program services. HUD also took measures in response to the National Performance Review's September 1993 report, which recommended that HUD eliminate its regional offices, realign and consolidate its field office structure, and reduce its field workforce. Following a July 1994 report by the National Academy of Public Administration that criticized HUD's performance and capabilities, Secretary Cisneros issued a reinvention proposal in December 1994 that called for major reforms, including a consolidation and streamlining of HUD's programs coupled with a reduction in staff. Building upon the earlier reinvention efforts, Secretary Cuomo initiated the 2020 planning process in early 1997 to address, among other things, HUD's downsizing goals and management deficiencies.

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## Corrective Actions That HUD Has Taken or Initiated

HUD has taken important steps to strengthen its internal controls and financial reporting, improve its information and financial management systems, consolidate its operations, and appropriately deploy and train its staff. Guiding many of these efforts has been its 2020 Management Reform Plan, introduced in June 1997. While it is still too soon to evaluate the effectiveness of some of these efforts, we believe that the Department has made credible progress in correcting many of the management deficiencies that we and others have identified.

HUD has improved its financial reporting and has strengthened its internal controls by conducting risk assessments for some of its programs. HUD's fiscal year 1996 and 1997 financial statements were audited by HUD's Inspector General and HUD's Federal Housing Administration's (FHA) fiscal year 1997 and 1998 financial statements were audited by KPMG Peat

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<sup>4</sup>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.

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Marwick LLP, a public accounting firm.<sup>5</sup> For fiscal years 1996 and 1997, HUD's Inspector General was able to provide qualified opinions on HUD's financial statements, compared with no opinion on the reliability of its financial statements for fiscal year 1995. In addition, as the public accounting firm KPMG Peat Marwick LLP reported this month, FHA presented its fiscal year 1998 financial statements in accordance with federal accounting standards and received an unqualified opinion on those statements. In 1998, HUD's Office of Chief Financial Officer (CFO) established a risk management division, which has continued efforts initiated by the CFO to work with the Department's program offices and new nationwide centers to identify risks and develop action plans to reduce them. As of September 30, 1998, the risk assessment division had completed risk management training for over 1,100 headquarters and field managers.

Efforts to integrate and replace HUD's information systems, begun in 1991, received support and higher priority under HUD's 2020 plan. As of December 1998, HUD reported, it had developed and deployed 11 new financial management systems or components of these systems. 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. In addition, the Office of the CFO developed and deployed a consolidated general ledger for fiscal year 1999 that will include summary transactions for the entire Department. The Office of 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 the programs' funding, as well as findings reported by us, HUD's Inspector General, and internal reviews. Further agencywide improvements include cleaning up certain data elements in the Department's information systems and verifying the reliability of these and other data. Finally, 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 100 percent of these systems and implementing 97 percent of them.

Under its 2020 plan, HUD has significantly revised its organization and redeployed its staff in an effort to operate more efficiently and provide better service to its customers. Specifically, it has consolidated programs and centralized processes and functions within and across program areas, transferring much of its workload from its 81 field offices to several

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<sup>5</sup>HUD's financial statement audit for fiscal year 1998 had not been issued when we were preparing our testimony statement, but FHA's financial statements for fiscal year 1998 had been issued. We understand HUD's financial statements will be issued shortly.

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specialized national centers. As it completes these workload transfers, it is reassigning staff and retraining them to perform their new functions.

HUD has also strengthened its management reform efforts by linking them to the strategic and annual plans it has developed under the Government Performance and Results Act of 1993.<sup>6</sup>

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## Major Management Challenges

In 1994, we designated HUD programs as a high-risk area because of serious, long-standing departmentwide deficiencies in four management areas. 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. Our recent work indicates that these management deficiencies continue to exist or it is too soon to tell whether HUD's reforms will resolve them.

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## Problems With Internal Controls Persist

While HUD has initiated actions that should help to address its internal control weaknesses, 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, we have reported recently that HUD has not adequately monitored, among other things, contractors' management of the Department's real estate assets; appraisals of properties purchased

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<sup>6</sup>The Results Act seeks to shift the focus of government decision-making and accountability from activities to results.

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## Material Internal Control Weaknesses

with FHA-insured loans; and its process for deobligating funds no longer needed for Section 8 project-based rental assistance contracts.

The most recently issued financial statement audits, performed by HUD's Inspector General and KPMG Peat Marwick, found continued material internal control weaknesses in both HUD and FHA's programs.

The Inspector General's fiscal year 1997 financial statement 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 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.<sup>7</sup> 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.<sup>8</sup> In fiscal year 1998, HUD unveiled a multifaceted plan to identify households' unreported and/or underreported income.

In our January 1999 report, we pointed out that KPMG Peat Marwick's audit of FHA's financial statements for fiscal year 1997 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,<sup>9</sup> managing troubled 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. After we issued our January 1999 report, KPMG Peat Marwick LLP issued, on March 5, 1999, its unqualified opinion on FHA's federal accounting-based financial statements for fiscal year 1998. However, the auditors did report a new material

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<sup>7</sup>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.

<sup>8</sup>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.

<sup>9</sup>FHA's loss mitigation program seeks, among other things, to mitigate losses resulting from foreclosure by using alternatives to foreclosure, such as loan modifications.

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internal control weakness in addition to those described above related to the need for FHA to improve its process for preparing federal accounting-based financial statements.

In addition to the issues disclosed by the audits of HUD's and FHA's financial statements, 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 HUD's Federal Managers' Financial Integrity Act (FMFIA) assessment for fiscal year 1997.<sup>10</sup> 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.

Some of the other material internal control weaknesses reported as open under the FMFIA assessment for fiscal year 1997 pertained to HUD's (1) monitoring of insured mortgages and multifamily projects, (2) Secretary-held multifamily and single-family mortgage notes inventories, and (3) income verification process. 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. Since the Department announced its 2020 Management Reform Plan in June 1997, we have issued reports pointing out problems with HUD's (1) oversight of real estate asset management contractors,<sup>11</sup> (2) monitoring of the performance of appraisers of selected properties for home buyers seeking

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<sup>10</sup>Management control programs for federal agencies are mandated by FMFIA, and requirements for them were 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 actions taken to correct previously identified material weaknesses.

<sup>11</sup>Single-Family Housing: Improvements Needed in HUD's Oversight of Property Management Contractors (GAO/RCED-98-65, Mar. 27, 1998).

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FHA single-family loans in two field offices,<sup>12</sup> (3) procedures for identifying and deobligating funds that are no longer needed,<sup>13</sup> (4) ability to ensure that its housing preservation program is being managed effectively and efficiently,<sup>14</sup> and (5) oversight of lenders' compliance with requirements of the home improvement loan insurance program.<sup>15</sup>

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## Problems With Systems Persist

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. We reported in December 1998 that HUD has not finalized detailed project plans or cost and schedule estimates for its financial systems integration 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. We also reported that HUD has not yet established an effective process for managing its information technology investments. As a result, it cannot effectively monitor its progress in implementing the new systems and cannot be sure that it is selecting the right projects. In addition, 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. HUD agreed with our overall recommendations to prepare complete and reliable estimates of the life-cycle costs and benefits of the 1997 systems integration strategy. HUD also agreed that the management and oversight of its systems integration effort could be improved by fully implementing and institutionalizing the provisions of the Clinger-Cohen Act and the Paperwork Reduction Act, including our recommendations to implement defined processes for managing information technology investments and for estimating costs.

Other problems with information and financial management systems were identified by us, the Inspector General, or HUD. These problems included (1) the effectiveness of HUD's processes for taking unexpended balances into account when determining funding needs as part of its budget

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<sup>12</sup>Appraisals for FHA Single-Family Loans: Information on Selected Properties in New Jersey and Ohio (GAO/RCED-98-145R, May 6, 1998).

<sup>13</sup>Section 8 Project-Based Rental Assistance: HUD's Processes for Evaluating and Using Unexpended Balances Are Ineffective (GAO/RCED-98-202, July 22, 1998).

<sup>14</sup>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. See Housing Preservation: Policies and Administrative Problems Increase Costs and Hinder Program Operations (GAO/RCED-97-169, July 18, 1997).

<sup>15</sup>Home Improvement: Weaknesses in HUD's Management and Oversight of the Title I Program (GAO/RCED-98-216, July 16, 1998).

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process; (2) a February 1998 determination by HUD that 38 of its 92 systems did not conform to the requirements of FMFIA and of the Office of Management and Budget Circular A-127; and (3) a March 1998 report by the Inspector General which continued to report material internal control weaknesses in financial management systems including insufficient information on the credit quality of individual multifamily loans and insufficient information on FHA's operations by program, geographical area, or other relevant components.

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

During 1998, HUD implemented the organizational changes set forth in its 2020 Management Reform Plan. 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. While the managers and staff we interviewed regarded these organizational changes as beneficial overall, it is still too soon to evaluate the effectiveness of HUD's reorganization.

HUD's new real estate assessment center has issued regulations on the physical and financial assessments of multifamily properties and public housing authorities. However, the center 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's new enforcement center will 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

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properties from the real estate assessment center.<sup>16</sup> 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 landlords of multifamily properties totaled about 100 in 1997, more than three times the 1996 total.

HUD's new financial management center is assuming responsibility for the Department's Section 8 financial management processing workload. The transfer of much of this workload from HUD's public housing field offices was 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's field offices was not expected to begin until February 1999 and is not scheduled to be completed until mid- to late summer 1999. In addition, the schedule for transferring the financial management workload for approximately 21,000 housing assistance contracts from the Office of Housing's field offices 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.<sup>17</sup> 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,

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<sup>16</sup>The referrals will be based on the properties' physical and financial condition, the properties' 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.

<sup>17</sup>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.

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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.

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### 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. Staff who were reassigned during the reorganization were receiving training in their new functions and both staff and managers were positive about the amount and quality of the training.

### Staffing and Workload Were 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.<sup>18</sup> 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.<sup>19</sup> HUD managers said the vacant positions in these centers will be advertised sometime in 1999.

Once workload transfers are completed, managers at the field offices we visited expect their workload to decrease, although these manager did not know how much of a reduction would occur. 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.

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<sup>18</sup>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.

<sup>19</sup>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.

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These managers and staff said the transfer of work to the centers and the assumption by community builders of their responsibilities was in transition.

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 mortgages 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 properties.

In its annual performance plan for fiscal year 1999, submitted to the Congress in March 1998, HUD noted that it lacks a single integrated system to support resource allocation and no longer has departmental systems for measuring work and reporting time. However, HUD's 2020 Management Reform Plan calls for HUD to implement a proposed resource estimation and allocation process. In addition, 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. Currently, work has been completed on the resource management methodology and was being tested at one office.

### 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

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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.

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## Further Action Needed

While HUD has initiated actions under the 2020 Management Reform Plan that could help to address its management deficiencies, the reforms are not fully implemented or it is too soon to assess their effectiveness.

- HUD faces significant material internal control weaknesses, including weaknesses in the control structure intended to help ensure that rental assistance payments of \$18 billion are based on accurate reports of tenants' incomes. As reform efforts are fully implemented, HUD needs to ensure that the actions being taken under the 2020 reform plan and related efforts will address the remaining material internal control weaknesses.
- HUD will continue to be adversely affected by inadequate systems and information until its systems integration efforts are successfully completed. In the meantime, we believe HUD needs to strengthen its management and oversight of efforts to integrate its financial systems and the management of its information technology investments. In addition, HUD needs to continue its efforts to bring nonconforming systems into conformance with FMFIA requirements. As part of this process, HUD 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.
- In accordance with the Results Act, HUD needs to (1) 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 and (2) 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

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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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In closing, Mr. Chairman, 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 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. Mr. Chairman, this concludes my statement. We would be pleased to respond to any questions that you or Members of the Subcommittee may have.

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# Related GAO Products

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

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

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

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

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

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

Year 2000 Computing Crisis: Strong Leadership Needed to Avoid Disruption of Essential Services (GAO/T-AMID-98-117, Mar. 24, 1998).

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

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

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

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

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

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