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HUD MANAGEMENT

HUD's High-Risk Program Areas and Management Challenges

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the high-risk program areas and management challenges facing the Department of Housing and Urban Development (HUD). HUD's programs affect the lives of millions of Americans. HUD makes housing more affordable for about 4.8 million low-income households by insuring loans for owners of multifamily rental housing and providing rental assistance. It helps to revitalize America's communities by assisting over 4,000 localities through its community development programs. It encourages homeownership by providing mortgage insurance for about 7 million homeowners who otherwise might not have been able to qualify for loans—managing about $500 billion in insured mortgages and $604 billion in guarantees of mortgage-backed securities. To accomplish its missions, HUD relies on the performance and integrity of thousands of mortgage lenders, contractors, property owners, public housing agencies, communities, and others to administer its programs. Effective oversight and strong management are critical to ensure that HUD's reliance on these third parties results in the effective and efficient stewardship of federal funds and the accomplishment of the Department's mission and program goals.

For many years, HUD has been the subject of criticism for management and oversight weaknesses that have made its programs vulnerable to fraud, waste, abuse, and mismanagement. In 1997, HUD undertook the 2020 Management Reform Plan, a complex and wide-ranging effort designed to, among other things, refocus HUD's mission, strengthen accountability, and eliminate fraud, waste, abuse and mismanagement from its programs. In January 2001, we recognized the credible progress that HUD had made in improving its management and operations, and we reduced the number of HUD program areas deemed to be high risk to two of its major program areas—single-family mortgage insurance and rental housing assistance.[1] These program areas comprise about two-thirds of HUD's budget. The current Administration has placed improving HUD's management among its highest priorities and has set a goal to remove the high-risk designation from all HUD programs by 2005. This is therefore an appropriate time to review HUD's progress toward addressing these high-risk program areas and the challenges it faces in sustaining the progress

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[1]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Housing and Urban Development,* GAO-01-248 (Washington, D.C.: Jan. 2001).

that has been made as HUD moves toward its goal to become a high-performing agency that provides quality service to its customers.

My testimony today discusses the major management challenges we see facing HUD, as well as the progress HUD has made over the past few years addressing its challenges, and the steps it is continuing to take to address them. First, my testimony discusses the challenges HUD faces improving accountability and control over its high-risk program areas. Second, it addresses the challenges that HUD faces that cut across all its program areas—especially its efforts to improve accountability and control over its high-risk program areas—in the areas of (1) managing human capital, (2) managing acquisitions, and (3) improving programmatic and financial management information systems. My testimony today draws on a body of work, including recent reports we have issued on various HUD programs, our work on HUD's human capital management that is being released today at this hearing,[2] our assessment of HUD's strategic and performance plans, and a series of assignments we have ongoing at the request of this Subcommittee. It also draws on work we have done on management reform initiatives and performance-based organizations across both the federal and private sectors.

In summary:

- HUD's single-family mortgage insurance and its rental housing assistance program areas are at high risk of waste, fraud, abuse, and mismanagement. In January 2001 we reported that, while HUD had made credible progress addressing its management deficiencies, significant weaknesses in these two program areas remained—areas comprising about two-thirds of the department's budget. To correct weaknesses in its single-family mortgage insurance programs, we reported that HUD needed to improve, among other things, its oversight of lenders and appraisers. To ensure the integrity of its rental housing assistance programs, HUD needed to take actions, including ensuring that providers of rental housing maintain housing that is in decent, safe, and sanitary condition. The President's Management Agenda contains initiatives to address these and other weaknesses; and HUD has developed plans, including goals and timetables, for taking action on them. In addition to our ongoing reviews of HUD's programs, we plan to review these plans and monitor HUD's

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[2]U.S. General Accounting Office, *HUD Human Capital Management: Comprehensive Strategic Workforce Planning Needed*, GAO-02-839 (Washington, D.C.: July 24, 2002).

progress in the months ahead. We will report on the results of our review in January 2003, when we will assess HUD's progress as part of our Performance and Accountability and High-Risk Series update.

- Human capital management—and the need for a strategic approach to managing HUD's staff—is the most pressing crosscutting management challenge facing HUD. HUD downsized its staff from about 13,500 to 9,000 over the last decade, and its human capital challenges are exacerbated by demographics that suggest that by August 2003, about half of its professional workforce will be eligible to retire. HUD has begun the initial stages of workforce planning; it has completed its resource estimation and allocation process, which estimates the staff needed to handle the current workload in each office, and a detailed analysis of HUD's potential staff losses due to retirement. However, the Department does not have a comprehensive workforce plan. Elements that we have reported are necessary for comprehensive workforce planning—but are missing from HUD's workforce planning—include, among other things, an analysis of what work its staff should be doing; the knowledge, skills, and abilities needed by staff to do this work; the appropriate staff deployment across the organization, and strategies for identifying and filling gaps. Without more comprehensive workforce planning, HUD is not as prepared as it could be to recruit and hire staff needed to pursue its mission.

- Effective acquisition management is of increasing importance because, as HUD downsized its staff, it relied more and more on outside contractors to accomplish its mission. Over a 4-year period HUD's spending on outside contracting increased about 62 percent, and HUD officials have estimated that the total number of contractor staff assisting in delivering HUD services may nearly equal its own. HUD has made progress in the past few years improving its acquisition management practices; but it faces the challenge of ensuring that, where it relies on contractors to perform its mission, it will hold these contractors accountable for results. Successfully meeting that challenge affects the successful delivery of HUD's programs, the effective deployment of its staff, and its ability to ensure the integrity of its single-family and rental housing assistance programs. Holding contractors accountable for results requires processes and practices in place to effectively monitor contractors' performance, an acquisition workforce with the right workload, training and tools to carry out its mission, and programmatic and financial management information systems that support HUD's efforts to ensure accountability in its acquisitions.

- Responsive programmatic and financial management information systems are critical to HUD's ability to meet its mission, deliver key services, and establish sufficient management control over its programs and operations. Concerns about the weaknesses in HUD's programmatic and financial

management information systems are not new—we first reported some of HUD's current problems in 1984—and our recent work shows that these weaknesses continue to adversely impact the Department's ability to monitor and effectively ensure the integrity of its single-family mortgage insurance and rental assistance programs. For example, to oversee lenders in HUD's single-family mortgage insurance program, staff at the Department's homeownership centers must collect and manually compile information from multiple systems to target high-risk lenders—increasing the likelihood that problems will go unnoticed. In addition, concerns about the ability of HUD's financial management systems to effectively support the timely preparation and audit of the department's annual financial statements are long-standing; and as of today, HUD is still in the early stages of developing a plan for resolving them. Accordingly, developing a plan to substantially improve programmatic and financial management information systems to meet the Department's needs and comply with federal financial system requirements is crucial to HUD's efforts to successfully address its high-risk program areas.

HUD's High-Risk Areas: The Single-Family Mortgage Insurance and Rental Housing Assistance Programs

HUD's single-family mortgage insurance and its rental housing assistance program areas, comprising nearly two thirds of the Department's budget, are at high risk of waste, fraud, abuse, and mismanagement.[3] In January 2001, we reported that, various factors, including a strong economy, had resulted in the accumulation of capital reserves of about $16.6 billion on HUD's Federal Housing Administration (FHA)-insured home loans. However we also reported that FHA lost about $1.9 billion during fiscal year 2000 on the sale of foreclosed homes that it had insured. In addition, we found other problems with HUD's management of its single-family program. For example, HUD was experiencing significant problems with the performance of contractors responsible for maintaining and selling the single-family properties HUD acquires through foreclosure. We found most of these contractors had trouble securing and maintaining properties in proper condition—and HUD eventually terminated the contractor responsible for about 40 percent of the properties. If HUD's acquired properties are not properly secured and maintained, they can contribute to a neighborhood's decay, particularly as they age.

[3]GAO-01-248.

Figure 1: Conditions of Foreclosed HUD Single-Family Houses

Unmaintained Washington, D.C. property

Vandalized Philadelphia property

Source: GAO photographs taken during site visits to 16 single-family properties.

Overall, we identified several opportunities wherein HUD could strengthen FHA's single-family mortgage insurance program, including strengthening the integrity of the single-family loan origination process, promoting better monitoring of lenders, appraisers, and contractors, and implementing effective human capital policies to ensure that sufficient staff with the right skills are available to carry out FHA's mission.

For HUD's rental housing assistance programs, we noted that HUD continued to face challenges in ensuring that only eligible families occupy housing units; that those families are paying the correct rents; and that providers of rental housing maintain housing that is in decent, safe, and sanitary condition. More recently, we have reported that HUD's field offices frequently did not follow the Department's procedures for ensuring that owners of HUD-assisted multifamily properties are correcting physical deficiencies identified in inspections by HUD's Real Estate Assessment Center (REAC). Our analysis focused on approximately 500 properties that REAC determined were in substandard condition and that HUD's field offices subsequently classified as repaired. On the basis of our site visits to a sample of these properties, we estimated that for about half of the properties covered by our analysis, at least 25 percent of the deficiencies that REAC classified as "major" or "severe" had not been corrected. This problem occurred because HUD staff were classifying the properties as repaired, without obtaining required repair plans and certifications of repairs from the owners and because some owners and managers reported completing repairs that had not been made.[4]

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[4]U.S. General Accounting Office, *HUD Multifamily Housing: Improved Follow-up Needed to Ensure That Physical Problems Are Corrected,* GAO-01-668 (Washington, D.C.: June 21, 2001).

Figure 2: Conditions Found at Public Housing Properties

Housing Authority of New Orleans, deteriorated public housing development

Chicago Housing Authority, deteriorated public housing development

Source: GAO photographs taken during site visits to five housing authorities.

Overall, our January 2001 report concluded that, to address this high-risk area, HUD must continue its efforts to develop adequate information systems that ensure that (1) correct rental housing subsidies are paid and (2) complete actions on our recommendations aimed at improving the

quality of contractors' physical inspections of the condition of public and multifamily housing.

HUD has been addressing its high-risk challenges and the recommendations of our earlier reports. HUD's 2020 Management Reform Plan resulted in major changes throughout the Department as it worked to resolve its management challenges. In reviewing the progress of the plan in October 2001, we noted that some of HUD's initiatives were achieved relatively quickly and are producing results.[5] For example, the consolidation of some of its oversight and processing functions into several new centers—as part of HUD's efforts to consolidate and streamline its operations—had perhaps been the most successful. The new REAC enabled HUD to complete the first physical and financial assessments of its assisted housing inventory, while HUD reported that the creation of its Departmental Enforcement Center resulted in the restoration of 41,344 housing units to decent, safe, and sanitary conditions in fiscal year 2000, compared with 968 in fiscal year 1999. Other efforts to improve the efficiency of HUD's operations and improving accountability, met with more limited success, and were hampered by inefficient distribution of staff and workload, a lack of resources for program monitoring, problems with contractor performance and its oversight of contractors, and weaknesses in programmatic and financial management information systems.

The current administration took office in January 2001, saying it was dedicated to maintaining HUD's progress, and placing improved management among the Department's highest priorities. Eighteen months ago, Secretary Martinez came before this Committee and said:

"My first priority will be for HUD to continue to put its own house in order, so we have the institutional fortitude to provide the housing and community renewal opportunities needed by so many families and so many neighborhoods. The Department of Housing and Urban Development must be healthy itself, if we are to deal with the challenges before us. And while former HUD Secretaries Kemp, Cisneros, and Cuomo have built a foundation for strength, there are a great many areas of institutional weakness that must be addressed. GAO and the HUD Office of Inspector General have identified similar program and management areas needing the most improvement, including: the Federal Housing Administration's single family mortgage insurance risk; the impact and continuing

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[5]U.S. General Accounting Office, *HUD Management: Progress Made on Management Reforms, but Challenges Remain*, GAO-02-45 (Washington, D.C.: Oct. 31, 2001).

evolution of HUD's 2020 management reform effort; and the failure to integrate financial and information systems."

According to HUD's most recent performance plan, the Department is using our reports and those of its Inspector General as a "roadmap" for making management improvements. In August 2001, the Administration unveiled the President's Management Agenda, including a set of HUD-specific initiatives to strengthen management of HUD's programs by, among other things, improving FHA's management of risks throughout the mortgage insurance process, improving the performance of public housing agencies and providers of multifamily housing, and reducing overpaid rent subsidies. The plan contained specific goals and timetables to, for example, eliminate most if not all fraud in the appraisal process, increase the percentage of HUD-assisted public housing units meeting physical standards, and reduce overpayment of rent subsidies by at least one-half. The plan also establishes a goal of removing our high-risk designation from all HUD programs by 2005.

To further its efforts to improve its management, HUD also recently undertook a series of organizational realignments. According to HUD, these efforts are designed to streamline its organization, establish clear lines of responsibility and reporting, and more effectively administer its programs. One of the more prominent realignments involved moving HUD's REAC, responsible for physical and financial inspections of public housing and assisted multifamily properties. The REAC, which formerly reported to the Deputy Secretary, now reports to the Assistant Secretary for Public and Indian Housing. In addition, the Department's Enforcement Center, which formerly reported to the Deputy Secretary, now reports to HUD's General Counsel. Similarly, the Chief Procurement Officer, which formerly reported to the Deputy Secretary, now reports to the Assistant Secretary for Administration. In addition, regional directors in the field have been given additional discretion to redeploy staff to address workload imbalances. According to HUD officials, to more effectively administer HUD's programs, other centers and offices are being studied for elimination or consolidation.

As I discussed earlier, clearly the creation of the REAC and the Enforcement Center, to name two, were positive developments that

yielded real results.[6] And, it is worth noting that at the time HUD established these centers, it did so because it believed that the Office of Public and Indian Housing and the Office of Housing—the offices within HUD that were originally responsible for these activities—were not effectively carrying out these functions. The Secretary, as the leader of his organization, has the prerogative to align the organization as he sees fit, consistent with his vision and management style. But it is important that the progress made to date not be jeopardized. For example, regardless of how REAC is aligned, HUD must continue to make progress improving the physical condition of public and assisted multifamily housing properties. Ultimately the success or failure of any organizational decision will be viewed in that light.

We are now beginning to address these realignment issues as we assess the progress HUD and other federal agencies have made as part our Performance and Accountability and High-Risk Series. In making our determination of high risk at HUD and other federal agencies, we will consider the corrective measures that agencies have planned or have underway to resolve their management challenges, as well as the status and effectiveness of these actions. Some of the key factors we will consider in making our high-risk determination at HUD include the extent to which HUD has demonstrated commitment to resolving its management deficiencies, strengthened controls to address its management deficiencies, proposed appropriate corrective action plans for its remaining management challenges, implemented effective solutions that will be substantially completed in the near term, and implemented solutions that get to the root cause of its management deficiencies.

We will review the current status of HUD's single-family mortgage insurance and its rental housing assistance program areas and the actions taken to address weaknesses. At that time, the agency must have demonstrated concrete results, with a clear path toward addressing any remaining problems. To conduct our assessment of high risk, we will review, among other things, HUD's strategic plans, annual performance plans and reports, accountability reports, and audited financial statements. This information will be supplemented by relevant GAO reports, Inspector

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[6]HUD's 2020 Management Reform Plan created several new centers to consolidate, among other things, HUD's single family mortgage insurance activities, Section 8 program financial management support, and the processing, reviewing, and awarding of categorical and formula grants for the Office of Public and Indian Housing. These centers were discussed in greater detail in our October 2001 report.

General reports, and other independent analysis. Finally, the ultimate determination will be based on the independent and objective judgment of GAO analysts.

HUD Faces Crosscutting Management Challenges

As HUD works to improve accountability and control over its high-risk program areas, it will find that it faces several issues that cut across its efforts to improve its programs. I would like to turn now to these management challenges and discuss with you, HUD's progress and challenges in the areas of (1) human capital management, (2) acquisition management, and (3) programmatic and financial management information systems. Successfully addressing these challenges will help determine whether HUD can sustain the progress of its management reform efforts, address its high-risk program areas, and make progress toward its goal of becoming a high-performing organization.

Human Capital Is the Most Pressing Management Challenge Facing HUD

Human capital permeates virtually every effort to improve HUD's programs, including its ability to oversee the performance of housing authorities and property owners, acquire needed systems, and successfully execute and monitor contracts. Insufficient staffing and inefficient distribution of workload affects HUD's ability to operate efficiently and ensure the accountability of its programs. It increases HUD's need to hire contractors to perform activities and affects its ability to oversee contractors and hold them accountable for performance. HUD has the opportunity to develop a strategic human capital management approach to ensure that the Department has the right staff in the right numbers with the right skills in the right places and that HUD can continue to meet its mission and goals in the future as large numbers of experienced employees retire. As we have previously reported,[7] a comprehensive workforce plan should be linked to the accomplishment of an agency's mission and include the following elements:

- the kind of work its staff should be doing now and in the future;
- the knowledge, skills, and abilities needed by staff to do this work;
- the capabilities and developmental needs of the current staff;
- the appropriate staff deployment across the organization;
- any gaps that exist in knowledge, skills, and abilities; and

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[7]GAO-02-45.

- an approach for filling the gaps in the knowledge, skills, and abilities of staff through recruiting and hiring.

While HUD has begun to do workforce planning by identifying the resources required to do its current work, the Department does not have a comprehensive workforce plan. HUD's most significant workforce planning activity to date has been its Resource Estimation Allocation Process (REAP). The purpose of REAP was to systematically estimate the number of employees HUD needs to do its work based on its current workload and operations and HUD used the results to estimate staffing level ceilings for the Department's fiscal year 2003 proposed budget. HUD's workforce planning effort is currently focused on responding to major human capital deficiencies that the Office of Management and Budget identified in a 2001 evaluation conducted as part of the President's Management Agenda. This effort is focused on specific initiatives, such as reducing the number of HUD managers and supervisors, and does not consider many of the elements that we have endorsed as necessary for comprehensive workforce planning.

In the absence of a comprehensive workforce plan, HUD faces myriad human capital challenges ensuring that it has the right mix of staff with the requisite knowledge, skills, and abilities appropriately deployed across its organization. In July 2001, we reported that HUD's Homeownership Centers, responsible for carrying out FHA's single family mortgage insurance program, faced staffing and workload imbalances and lacked an adequately standardized training curriculum. It also faced skill mix difficulties—for example, managers at the Centers said that it was a challenge for their staff to shift from performing insurance endorsements and property disposition activities to monitoring contractors that now do this work for HUD. In our survey of HUD managers for our January 2001 report, over 70 percent stated that staff training needed to be increased in the areas of information systems, technical skills and other areas.

Without a comprehensive workforce plan, the Department will not be as prepared as it could be to recruit and hire staff needed to pursue its mission. During the 1990s, HUD underwent considerable downsizing, reducing its staff from around 13,500 to about 9,000 by March 1998. The need to recruit and hire is exacerbated by the upcoming wave of potential retirements that HUD faces. More than 80 percent of HUD's workforce is in the core professional grades—GS 9 through 15; and, by August 2003, half of this workforce will be eligible to retire. HUD has done little outside hiring in the last decade and some vacant positions have gone unfilled while others have been filled through lateral transfers, promotions, or the

upward mobility of administrative staff into professional positions. HUD is delegating more hiring authority to its regional directors and has established an internship program that may help address some staffing shortages. However, the internship program is in the early stage of its development and does not address the needs for hiring at the mid-level ranks of government that could be disproportionately affected by the impending wave of potential retirements.

Acquisition Management Challenges Remain

A second crosscutting challenge area for HUD is its management of acquisitions. As you know, Mr. Chairman, by design HUD relies on the performance and integrity of thousands of intermediaries such as mortgage lenders and public housing agencies to fulfill its mission. But as HUD has downsized its own staff over the past few years, its reliance on private contractors has increased substantially. This reliance, as measured by contracting obligations, grew by more than 62 percent from fiscal year 1997 to fiscal year 2000; and HUD officials have estimated that the total number of contractor staff assisting in delivering HUD services may nearly equal its own. As a result, effective management of acquisitions is crucial to HUD's success in meeting its mission and addressing its high-risk single-family mortgage insurance and rental housing assistance program areas. Ineffective oversight of contractors adversely effects HUD's ability to carry out its mission and to deliver key services and exposes HUD's programs to the additional risk of fraud, waste, abuse, and mismanagement. HUD faces the challenge of ensuring that, where it relies on contractors to perform its mission, it will hold these contractors accountable for results. Holding contractors accountable for results requires processes and practices in place to effectively monitor contractors' performance, an acquisition workforce with the right workload, training and tools to carry out its mission, and programmatic and financial management information systems that support HUD's efforts to ensure accountability in its acquisitions.

HUD has undertaken a number of actions over the past few years to (1) improve the processes and practices in place to effectively monitor contractors' performance, (2) improve the training and professional development of it acquisition workforce, and (3) improve its contracting information systems. While progress has been made, our recent and ongoing work suggests that HUD is still experiencing difficulties in each of these areas and thus faces continued challenges in its ability to hold contractors accountable for results. For example:

- to improve monitoring, HUD provided guidance to its employees to incorporate more systematic methods into its monitoring efforts, including

the use of risk-based assessments to focus HUD staff efforts. In fiscal year 2000—around $600 million of the almost $1.3 billion in contracts were for contracts supporting HUD's single-family and multifamily housing programs. On the single-family side, we have reported numerous problems over the past few years in HUD's oversight of its contractors handling the marketing and management of HUD's single-family properties,[8] as well as those performing oversight of lenders and appraisers.[9] More recently we have been examining property management contracts in HUD's multifamily housing program. From our ongoing work, it appears that few of the staff overseeing HUD's multifamily housing program property management contracts use monitoring plans or employ risk-based strategies to determine the necessary level and frequency of monitoring. We have observed that oversight and monitoring of contractors are largely remote—consisting mainly of E-mails, telephone calls, and reviews of contractors' progress reports—and site visits to properties by HUD staff do not occur routinely. Our ongoing work indicates that, absent a systematic approach to monitoring and with a limited amount of on-site monitoring occurring, HUD's ability to effectively monitor contractors' performance and identify and correct problems may be limited.

- to improve the training and professional development of its acquisition workforce, among other things, HUD created full-time government technical representatives (GTR)[10] to help oversee contracts, provided this staff with new training, and required that their training and qualifications be formally certified. However, HUD's progress in strategically managing its acquisition workforce has been slow. For example, we recently learned that HUD managers were not aware of 143 staff members who were performing the GTR function and had not received the appropriate training. Our work suggests that HUD's training records are poorly

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[8]U.S. General Accounting Office, *Single Family Housing: Stronger Measures Needed to Encourage Better Performance by Management and Marketing Contractors,* GAO/RCED-00-117 (Washington, D.C.: May 12, 2000).

[9]U.S. General Accounting Office, *Single Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk,* GAO/RCED-00-112 (Washington, D.C.: Apr. 28, 2000); U.S. General Accounting Office, *Single Family Housing: Weaknesses in HUD's Oversight of the FHA Appraisal Process,* GAO/RCED-99-72 (Washington, D.C.: Apr. 16, 1999).

[10]The government technical representative acts as the Contracting Officer's representative concerning the technical and performance aspects of a contract. He or she is responsible for ensuring that the contractor is using the most efficient and cost effective methods and is also the principal judge of contractor performance, including the quality and timeliness of work and products.

maintained, making it difficult for its managers to know which staff have received training and thus where to focus scarce resources. HUD has not yet used the results of its REAP study to remedy disparities that it has identified in the contracting workload within the Office of the Chief Procurement Officer, and a plan to identify critical skills and career paths for its acquisition workforce has been in draft for over 2 years. Like HUD's overall human capital challenges, HUD's ability to hold its contractors accountable for performance depends, in no small part, on its success in building an acquisition workforce with the right workload, training, and tools to carry out HUD's mission.

- to improve its contracting information systems HUD implemented a single system—HUD's Procurement System—to track contract obligations, milestones, and contractor performance. However our ongoing work suggests that this system does not adequately support HUD's managers or acquisition workforce because the data it contains are not complete, accurate, or consistent. As a result, Mr. Chairman, staff overseeing contractors in HUD's multifamily program reported relying primarily on spreadsheets and other informal systems they have created and maintained in order to monitor contract milestones and task orders. These informal systems are not subject to HUD's internal controls, audits, information security protocols, or other standards and thus expose HUD's contract activity to internal control weaknesses and the potential for waste, fraud, abuse, and mismanagement. In addition, HUD managers do not have reliable information on the number of active contracts it is managing or the amount of funds that have been obligated for them, and cannot readily determine how much money HUD has spent overall on its contracting activities. Finally, performance data that would assist in evaluating contractor performance is not systematically tracked in HUD's Procurement System, although the system allows such activity. HUD's ability to manage and monitor its acquisition activities is limited by weaknesses in its programmatic and financial management information systems, which are needed to ensure accountability in its acquisitions.

At this Subcommittee's request, Mr. Chairman, we are continuing our work on HUD's acquisition management and will be reporting to you on the results of this work in September 2002. We are examining potential improper payments at HUD, including in its multifamily housing acquisition activities, and will be issuing our report on this subject later this year.

Programmatic and Financial Management Information Systems Challenges Are of Long-standing and Continuing Concern

Finally, Mr. Chairman, the effectiveness of HUD's programmatic and financial management information systems continue to raise concerns. Responsive programmatic and financial management information systems are critical to HUD's ability to meet its mission, deliver key services, and establish sufficient management control over its programs and operations. As our work has shown, ineffective programmatic and financial management information systems adversely impact HUD's programs and operations and its staff's ability to effectively monitor its programs, recipients, and contractors. They also limit HUD's ability to collect accurate information to report on program results and effectively manage its operations. Concerns about the ability of HUD's financial management systems to effectively support the timely preparation and audit of the department's annual financial statements are long-standing, and as of today, HUD is still in the early stages of developing a plan for resolving them. Accordingly, developing a plan to acquire and implement programmatic and financial management information systems that meet the Department's needs and comply with federal financial system requirements is crucial to HUD's efforts to successfully address its high-risk program areas.

Mr. Chairman, concerns about the effectiveness of HUD's programmatic and financial management information systems are not new. We have reported that HUD lacks the programmatic and financial management information systems necessary to ensure accountability over its programs since 1984. This February, for the eleventh year in a row, HUD's Inspector General cited the lack of an integrated financial management system in compliance with federal financial system requirements as a material weakness in its audit of the Department's financial statements. HUD is aware that its programmatic and financial management information systems pose serious challenges and has taken steps to address them. For example, HUD has undertaken extensive efforts to modernize both HUD's and FHA's programmatic and financial management information systems, improve financial reporting, institute a more rigorous planning and review process over its information technology capital investments, and bring FHA's systems into compliance with federal financial systems requirements. HUD is preparing to obtain contractor assistance to help analyze its current status and develop plans for improving the Department's financial management systems and providing the needed support to its programs.

Our recent work and that of the Department's Inspector General has shown however, that despite efforts to improve its programmatic and financial management information systems, serious challenges still exist.

HUD's systems do not today fully support its programs—including its single-family mortgage insurance and rental assistance programs—nor effectively support the timely preparation and audit of the Department's annual financial statements. For example:

- To oversee lenders in HUD's single-family mortgage insurance program, staff at the Department's homeownership centers must collect and manually compile information from multiple systems and sources in order to target high-risk lenders for review and to identify and investigate potential fraud cases. As we reported in October 2001, this creates a greater risk of error and increases the likelihood that problems will go unnoticed.[11]
- To review and approve applications for mortgage insurance on multifamily properties, HUD uses, in some cases, an expedited process where lenders, rather than HUD, underwrite the loans. However, our ongoing work on HUD's Multifamily Accelerated Processing program suggests that HUD's system for tracking the status of multifamily loan applications does not allow it to reliably track and record several key processing steps in the accelerated approval process. As a consequence, HUD field staff develop and maintain spreadsheets and other informal systems to monitor the status of HUD's actions.
- HUD's efforts to ensure that only eligible families occupy housing units and that those families pay the correct rents—a key component of its strategy to address its high-risk program areas—were, according to HUD's Inspector General, impeded by limitations in its information systems. In particular, the Inspector General reported that the lack of complete, current, consistent information on tenants and rents limited HUD's ability to effectively conduct computerized income matching—a strategy that has been used to identify and deter tenants who underreport their incomes and to address some of the causes of the estimated $2 billion in overpayments and errors on rent subsidy calculations. For this and other reasons, the Inspector General raised concerns about the effectiveness of HUD's income matching program.[12]

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[11]U.S. General Accounting Office, *Single Family Housing: Current Information Systems Do Not Fully Support the Business Processes at HUD's Homeownership Centers,* GAO-02-44 (Washington, D.C.: Oct. 24, 2001).

[12]Office of Inspector General, *Audit of U.S. Department of Housing and Urban Development (HUD) Financial Statements for Fiscal Years 2001 and 2000,* 2002-FO-0003 (Washington D.C.: Feb. 27, 2002).

- HUD continues—due in large part to deficiencies in its financial management systems—to rely on extensive ad hoc analyses and special projects to develop account balances and necessary disclosures for the Department's annual financial statements, according to HUD's Inspector General. These extensive efforts indicate that HUD's financial management systems cannot currently provide the day-to-day information needed by its managers to effectively manage and monitor the department's programs.
- HUD needs high-quality software for the systems it uses to support its financial management needs as well as its single-family mortgage, rental housing assistance, and other program needs. In September 2001, we reported that HUD's success or failure in acquiring software depends largely on specific individuals, rather than on well-defined and disciplined software acquisition management practices. Until this is strengthened, HUD is exposed to a higher risk that software intensive acquisition projects will not consistently meet mission requirements, perform as intended, or be delivered on schedule and within budget.[13]

Mr. Chairman, we are continuing to review HUD's progress in improving its financial management systems and plan to report to you on these issues by December 2002.

In conclusion, Mr. Chairman, HUD's management reform efforts over the past few years resulted in major changes throughout the Department as it worked to resolve its management challenges. HUD has been moving forward over the past few years and has made credible progress, and the current administration has reaffirmed an emphasis on and commitment to improving management at the Department. However, despite this progress and renewed commitment, HUD still faces considerable challenges in ensuring that its continuing management reform efforts will amount to the sustainable improvements in performance needed to resolve weaknesses in its high-risk program areas. Successfully addressing the crosscutting challenges in the areas of human capital, acquisition management, and programmatic and financial management information systems can help determine whether HUD can sustain the progress it has made, meet its

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[13]U.S. General Accounting Office, *HUD Information Systems: Immature Software Acquisition Capability Increases Project Risks,* GAO-01-962 (Washington, D.C.: Sept. 14, 2001).

challenges, and make progress toward its goal of becoming a high-performing organization.

This concludes my prepared statement. I will be happy to respond to any questions you or the other members of the Subcommittee may have.

Contacts and Acknowledgements

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